



Assuris

The @Assuris Newsletter

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Resolution for insurers: Assuris' commitment to stability and protection beyond financial viability

Lambert Ex-ignotis

Vice President, Resolution Analysis, Assuris

What does resolution mean for insurers?

Resolution is a structured approach designed to protect policyholders if an insurance company is failing or at risk of failure. It proactively safeguards confidence in the industry, upholds financial stability, and minimizes disruption, all while ensuring policyholder commitments are honoured, even in times of financial distress.

The concept of resolution for financial institutions gained prominence following the 2008 global financial crisis, when the failure of major banks exposed significant gaps in crisis management and depositor and creditor protection. Initially focused on banks, now, similar efforts are underway for insurers, recognizing their critical role in financial security and the need for proactive measures to protect policyholders in times of distress.

Why does Assuris prioritize resolution planning?

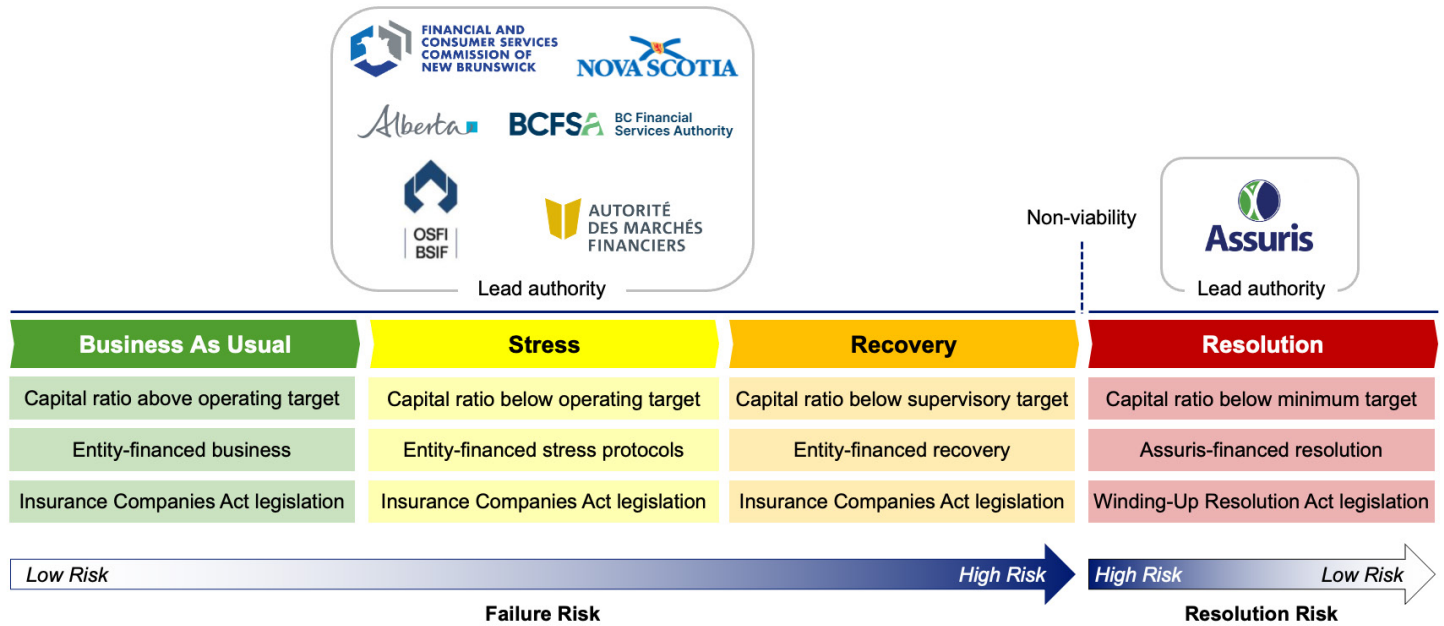
Resolution encompasses both planning and preparedness to ensure that pre-determined mechanisms are in place to stabilize the situation if an insurer faces insolvency. This article will focus on the topic of resolution planning in case of a life and health insurance company failure. For more information on resolution preparedness, we encourage readers to refer to the [Assuris September 2023 Newsletter](#).

