

Members' Update

The Assuris Members' Update provides articles and papers on key industry issues as well as share insights on regulatory news, global perspectives and Assuris updates.

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Table of Contents

Industry Insights

[2023-2024 Outlook](#)

Assuris has an interest in understanding the macroeconomic factors that impact the financial environment and more specifically the life insurance industry... [Read More](#)

[Industry Partner Profile - Advocis](#)

Assuris' goal is to collaborate with industry partners to support our stakeholders through comprehensive and integrated engagement programs... [Read More](#)

Global Perspective

[The International Forum of Insurance Guarantee Schemes Elects Assuris as New Chair](#)

We are pleased to announce that Assuris was elected Chair of the International Forum of Insurance Guarantee Schemes (IFIGS). One of the original founders of the organization... [Read More](#)

At Assuris

[2023 Strategic Priorities](#)

In 2023, Assuris will continue our work on ensuring resolution readiness, building stakeholder engagement, and delivering operational excellence. Here is how we are planning... [Read More](#)

[Amplifying our Voice – Raising Awareness of Assuris](#)

Assuris launched its communication plan as part of our strategic priority to enhance stakeholder engagement – check out our 2022 results... [Read More](#)

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2023-2024 Outlook

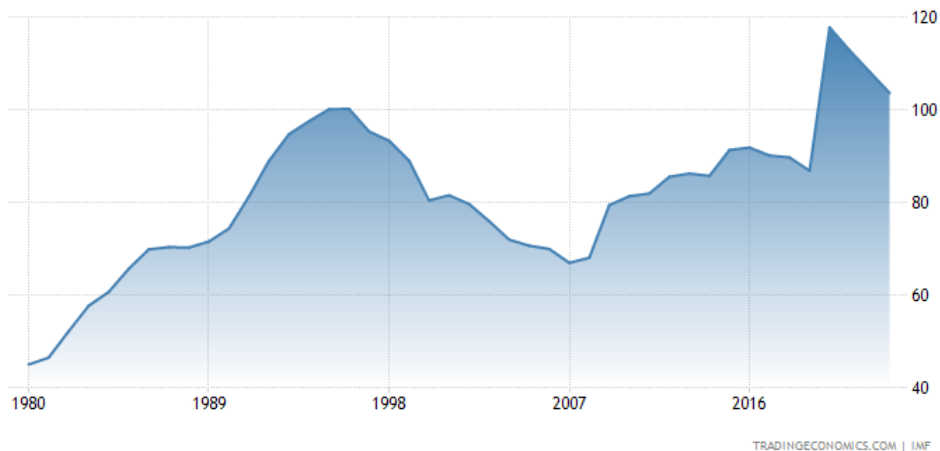
Steve McMahon FSA, FCIA
Assistant Vice President, Industry Risk

Assuris has an interest in understanding the macroeconomic factors that impact the financial environment and more specifically the life insurance industry. As such, Assuris designed probable and severe scenarios for 2023-2024 to identify and analyse potential risks. The research is based on publicly available information and consultation with industry experts and economists. The following is a list of risks and concerns taken into consideration when we designed the scenarios.

Inflation and Interest Rates

It is unclear how far the Bank of Canada can push the target rate and what other inflation-fighting tools they can use before unemployment and debt defaults become an issue in the economy. There seems to be an upper bound to the target rate due to the leverage in the system. Today's economy is more sensitive to changes in interest rates than in the 80's because of the leverage in the system. Raising rates similar to 1980's is unlikely.

- Government debt to GDP – a proxy for the leverage in the system has been increasing since 1980. The chart below highlights Canada's government debt to GDP from 1980 to 2021. The metric reached an all-time high in 2020 of 118%¹.



¹ [Canada Government Gross Debt to GDP - 2022 Data - 2023 Forecast - 1980-2021 Historical \(tradingeconomics.com\)](https://tradingeconomics.com/canada/government-gross-debt-to-gdp)

Industry Insights

- Household debt to disposable income has also been steadily climbing since 1990. Currently, the average household debt in Canada represents 1.82 times its disposable income (or debt to disposable income ratio of 182%)².



- Private debt to GDP – which measures the indebtedness of non-financial corporations, households and non-profit institutions has also doubled from 1990 and is currently sitting at 280% in 2022³.



