Protecting Canadian Policyholders

The @Assuris Newsletter

Issue 7 - March 2024

Welcome to our enhanced and improved Members' Update, now targeted at financial advisors as well!

Our goal, when we began this publication in 2022 was to provide our key stakeholders with information regarding the insurance industry. Information we believed would add value to them as well as to their clients. As part of this goal, we have now broadened our topics and articles to meet the diverse interests of both our member companies and our financial advisor community.

We hope you find our newly curated content not only brings relevant and timely information to you, but also contributes to your expertise as a financial services professional. We look forward to building stronger connections with you with each new issue.

Paul Petrelli
President & CEO, Assuris

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Artificial Intelligence growing influence is sweeping across industries, revolutionizing operations, and reshaping the global landscape, including the financial industry. As a key player within Quebec's and Canada's ecosystem, the Autorité des Marchés Financiers has released a discussion paper on best practices for the responsible use of AI in the financial sector... **Read More**

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Our continuing education (CE) e-learning course is developed to help financial advisors gain the knowledge – about Assuris and its protection - to reassure policyholders, both at the point of sale and in times of uncertainty. Earn 1 CE Credit by taking the course today... **Read More**

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Member Company Assuris badge

Today's consumers and policyholders want to know their life and health insurance policies and investments are protected, should the unexpected happen.

Assuris is the not for profit organization that protects Canadian policyholders if their life and health insurance company fails. Every life and health insurance company authorized to sell insurance in Canada is required, by the federal, provincial, and territorial regulators, to become a member of Assuris under the Insurance Companies Act of Canada. Fraternal benefit societies and prepaid medical services companies can opt to become a member of Assuris.

As a member life and health insurance company (member company) of Assuris, you are encouraged to communicate with prospective and current policyholders the added security and safety net provided by Assuris.

Benefits of being a Member of Assuris

- Raises awareness of the protection provided by Assuris in the unlikely event that a member life and health insurance company fails
- Promotes the strength of the Canadians life and health insurance industry
- Demonstrates the industry's commitment to the financial wellbeing of all Canadians

Member Company badge toolkit

You are encouraged to communicate that you are a Member of Assuris on your website, brochures, statements, and other consumer-directed communication channels. For detailed information on Assuris and its protection, we also encourage you to include a link to the Assuris website (assuris.ca).

Member of Assuris Badge

The Member of Assuris badge was designed, in collaboration with our members, to promote the collective strength of the Canadian life and health insurance industry, and to raise awareness of the safety net provided by Assuris in the unlikely event that a member company fails.

MEMBER OF Assuris

MEMBRE Assuris

You can download the badges here:

ENG badge

FRE badge

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Assuris Description

To ensure that information provided about Assuris' policyholder protection is accurate and consistent, please use the following standard text:

> [Official member company name] is a member of Assuris. Assuris is the not for profit organization that protects Canadian policyholders in the unlikely event that their life and health insurance company fails. Details about Assuris protection are available at www.assuris.ca.

Note: We ask that you do not make explicit or implicit written or oral statements about Assuris and its protection other than what is stated above unless advanced approval is provided by Assuris.

Requests for assistance can be emailed to info@assuris.ca.

2024 Outlook

Steve McMahon FSA, FCIA
Assistant Vice President, Industry Risk

Assuris actively monitors economic developments and their potential impact on the life and health insurance industry. This helps understand how plausible adverse macroeconomic scenarios can emerge and their potential impact on the life and health insurance industry. Assuris favors a proactive approach in consultation with industry experts to better anticipate macroeconomic risks. Unlike insurance risks, the macroeconomic environment can change overnight. Once again, this year, we will continue to keep a close eye on the macroeconomic environment as the economy hasn't yet returned to equilibrium.

2024 Outlook

2022 was marked by high inflation and an aggressive rise in central bank policy interest rates to bring inflation under control. The inflation shock and its repercussions for interest rates and credit spreads drove the valuation of many asset classes. The value of almost all asset classes decreased in 2022 due to uncertainty about inflation, and the rapid increase in interest rates.

Central banks announced further increases in their policy interest rates in the first half of 2023. This served to moderate demand pressures in the economy, and inflation pressures gradually receded over the course of the year. As a result, the inflation in Canada has returned to around 3% from its peak of 8% in June 2022. The "soft landing" path is still the most likely scenario for 2024. A hard landing scenario is becoming less likely as the economy is proving to be resilient as inflation pressures recede. Investors are anticipating a decline in the Bank of Canada policy rate later this year, with expectations that its policy rate could decline to ~4% by December 2024.