Resolution planning is not about predicting failures – it's about preparing for them. This highlights the need to distinguish between the risk of failure and the risk of resolution:

- ▶ **Failure risk** refers to the probability that an insurer may become insolvent or unable to meet its financial obligations due to factors such as weak risk management, inadequate capital, or adverse market conditions.
- ▶ **Resolution risk**, on the other hand, reflects the potential complications or negative outcomes during the resolution of a failing insurer – post-recovery phase – such as challenges in protecting policyholders, maintaining financial stability, or executing an orderly exit from the market.



The crisis continuum below illustrates the various stages an insurer might traverse before reaching the resolution stage. It also outlines the capital ratio position, sources of financing, relevant legislation, and lead authority at each stage of the crisis continuum, including the concepts of failure and resolution risks. Resolution is the final stage, and the exit from the market must be executed effectively to protect policyholders and maintain confidence in the industry. As the leading authority, Assuris plays a critical role in ensuring a smooth and well-managed resolution process.



How does Assuris lead resolution planning?

Assuris leads the resolution planning work by collaborating with the supervisors to ensure no duplication in the analyses and to ensure the demands on the industry are reasonable and not overly burdensome. As illustrated in the figure above, supervisors oversee insurers' operations at each stage of the crisis continuum to prevent them from reaching the point of non-viability. Meanwhile, Assuris focuses on working with higher resolution risk life and health insurance companies to develop advance resolution planning to mitigate the impact if non-viability occurs.

Assuris takes the lead in developing the resolution planning analysis with the objective of having useful information to make decisions in a crisis. As illustrated in the graphic below, life and health insurers provide information and input to the analysis, and supervisors review a summary of the resolution risks to ensure it meets their supervisory expectations.



How does Assuris assess resolution risks?

Since the resolution of a life and health insurance company involves transferring its business to a solvent company, Assuris assesses resolution risks by analyzing the company's solvability. This evaluation is reflected in the following risk categories.

- ▶ **Business profile** – the risk of an unattractive business to potential buyers due to factors such as lack of scale, poor distribution channels, weak brand value, and limited growth initiatives.
- ▶ **Financial resources** – the risk of insufficient financial resources to keep the business running in resolution without exposing taxpayers to loss.
- ▶ **Business continuity** – the risk that transferring and maintaining business operations may be challenging due to complex financial and operational arrangements.
- ▶ **Resolution framework suitability** – the risk that the business complexities may not align with the existing resolution framework within its operating jurisdiction.

Considering the above risk categories, and given their size and complexity compared to smaller local Canadian insurers, Assuris applies a more detailed resolution analysis to Internationally Active Insurance Groups (IAIGs)¹. This approach ensures that while IAIGs require a more tailored framework to reflect their global operations, the same high level of stability and policyholder protection is maintained across all Assuris member companies.

What's next for resolution planning?

The life and health insurance industry plays a vital role in providing financial security to millions of policyholders in Canada. Through resolution planning, we are taking proactive steps to safeguard policyholders' financial future and maintain confidence in the industry.

As we advance this work, Assuris will continue collaborating with life and health insurers, supervisors, and industry partners to refine and enhance the resolution framework. Stay tuned for more updates as we progress in building a stronger, more resilient life and health insurance sector!

¹ Assuris' member companies identified by the International Association of Insurance Supervisors (IAIS) as insurance groups that operate and write premiums in multiple national jurisdictions while also meeting size criteria.

Industry outlook consultation

Steve McMahon

Vice President, Industry Risk, Assuris

As part of its mission, Assuris proactively identifies emerging industry risks, trends and insights to be better prepared in the unlikely event of a life and health insurer's failure. Annually, we independently assess our member companies' risk exposures by analyzing regulatory filings with key financial information. We also collaborate with members and industry experts to gain a deeper understanding of the industry landscape. These efforts contribute to enhance Assuris' preparedness to respond effectively to potential risks.

During the fourth quarter of 2024, Assuris has gathered the views of fourteen life and health insurance industry experts, focusing on business model trends, opportunities, and challenges. We consulted with insurers, equity analysts, rating agencies, reinsurers, regulators and the Canadian Life and Health Insurance Association. Any confidential information is kept secure and not shared publicly.

The overall sentiment of the key stakeholders regarding the outlook of the Canadian life and health insurance industry ranged from neutral to positive. Growth opportunities outside of Canada and wealth and asset management opportunities contribute to the positive outlook. However, the limited growth opportunities in Canada for traditional life insurance and the uncertain macroeconomic environment are tempering the expectations for the life insurance industry sector.

The main topics and areas of focus raised by the participants were the importance of life insurance product distribution, technology transformation, and the risks related to the macroeconomic environment.