Equilibrium between supply and demand will be an area of focus. Several items within core inflation remain out of sync with supply. Energy markets are also an area of concern, with China re-opening and the war in Ukraine – it is possible energy prices will fail to reach equilibrium. World economies seem to have entered a de-globalization phase, further contributing to inflationary pressure.

² [Canada Households Credit Market Debt to Disposable Income - 2022 Data - 2023 Forecast \(tradingeconomics.com\)](https://tradingeconomics.com/canada/household-credit-market-debt-to-disposable-income)

³ [Canada Private Debt to GDP - 2022 Data - 2023 Forecast - 1995-2021 Historical - Chart \(tradingeconomics.com\)](https://tradingeconomics.com/canada/private-debt-to-gdp)

Labour Market

Labour markets are extremely tight and should soften as the unemployment rate rises from current record lows. The Bank of Canada monetary policy and immigration are two major contributors to the unemployment level.

Assets Values

The post-pandemic growth in residential real estate prices seems to have ended. We expect the trend of increasing cost of borrowing for new and renewing homeowners and a slowdown in sales activity to continue into 2023⁴. Commercial real estate also seems to be struggling with vacancy rates at an all-time high due to the change in working habits⁵. Equity markets fell in 2022 and the outlook remains uncertain. With the risk-free rate rapidly rising – all asset class yields increased. Projects with low return on capital are at risk because capital is not as cheap as before.

Taking into consideration the risks currently present in the economy, we've designed two scenarios for the future outlook – “Probable - soft landing” and “Severe - hard landing”.

Probable Scenario – Soft Landing

Under this scenario, the Bank of Canada target rate peaks in the first half of 2023 (~4.5% | +25 bps) and there's a mild recession in Canada (2023 GDP ~ 1%) with unemployment rising to normal level (~6%). It still might take some time before interest rates come down – The Bank of Canada is extremely unlikely to enter a stimulative period until inflation comes down to 2%. It is likely businesses and individuals adapt to operating in a mid-single digit (~5%) interest rate environment for some time. The environment for businesses to raise capital for new and existing projects will remain challenging in the short term.

Severe scenario – Hard Landing

Under this scenario, the Bank of Canada is forced to overreact and double down with an extremely tight monetary policy due to a lack of response from the economy in reducing excess demand. Inflation unexpectedly continues to run at a high level (~8-9%) across all major categories (shelter, energy, and food). The Bank of Canada target rate continues to be aggressively raised (~6.25% | +200 bps) further impacting asset prices and risk premiums across the board. Labour markets are severely impacted, and unemployment reaches double digits (~10%). The overreaction from the central bank also collapses the housing markets in the short term and exposes over-leveraged companies and individuals to default.

⁴CREA; The number of transactions in November 2022 came in 39% below the same month last year and 13% below the pre-Covid-19 10-year average for November sales.

⁵Toronto's vacancy rate reached 15% at the end of September 2022, topping the great recession and the post dot com bubble burst in 2003; [Toronto and Vancouver's office vacancies on the rise as companies try to get rid of space - The Globe and Mail](#)

Life Insurance Industry Exposure to Macroeconomic Risks

Assuris is interested in understanding how these macroeconomic trends could impact its members. At the industry level, it is expected there may be positive and negative impacts induced by the macroeconomic trends. More specifically, life insurers are generally sensitive to changes in interest rates, credit spread, default rates and asset values.

Assuris' risk assessment focused on insurers' business models, access to capital, assets and liabilities. The impact on a life insurer is sensitive to many factors such as its investment strategy, the insurer's exposure to insurance products and diversification. Life insurers with short-term products are usually less sensitive to macroeconomics.

Access to capital is not as accessible as before which could become an issue for some industries. The life insurance industry's longer-term focus and ability to deliver relatively steady income compared to other industries makes it relatively less vulnerable.

Overall, Canadian life insurers' capital position is strong, and they have demonstrated their resilience to changes in interest rates, credit spreads and capital markets. Even though 2023 could be another volatile year, we believe the Canadian life insurance industry is well-positioned to withstand the probable ("Soft Landing") or severe ("Hard Landing") scenarios.