Inflation is likely to be a key driver of monetary policy decisions in 2024, which will impact interest rates and asset prices more generally. There is a risk that market expectations are too optimistic. It is possible that central banks are not out of the woods yet on the inflation front, given that the consumer price index is still running above the Bank of Canada inflation target of 2%. The risk of experiencing higher inflation than expected implicitly suggests higher interest rates. Indeed, the economy has been surprisingly resilient, with labour markets remaining fairly tight and profit margins still above pre-pandemic levels. Economists have also pointed out that several factors could contribute to fuel inflation over the longer run. Some factors, such as geopolitical risk and immigration policy, are, of course, outside the central bank's control.

Geopolitical factors

Historical data suggests that growing geopolitical risks may foreshadow future inflation and can be accompanied by reduced economic activity, increased military spending and public debt, and a decline in trade with the rest of the world. As such, geopolitical risks can spark greater risks on the inflation front.

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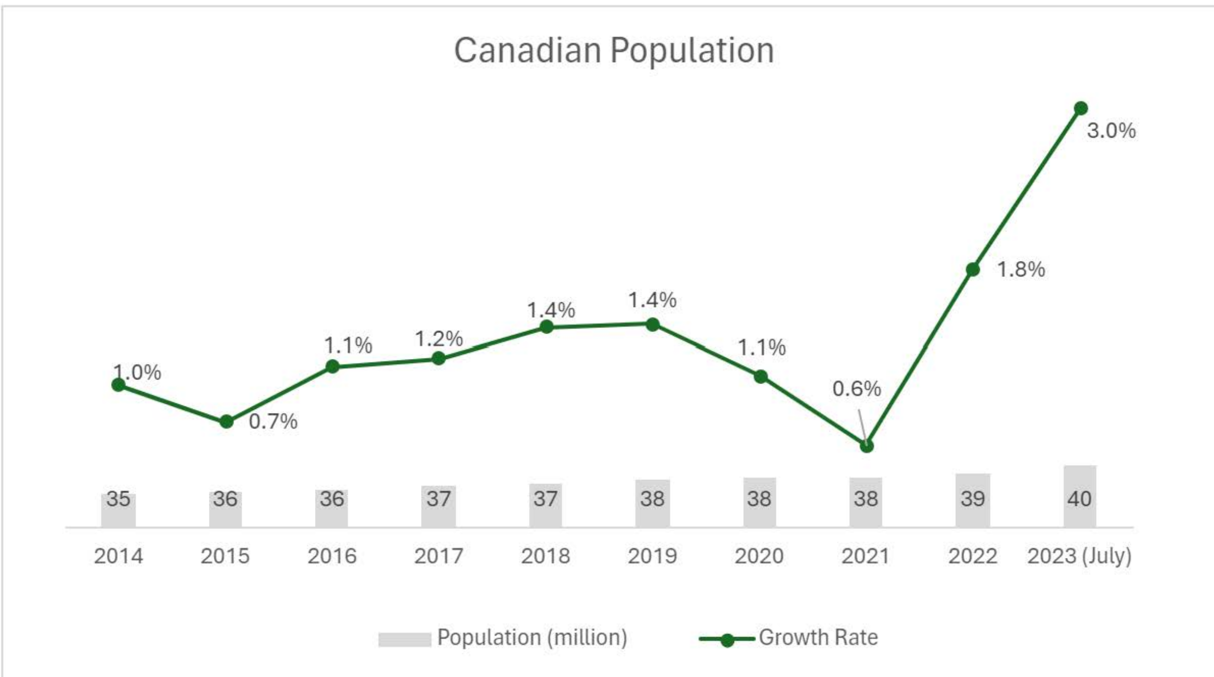
Aggressive immigration policy
Canada's population has expanded rapidly in 2023 (~3%), driven by the immigration policy. Canada's population is the fastest growing among the G7 countries. It is debatable whether and to what extent aggressive immigration contributes to inflation. For example, higher immigration levels, including both permanent residents and international students on temporary visas, increase the overall demand for goods and housing, at least in the short run.



Canada Immigration Statistics Wikipedia | Statistics Canada

Industry Exposure to Macroeconomic Risks

The macroeconomic consultation contributed to shedding light on the Canadian economic outlook. Experiencing higher interest rates than anticipated remains an important risk.

Adverse scenario
An adverse scenario for the Canadian economy would be characterized by higher inflation than expected, which results in interest rates remaining high for longer than currently expected. Central banks are unlikely to begin reducing their policy rates until they have gained comfort that inflation is likely to continue moderating and settle around 2%.

Under the adverse scenario, more damage to the Canadian economy would be needed to bring inflation back to target. If interest rates remain near current levels on a sustained basis, households and firms may struggle to continue servicing their debts. This would likely result in growing credit risks for lenders, especially those serving residential and commercial real estate markets.