Expanding **distribution** through partnerships and acquisitions remains a key priority. Life and health insurers are observing a protection gap for the middle market and immigrants. Although closing this gap is challenging, it represents a significant opportunity. Additionally, insurers are less optimistic about direct-to-consumer sales because life and health insurance products are still "sold" not "bought". People's life and health insurance needs are generally at the bottom of the priority list, making life and health insurance products harder to sell than other goods. The consultation reinforced the need and the importance of financial advisors' role to help Canadians secure and protect their financial health.



Technology transformation, such as Artificial Intelligence (AI), will be significant in the coming years. It has the potential to change insurers' operations, underwriting, product distribution and customer experience. Technology deployment could be challenging for some insurers due to the costs involved and uncertainty about its success. Insurers face the risk of investing in trendy innovation projects rather than technology that delivers real value over the long term. Overall, technology transformation is expected to be beneficial for life and health insurers.



Given the uncertain economic environment, **macroeconomics** remains the industry's most significant risk. The recession risk in Canada has increased which could negatively impact the financial performance of the life and health insurance sector. On the positive side, the industry is more resilient to macroeconomic risks than before and remains well-capitalized. Overall, we are confident that life and health insurers have the tools and expertise to navigate through these uncertain times.



Life and health insurers play an important role in our society by offering a variety of protections that contribute to Canadian financial well-being. Insurers are diversifying their business outside traditional life insurance, such as health care services and wealth and assets management, which represents a great opportunity for insurers to positively impact the lives of many Canadians.

In conclusion, the insights gathered confirm the strength of the Canadian life and health insurance industry despite ongoing challenges. Assuris is committed to protecting policyholders by enhancing its preparedness and engaging with key stakeholders.

Assuris lessons learned from past failures – How life and health insurers are resolved

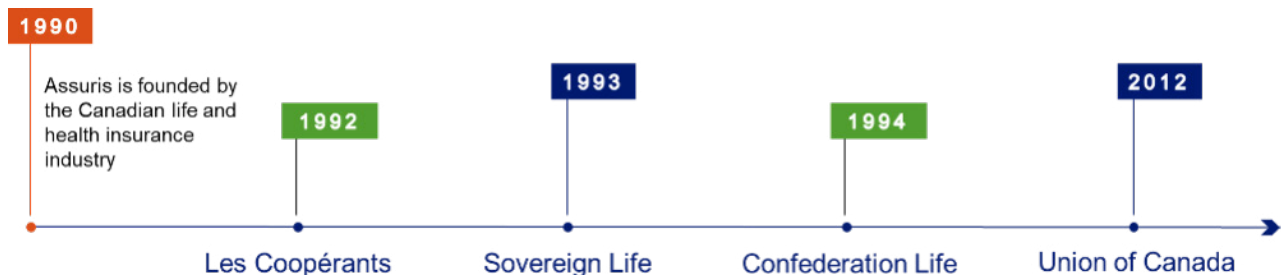
Stephanie Greer
Executive Vice President, Assuris

Welcome to the second installment of our series on lessons learned from past failures, with a focus on **how life and health insurers are resolved**.

Although Canadian life and health insurers rarely fail, Assuris’ role is to always be ready for the resolution of any member company. Part of being always ready is to make sure we understand our past failures to help us be more prepared for the next one.

Since Assuris was created, the organization has actively managed four life and health insurer insolvencies in Canada, pioneering efforts to ensure policyholders were protected in unprecedented situations.

Each of these insolvencies has provided learning opportunities for Assuris as the industry-funded policyholder protection organization. Because Assuris focuses on the early identification of solvency risks and being prepared to resolve a failed member company, our past experience provides valuable insights into why and how life and health insurers fail as well as resolution options and tools to minimize losses to policyholders and costs to the industry.



In each case, the policyholders were transferred to a solvent company where their benefits continued to be honoured. Resolving a failed life and health insurance company is like ensuring customers continue to receive uninterrupted access to the service they have signed up for. The goal is to keep the service running seamlessly, as it is something they rely on and may not be able to replace for a reasonable price.

How life and health insurers are resolved

Resolving a life and health insurance company is different from resolving any other type of company. However, there are many similarities: the appointment of an insolvency professional to take control of the business, the valuation and sale of the entire business or its assets, and the oversight by the insolvency courts.