Steve McMahon FSA, FCIA is the Assistant Vice President, Industry Risk, at Assuris, and is responsible for analyzing the broad economic and emerging industry-wide risks. He is also responsible for developing Assuris' views on capital and actuarial policy issues. Steve is actively involved with in-depth analysis of solvency risks of our member life insurance companies.

Industry Partner Profile - Advocis

Assuris' goal is to collaborate with industry partners to support our stakeholders through comprehensive and integrated engagement programs. We have partnered with Advocis, The Financial Advisors Association of Canada, to connect directly with financial advisors (FAs).

We know that FAs play a key role in the life insurance industry. By providing advice on all aspects of financial planning, in areas such as investing, insurance, retirement planning, and estate planning. But more importantly, FAs give financial consumers peace of mind that they are making the best decisions for them and their loved ones. Advisors are always learning and staying up to date on products and tools in order to provide the best advice possible to their clients, and Assuris is an important part of any FA's toolkit.

Who is Advocis?

Advocis, is the largest voluntary professional membership association of financial advisors in Canada, representing more than 17,000 member-clients and 40 Chapters across the country.

Advocis has been proudly serving financial advisors and their clients since 1906. Advocis offers designation programs, continuing education opportunities, industry-leading publications and membership in a chapter network that includes mentorship, study groups, practice development, and more.

New podcast with the President and CEO, Advocis – Greg Pollock!

Paul Petrelli, President & CEO of Assuris, recently chatted with Greg Pollock, President and CEO of Advocis, about the vital role that financial advisors play in these uncertain times. Find out:

- Why is the role of the FA important?
- What challenges and opportunities are currently top-of-mind for FAs?
- How is the current economic environment affecting FAs and their customers?
- How does Assuris fit into an advisor's toolkit when they are working with their clients?
- What initiatives will the Advocis team be focusing on to support FAs this year?

[Check out the first episode](#) of *The Assuris Podcast – Let's Talk Life... Insurance* to hear perspectives on these topics and more!

The International Forum of Insurance Guarantee Schemes Elects Assuris as New Chair

We are pleased to announce that Assuris was elected Chair of the International Forum of Insurance Guarantee Schemes (IFIGS). One of the original founders of the organization, Assuris has always been an active member of IFIGS.

As an important contributor to the stability and soundness of the insurance industry, guarantee schemes around the world are focused on resolution preparedness and contingency planning.

IFIGS is a unique networking forum, uniting leaders from guarantee schemes, in both life and non-life insurance, from across the globe. It serves as a valuable resource and platform to share best practices in resolution, focusing on developing playbooks and scenario testing capabilities.

IFIGS also strives to collaborate with various stakeholders, including the International Association of Insurance Supervisors (IAIS) and the Financial Stability Board (FSB). Most recently, IFIGS collaborated with The World Bank to host a webinar with the theme of “Navigating the Way Forward for the Last-resort Protection to Policyholders.”

Executive Committee
▶ Chair – Paul Petrelli (Assuris, Canada)
▶ First Vice Chair – Miguel Angel Cabo (Conorsegueros, Spain)
▶ Second Vice Chair (Immediate Past Chair) – Afiza Abdullah (PIDM, Malaysia)

IFIGS Presents at the “Groupe des contrôleurs d’assurance francophones”

Assuris was honoured to be invited to speak on the Framework for Insurance Guarantee Schemes at the “Groupe des contrôleurs d’assurance francophones” meeting in January 2023.

The participating jurisdictions included: Belgium, Democratic Republic of Congo (DRC), France, Morocco, Quebec, Madagascar, Tunisia, and a majority of the CIMA (Conférence internationale des marchés d’assurance) members including Benin, Burkina-Faso, Cameroon, Chad, Central African Republic, Republic of Congo (≠ DRC), Equatorial Guinea, Gabon, Guinea Bissau, Ivory Coast, Mali, Niger, Senegal, Togo.

As a representative of IFIGS, Josée Rheault, Executive Vice President, Operations at Assuris, delivered a presentation on “Perspectives on Insurance Guarantee Schemes”, introducing IFIGS and its perspective, and the framework guidance in an evolving policy environment.

The International Association of Insurance Supervisors (IAIS)

From the International Association of Insurance Supervisors (IAIS)'s [December 2022 / January 2023 Newsletter](#).