Under this scenario, we anticipate a reduction in Assuris members' capital ratio, but the impact remains reasonable. The overall capital position of Assuris members is strong. Even though the industry is operating under a new regulatory capital regime, it is well prepared to withstand adverse macroeconomic shocks.

Industry Insights

March 2023 banking crisis: lessons learned by CDIC

Leah Anderson
President and CEO of the Canada Deposit Insurance Corporation (CDIC)

One year ago, the U.S. and European banking systems experienced their largest period of stress since the 2007-2008 global financial crisis. The events prompted policymakers worldwide, including in Canada, to review regulatory, supervisory, and resolution policies at the national and international levels. Deposit insurance—typically a back-burner topic—suddenly became a headline and a key focus of discussions on financial stability and risk.

The turmoil began in the U.S. on March 10, 2023, with the rapid collapse of Silicon Valley Bank (SVB), once a leading lender to tech start-ups. Signature Bank closed two days later, on March 12, 2023, followed by First Republic Bank on May 1, 2023. The three banks rank as the 2nd, 3rd and 4th largest bank failures in the US by way of assets.[1] Meanwhile, in Switzerland, Credit Suisse became the first systemically important bank to collapse since 2011.[2]

As banks continued to fail in US and Europe throughout the year, Canada's banking system remained a safe place to deposit money due to the strength of our oversight and regulation. However, we can never be complacent. The March 2023 events highlighted important systemic risks and deepened our understanding of the importance of deposit protection to maintaining public confidence in the financial system.

Key lessons on systemic risks:

- You don't have to be a large bank to cause systemic contagion. SVB and Signature Bank are examples of regional banks whose failures sparked a crisis of confidence and deposit runs in other vulnerable parts of the US banking system. Having a flexible toolkit to address emerging events and strong and early coordination across regulatory agencies can mitigate the risk of contagion.
- A concentrated deposit base (e.g., in one industry), combined with a high rate of uninsured deposits, can lead to rapid bank failure and contagion. It was this scenario, fueled by concerns on social media, that prompted nervous SVB customers—mainly from the tech sector—to pull $1 million *per second* from their accounts before the bank failed. Depositors ultimately withdrew $42 billion from SVB in 10 hours.[3] In this era of digitalization and heightened risk of bank runs, strong supervision and regulation of banks, including strict liquidity requirements, are critical.

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1. List of largest bank failures in the United States - Wikipedia; The 7 Largest Bank Failures In US History | Bankrate
2. A large European bank, Dexia, failed in 2011 as a result of the Greek debt crisis. This event preceded the formal systemically important designation by the Financial Stability Board.
3. Focus: US banks rethink social media as a threat, not a marketing tool | Reuters

Other key takeaways:

- Being prepared for a bank failure is paramount. CDIC proactively fine-tunes our strategies, tools and systems each year to ensure we're always ready to protect depositors and promote financial stability. In the aftermath of March 2023, we adopted a laser focus on preparedness: doubling down on member risk assessments, data capability testing for members and nominee brokers, resolution plans for large, medium, and small banks, and simulations to pressure-test different risk scenarios.
- Public awareness of deposit protection reinforces financial system stability. When news broke in March 2023 about bank failures abroad, public awareness about deposit insurance coverage in Canada was at an all-time high. This supported public confidence in our financial system even as we received a surge of questions from the public and media. CDIC's ongoing public awareness campaigns allowed us to quickly respond to people's heightened interest, including by increasing our ad presence and working with social media influencers, to provide additional peace of mind to depositors.

Many of these lessons were captured in an October 2023 report "2023 Bank Failures: Preliminary lessons learnt for resolution" by the Financial Stability Board (FSB), an international body that monitors and makes recommendations about the global financial system. They were also analyzed in a December 2023 report "The 2023 banking turmoil and deposit insurance systems: potential implications and emerging policy issues" by the International Association of Deposit Insurers (IADI), which represents 95 deposit insurers. Both reports emphasized the need for authorities to have stronger coordination, quick implementation of resolution strategies, and adequate deposit insurance frameworks.

I was recently appointed by Alejandro López, IADI Chair and President, to lead the 2024 review and update of the international standard for deposit insurance systems. The review will ensure the standard remains relevant, adaptable and effective in the face of ongoing and rapid changes to financial systems. I look forward to working closely with IADI members on this important and timely initiative.

CDIC can't predict the future—none of us can. But as the March 2023 events remind us one year later, we must be ready to protect depositors and promote financial stability whatever 2024 brings.