The big difference is that the largest group of creditors in a life and health insurance company are the policyholders. Their claims are difficult to value and cannot be suitably satisfied by cash compensation but only by the continuation of their policies. The value of the business is also only partially in the assets. The policyholder liabilities and their administration are usually the highest value item to be realized in the resolution.

The process to transfer the policyholder liabilities to another company is very similar to selling the assets, but it takes everyone involved a little while to understand the concept of selling the liabilities as well as the assets!

Top 5 lessons learned

Leaning on our experience from the past insolvencies, Assuris has compiled its top 5 lessons learned on how life and health insurer failures are resolved:

1. Life and health insurers are different than banks and P&C insurers

The approach to resolving life and health insurers is different from the resolution strategies for banks and property and casualty (P&C) insurance firms, which often deal with shorter-term business. The focus for life and health insurers is on maintaining the continuity of benefits for policyholders, rather than offering cash compensation. This is crucial because, as policyholders age, obtaining replacement policies becomes more expensive, and some may become uninsurable due to deteriorating health conditions.

In the service example above, if life and health insurer policyholders continue to receive their benefits, the objective of a bank or P&C insurer is primarily financial compensation for loss, like giving customers a refund for a product or service they did not receive. It is a one-time compensation for what was lost, rather than ensuring the continuation of something they need over time. Transferring the business also generally requires less up front funding compared to paying cash compensation to consumers.

2. Time is (still) of the essence

While insurance resolution may not require the speed of execution that may be required to deal with a bank failure, time to resolution is nonetheless a critical factor. Conventional wisdom is that banks must be resolved within days, but insurers can be resolved over months and years. It is not clear whether this remains true in this era of lightning-fast transmission of confidence-draining misinformation via social media. Today, consumers will expect to be told the solution as well as the problem on the day their insurance company fails.

The urgency in resolving insurance companies is more related to the problem of anti-selection, where the good risks—for example, healthier policyholders, who can easily find alternative coverage, will leave. This departure of lower-risk individuals leaves behind a pool of higher-risk policyholders, eroding the value of the business. In past failures, it was important to communicate the benefits of Assuris protection to mitigate the risks of anti-selection and discourage panic-driven decisions.

Beyond this risk, the longer it takes to resolve, and the greater uncertainty of outcome it generates, the higher the risks to policyholders and other creditors, the industry and the broader financial system.

3. Need options and tools to tailor resolution strategy to specific crisis needs

Past insolvencies were dealt with by finding creative solutions to the problems at hand. An effective approach with Confederation Life involved leveraging the gradual sale of businesses to manage illiquid assets and their recovery, thereby avoiding the pitfalls of undervalued fire sales during liquidation. In such cases, Assuris collaborates with the liquidator to carefully assess the cost of ‘working out’ assets relative to the likelihood of market conditions improving.

Our subsidiary CompCorp Life Insurance Company (CompCorp Life), serves as a critical resolution tool, functioning either as a bridge institution or a vehicle to run off unsaleable business. Unsaleable blocks, such as very small policies or long-term guaranteed life insurance in a low-interest rate environment pose unique challenges due to the limited market appetite for these products.

Additionally, Assuris can also provide guarantees and indemnities to support resolution strategies. As a licensed life insurance company, CompCorp Life is well-positioned to offer alternative financial tools, including stop-loss reinsurance, cash flow swaps, and product guarantees, enhancing the flexibility and effectiveness of our resolution framework. In the case of Sovereign Life's insolvency, CompCorp Life was used as a reinsurer to work out commercial mortgage and real estate assets that were unwanted by the insurer that assumed the failed company's business.

4. Resolution information is critical to make decisions

Resolution often necessitates decision-making under conditions of incomplete information. A key lesson learned from early insolvencies is the critical importance of effective information sharing between the prudential supervisor, and Assuris, the policyholder protection organization. This insight contributed to the establishment of Assuris' independent role in serving the public interest and the creation of the independent Board of Directors.

The type of information available also plays a crucial role in resolution preparedness. A 'gone concern' perspective is essential but may not be readily available while a company remains a 'going concern'. Financial statements prepared in liquidation often present a markedly different financial position than the company's last regulatory filings. High-quality financial information at the outset is vital for the liquidator to identify assets and liabilities, craft a liquidation strategy, monitor performance, and provide transparent explanations of losses to creditors.

Adequate resolution information is likely already captured in regulatory filings for most companies. However, for larger and more complex life and health insurers, specific resolution-focused information should be available proactively, even if the probability of failure remains low.