"On 26-27 January 2023, the Supervisory Authority of Insurance and Social Welfare (ACAPS-Morocco) hosted a seminar for the French-speaking insurance supervisors' group (Groupe des Contrôleurs d'Assurance Francophones-GCAF).

"Organised in Rabat, the meeting brought together representatives from some twenty jurisdictions to discuss two main themes: policyholder protection schemes (PPS) and inclusive insurance. In addition, speakers considered ways to develop partnerships to promote channels of cooperation and to exchange expertise between the group members.

"The seminar was attended by representatives from the GCAF Member Authorities, IAIS Deputy Secretary General, Romain Paserot and representatives from the Access to Insurance Initiative (A2ii) and the International Forum of Insurance Guarantee Schemes (IFIGS-FIFGA). The ACAPS chairs the French-speaking supervisors' group since November 2021."



2023 Strategic Priorities

In 2023, Assuris will continue our work on ensuring resolution readiness, building stakeholder engagement, and delivering operational excellence. Here is how we are planning to tackle each of these priorities.

Resolution Ready



We are focused on being ready to deal with a failure. We understand and anticipate the industry-wide and company-specific scenarios that could cause a member to fail, and tailor our risk detection and resolution work to our different member segments. We sharpen our company risk and resolution expertise by developing and deploying our resolution tool kit through frequent resolution preparedness testing.

The Resolution Ready strategic priority core work focuses on our risk analysis to identify company-specific and industry-wide risks, resolution analysis and resolution preparedness work to develop and test our playbooks and resolution knowledge base.

Risk Analysis

Assuris Risk & Resolution Team is bringing together our company risk and industry risk analysis under one team to benefit from the synergies between these analyses. Our member companies have transitioned to IFRS 17, and our focus will be on ensuring our new risk analysis and systems are ready to receive their IFRS 17 information in 2024. We will also have the final transition balance sheets to confirm what the volatility in the macroeconomic environment has meant for each company.

Resolution Analysis

In 2023, we will focus on addressing the gaps in the Canadian resolution framework for large complex internationally active life insurers. This includes both the resolution powers for an orderly failure, and the resolution information and planning needed on a regular basis. We plan to engage with our members to ensure the resolution information meets our needs and does not cause undue regulatory burden. We will also continue to build on our resolution analysis for when a member company becomes distressed to ensure we are ready to effectively work with the supervisors and restructuring professionals on a solution.

Resolution Preparedness (COE)

The new Centre of Excellence (COE) for resolution preparedness will focus on playbook development and scenario testing capabilities. We will develop our funding playbook and test the Board of Directors decision making with a funding scenario at the Directors' Conference. We will also gather our corporate resolution knowledge and engage all staff in learning their roles in resolution scenario exercises.

Stakeholder Engagement



We build and maintain strong relationships with our stakeholders by purposefully engaging with each stakeholder in a manner that is relevant to that stakeholder. We firmly believe that strong relationships today are critical to effectively dealing with a potential future failure.

Assuris' goal is to support our stakeholders through a comprehensive and integrated stakeholder engagement program. Assuris wants to build a strong relationship with its stakeholders other than in a crisis when a life insurance company fails or becomes insolvent. We will build and maintain those relationships by purposefully engaging with each stakeholder in a manner that is relevant to that stakeholder. We firmly believe that strong relationships today are critical to effectively dealing with a potential future failure.

In 2022, we launched our communication plan as a key component of our strategic priority with the objective to increase awareness about Assuris. While our communication plan and tactics were targeted to policyholders and financial advisors, we also benefited, from a spill-over effect, increasing awareness and opportunities to partner with our other stakeholders; members, regulators, and industry partners. We will build on our first-year communication activities and focus on enhancing our engagement with financial advisors and members.

Policyholder and Financial Advisor Engagement

We will enhance and increase our followers and engagement on social media with focused campaigns targeted at both policyholders and financial advisors. We will also re-launch our financial advisor education program and update our Continuing Education Program including webinars and presentations, a new brochure, eblasts as well as a video outlining our protection.