Industry Insights

PACICC study: When, Where and How Often Insurers Fail

The Property and Casualty Insurance Compensation Corporation (PACICC) has published a landmark research study authored by PACICC Chief Economist Grant Kelly and Research Associate Judy (Zhe) Peng. The research paper was based on analysis of a newly created Global Failed Insurer Catalogue which identified 547 insurer failures in 55 different national jurisdictions since the year 2000.

“This research provides us with important insight into the continued risk of insurance failure – even in developed economies.” said Alister Campbell, CEO, PACICC. “And it should remind all of the participants in the financial services safety net of the risks of complacency. This study reveals that clusters of insurer failures often occur after a significant period of calm…it is critical never to take past success as a predictor of future results.”

“Perhaps most significant,” Campbell continued, “the study exposed the unfortunate reality that policyholders often suffered financial loss as a result of the failure of their insurer. This evidence highlights exactly why it is so important that each jurisdiction takes appropriate steps to ensure that policyholder protection mechanisms or insurance guarantee schemes are established and ready to respond effectively when failures inevitably occur.”

The research paper was also released by The International Forum of Insurance Guarantee Schemes (IFGIS). IFIGS was formed by a group of insurance guarantee schemes from around the world, interested in sharing their experiences in providing policyholder protection in the event of an insurance company failure. IFIGS now has 28 Full and Associate Members from 23 countries across the Americas, Europe, Asia and Africa.

For more information: IFIGS.org or Information@IFIGS.org
To access the PACICC study: https://www.pacicc.ca/wp-content/uploads/When-Where-and-How-Often-Insurers-Fail-Introducing-the-Global-Failed-Insurer-Catalogue-2023.pdf

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AI-generated image
Source: Adobe Stock

Issues and Discussion Paper

Best practices for the responsible use of AI in the financial sector

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Read here

Global Perspective

Protecting the financial well-being of Canadian consumers: Strength in numbers

In Canada's financial industry, ensuring the protection of consumers' financial well-being is essential. Among the mechanisms designed to achieve this, compensation plans stand out as important safeguards. These plans provide protection to consumers when their financial institutions become insolvent. Each financial sector in Canada has their own compensation plan.

As a result, Canadian financial services consumers can feel secure in knowing that Canada has a strong well-regulated financial services sector, and that in the unlikely event that a Canadian financial institution fails, they are protected by a variety of compensation plans.

Below are all the compensation plans and organizations that protect your clients through a variety of products.

The collective strength of the protections offered to Canadian financial services consumers provides all Canadians with added confidence and peace of mind when planning a future for themselves and their loved ones. Learn more here.

NEW Financial Advisor Corner

Do you know everything about policyholder protection?

Financial advisors play an important role in helping individuals manage their finances and achieve their financial goals, serving as a partner to guide them through their financial journey and achieve their goals.

And when recommending life and health insurance products – and any related investments - it is no surprise that financial advisors talk about Assuris and its protection to their clients as policyholders want to understand how their financial wellbeing, and the wellbeing of their loved ones, is protected.

Assuris is committed to provide financial advisors and members' sales network helpful tools to support the Assuris protection conversation. We have developed a toolkit that provides everything financial advisors need to talk to their clients about Assuris' policyholder protection:

- CE eLearning course with Assuris higher protection levels
- Printable and downloadable Assuris brochure
- "Insurance means security" one-pagers about life insurance, health insurance and insurance-backed savings and investment products
- "Assuris means security" graphic for your client presentations or other sales materials
- Ready-to-share social media messages and graphics
- Website shortcuts, including the links to videos and to other useful resources for policyholders

You can access the toolkit here. And don't hesitate to share these resources with your sales network!

NEW Financial Advisor Corner

Earn 1 CE credit with Assuris Continuing Education (CE) Training Module

Assuris is the not for profit organization that protects Canadian policyholders if their life and health insurance company fails.

Our continuing education (CE) e-learning course was developed to help financial advisors gain the knowledge to reassure policyholders, both at the point of sale and in times of uncertainty.

Do you know how Assuris protects your clients?

If a life and health insurance company fails, financial advisors need to be able to provide reassurance and peace of mind to their clients. This continuing education (CE) module will help advisors gain the knowledge to reassure their clients both at the point of sale and in times of uncertainty. Once the course is successfully completed, financial advisors will earn 1 CE Credit!

By successfully completing the e-learning course, financial advisors will:

- Understand how Assuris protects Canadian policyholders
- Understand how protection is applied to life and health insurance benefits
- Be able to describe to policyholders, in simple terms, how Assuris protects their benefits
- Be able to calculate Assuris protection for different product benefits
- Be equipped to provide policyholders with appropriate sources of information, as well as know where to turn to get additional information if required.

Financial advisors will earn one CE credit for completing this course. Take it now here!