5. Cooperation and collaboration among stakeholders are vital

The Canadian insurance resolution process is based on cooperation and collaboration across key stakeholders – the prudential supervisor, the policyholder protection organization and the liquidator through the court process. Effective cooperation and collaboration among these stakeholders are essential to ensuring an orderly failure, minimizing disruption for policyholders and maintaining confidence in the financial system.

Cross-border cooperation is essential for addressing cross-border insolvencies, often requiring intercompany agreements to facilitate services across jurisdictions. In past cases, sustained cooperation and negotiation successfully avoided litigation. Notably, a complex agreement with the United States in the Confederation Life failure to 'true up the estates' and make sure the amounts owed were treated fairly was reached after several years of deliberation, demonstrating the value of collaborative problem-solving in resolving intricate cross-border challenges.

Cooperation issues are not just cross-border but also between entities within the same country. Issues within a country can be just as difficult as those between them. The consumer protection organizations are part of the process and need access to information not only about their jurisdiction but also the rest of the conglomerate, at least to the extent it might impact them.

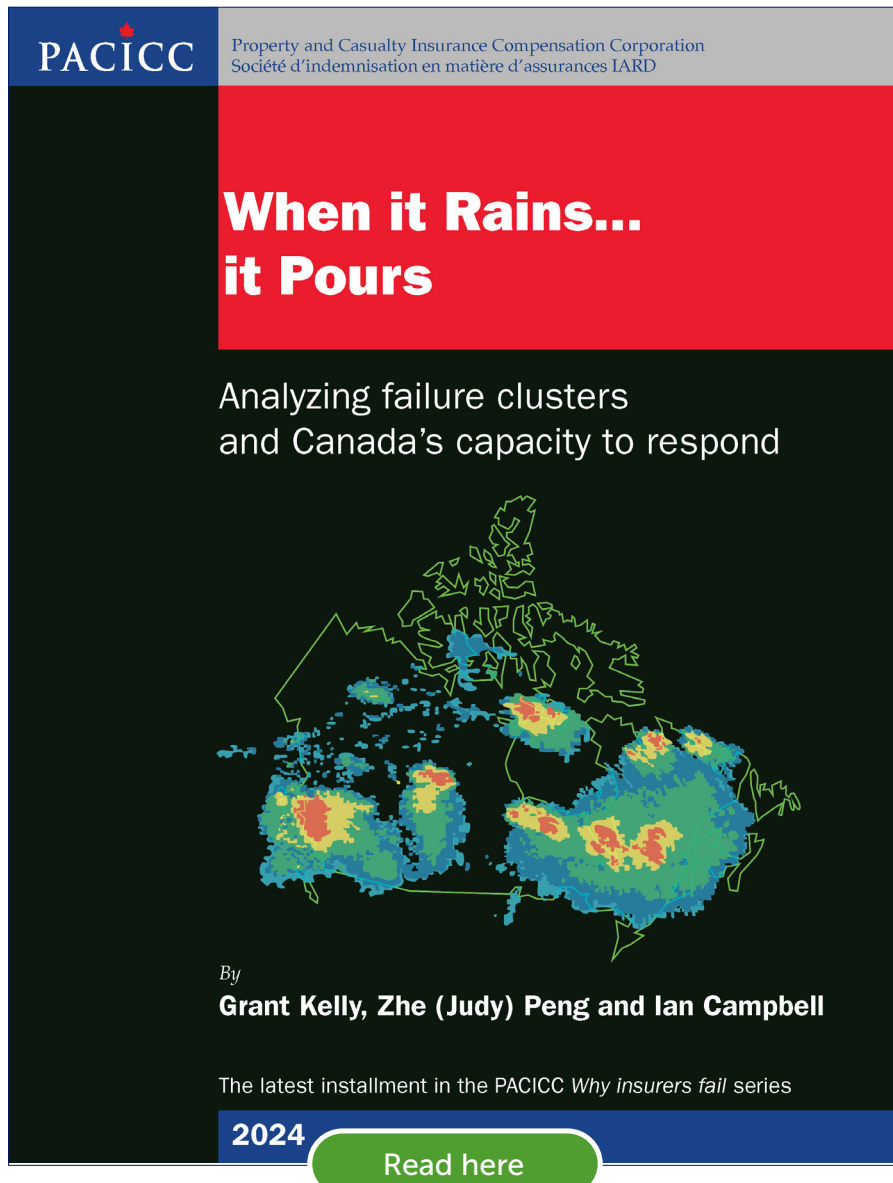
Assuris maintains the resolution expertise to develop tailored solutions to life and health insurance industry-specific issues. By combining the knowledge gained from past failures with current work with restructuring professionals and awareness of the current industry environment, Assuris can adapt resolution strategies to contain and mitigate the impact of the next life and health insurance failure, no matter how different it may be.