Member Engagement

As part of our communication plan, we will leverage the members' financial advisor network by developing some communication material to be used on our members' websites and to be included in their marketing material. We continue to leverage the Industry Advisory Committee and members consulting with them on the member risk survey, funding capacity and communication plans.

Government & Regulator Engagement

We engage with government and regulators for similar purposes as with Members: to obtain industry or company level insights that enhance Assuris' understanding of solvency risk matters and to provide the regulator with industry or company level risk information or insights that are unique to Assuris. Assuris will continue to meet regularly with OSFI and AMF regarding company supervision, policy, capital, and risk matters, as well as with other provincial and territorial insurance regulators.

Industry Partner Engagement

This group of industry partners includes peer compensation organizations, such as PACICC, CDIC and globally through IFIGS, the CLHIA, as well as the broader insolvency community, such as restructuring professionals and actuarial and legal advisors. We will continue to engage with industry partners to keep abreast of developments and best practices, to enhance our resolution expertise, to provide thought leadership, and to maintain strong relationships to support our overall resolution readiness.

Operational Excellence



We deliver excellence in everything we do and approach our work with a continuous improvement mindset. We match our members' high expectations for sound financial discipline, effective risk management, best practices in corporate governance, leading HR practices and highly secure technology for our members' regulatory filings.

Operational Excellence will focus on maintaining excellent practices and processes, ensuring that all work meets the "best in class" standard and that it is completed in a timely manner. Work within the Operational Excellence strategic priority includes our annual Finance, IT, HR, and Governance activities, as well as the management of the investment portfolio. The work will be streamlined to be efficient with a mindset for continuous improvements.

Policy Governance Refresh - Corporate Governance

We will undertake a comprehensive review of the board and committee mandates. This will include a review of all board approved policies to ensure alignment with the committee mandates. We will also review, and update Board and Committee approved policies to ensure alignment with our current strategic priorities and ways of working, to provide clear delegation of authority from the board to management and to clearly define roles and responsibilities.

IT Infrastructure Review

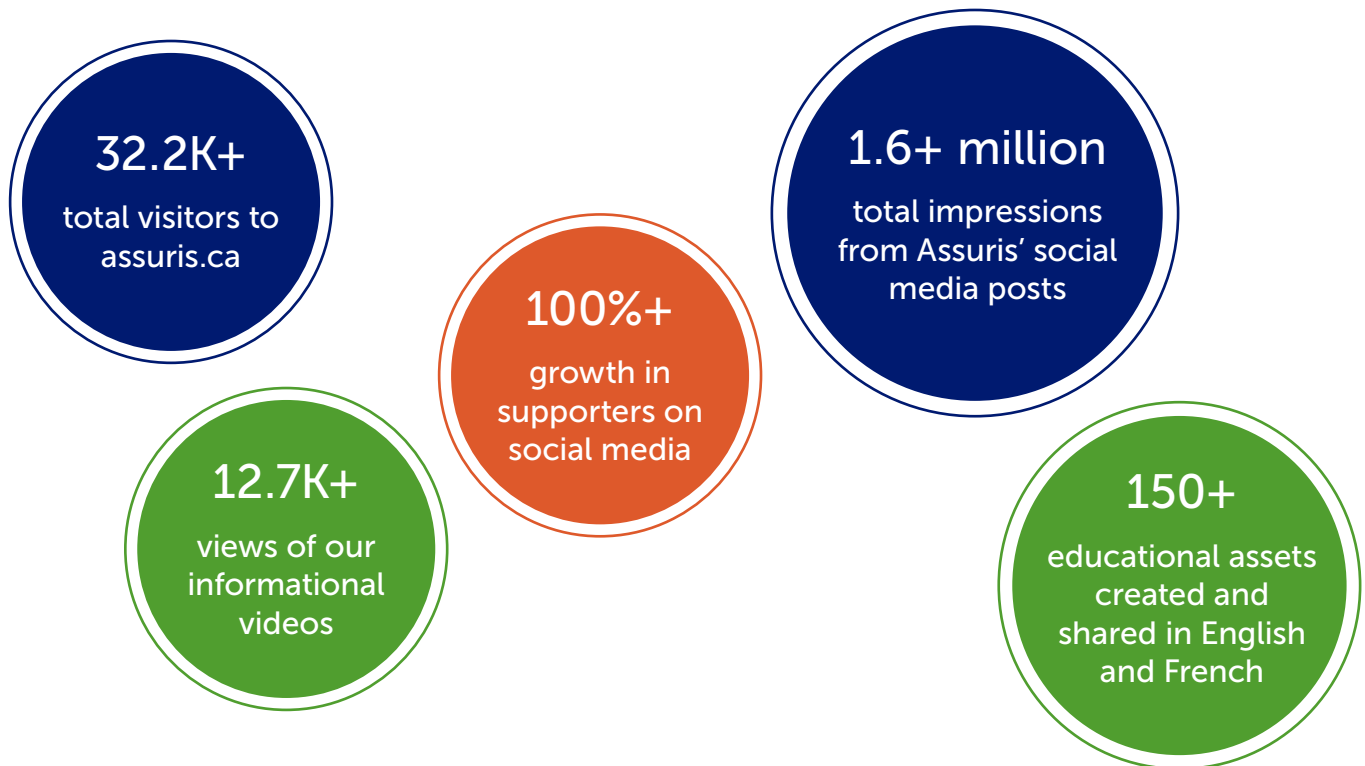
As Assuris evolves, we need to ensure that our IT infrastructure is capable of meeting our business needs. This year we will engage with the business units to better understand and assess their IT requirements, specifically in the areas of knowledge/expertise management and resolution readiness tools.

Amplifying our Voice – Raising Awareness of Assuris

Carole LaPorte
Communications Lead

In January 2022, Assuris launched its communication plan as part of our strategic priority to enhance stakeholder engagement. Part of being resolution ready means that policyholders know that “you have Assuris’ protection.” The first time Canadians hear about Assuris should not be at the time of a life insurance company failure. More frequent and targeted communication to our stakeholders, and specifically policyholders and financial advisors, will build trust and confidence in Assuris and the life insurance industry. As we mark the one-year anniversary of our communication plan, we are excited to celebrate Assuris’ accomplishments.

2022 At a Glance



Highlights

Assuris created two new videos in 2022:

- [Who is Assuris?](#) explains **who** we are and **what** we do to protect Canadian policyholders.
- [Assuris Answers Your Top 6 Questions](#) is a series of vignettes that break down **how** we protect Canadian policyholders in the event of a member life insurance company failure.

We refreshed the [assuris.ca](#) website homepage to incorporate our updated branding and to make it easier for visitors to locate and navigate to the information they are looking for.

Assuris also introduced its new mascot Alix, the life insurance X-pert! Alix has been helping us to build our brand and increase awareness about Assuris policyholder protection among Canadian consumers.



Partnerships

Assuris partnered with the Financial Consumer Agency of Canada (FCAC) and the Canadian Health and Life Insurance Association (CLHIA) to educate financial consumers during Life Insurance Awareness Month in September.

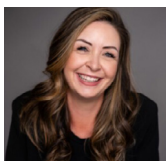
We also collaborated with Advocis on a blog post, [The Value of Financial Literacy when Choosing Life Insurance](#), and the [OmbudService for Life & Health Insurance \(OLHI\)](#) in a joint campaign, Here for you – Assuris and the OmbudService for Life and Health Insurance celebrate decades of serving consumers for Financial Literacy Month in November.

And last but not least, we teamed up with all of Canada's financial consumer protection partners (AMF, CDIC, CIPF, CUPSA and PACICC) to refresh the [financeprotection.ca](https://www.financeprotection.ca) website.

2023 and Beyond!

Building upon our successes from 2022, there will be many opportunities to engage with our various stakeholders in 2023. We will be looking to build our engagement with financial advisors, as we know they play a key role acting as conduits for generating relevant and accurate messaging to Canadian policyholders. We will also be focusing on supporting our life insurance member companies in new and exciting ways. Be sure to keep up with everything we have going on – follow us on [LinkedIn](#), [Facebook](#) or [Twitter](#).

Protecting Canadian policyholders, Assuris has your back!



Carole LaPorte is the Communications Lead at Assuris, and is responsible for overseeing a team to engage, educate and build trust with Canadian financial consumers, financial advisors and other key audiences. Carole is actively involved in fostering relationships with Assuris' member companies, industry partners, professional associations, and other stakeholders.