Our next installment in this series will address the question – **what if Confederation Life failed today?**

When it Rains... it Pours – Analyzing failure clusters and Canada’s capacity to respond (PACICC)

By Grant Kelly, Zhe (Judy) Peng and Ian Campbell from Property and Casualty Insurance Compensation Corporation (PACICC).

This paper reviews Canada’s history of insurance failure “clusters,” assesses PACICC’s capacity to respond effectively to a future cluster of failures in Canada and provides the results of a deep dive into the specific experience of three countries which have recently witnessed significant failure clusters.



PACICC Property and Casualty Insurance Compensation Corporation
Société d'indemnisation en matière d'assurances IARD

When it Rains... it Pours

Analyzing failure clusters
and Canada’s capacity to respond

By
Grant Kelly, Zhe (Judy) Peng and Ian Campbell

The latest installment in the PACICC *Why insurers fail* series

2024 [Read here](#)

Results of the survey on the operational resilience of financial institutions (AMF)

By the Autorité des marchés financiers (AMF).

This report presents the results of the survey on the operational resilience of financial institutions, offering a compilation of the resilience practices implemented by financial institutions to respond to the challenges and disruptions that could affect their activities.

It's accessible in French only. Contact the Autorité des marchés financiers at sondage.resilience@lautorite.qc.ca to obtain an English version of this report when it becomes available.



**Autorité
des marchés
financiers**

Décembre 2024


Bilan du sondage portant
sur la résilience opérationnelle
des institutions financières

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Global insurance market report (IAIS)

By the International Association of Insurance Supervisors (IAIS).

The 2024 Global Insurance Market Report shares the outcomes of the 2024 Global Monitoring Exercise (GME) and the International Association of Insurance Supervisors' (IAIS') risk assessment framework to monitor key risks and trends.



IAIS International Association of Insurance Supervisors

Global Insurance Market Report (GIMAR)

December 2024

Read here

The tool every financial advisor should have on hand

As a financial advisor, your clients rely on you to provide advice and recommendations to protect their financial future at every life stage. When it comes to life and health insurance, while it protects your clients and their loved ones, many policyholders aren't aware that their benefits are also - and automatically - protected by Assuris if their life and health insurance company fails. That's where the Assuris Protection Calculator comes in.

Introducing the Assuris Protection Calculator

Assuris Protection Calculator is a quick and effective way to show clients exactly how much of their life and health insurance benefits are protected by Assuris. In addition to discussing Assuris protection levels, you can also provide a personalized breakdown of their protection with exact numbers in just minutes.

Start making the Assuris Protection Calculator part of your client conversations and:

- ▶ **Provide instant clarity** – Show clients exactly how much of their benefits are protected.
- ▶ **Give personalized insights** – Tailor calculations to each client's unique situation.
- ▶ **Save time and avoid confusion** – No need for manual calculations.
- ▶ **Make financial protection tangible** – Numbers make the concept of life and health insurance protection real for clients.
- ▶ **Help clients make informed decisions** – Include the calculator link in your emails so clients can explore how they are protected.

Seamlessly integrate the calculator into your workflow

Whether you're discussing life and health insurance options in a meeting, responding to a client's email, or sending a follow-up, the Assuris Protection Calculator is an easy way to reinforce confidence in their financial protection.

Start using it today!

[Assuris Protection Calculator](#)

Strengthening client relationships: why talking about Assuris matters

For financial advisors, effective communication is paramount. It's the cornerstone of building confidence, fostering long-term relationships, and ultimately, helping clients achieve their financial goals. Among the various communication strategies, discussing Assuris - and its role in protecting life and health insurance benefits - can be particularly valuable.

Enhancing client understanding and peace of mind

Many Canadians are looking at financial advisors for guidance in their financial decisions, with a significant 83% purchasing life insurance through them¹, underscoring the value they place on advisor recommendations. By including Assuris and its protection in their client conversations, advisors can reinforce this value by:

- ▶ **Illustrating the safety net:** Explaining how Assuris provides a safety net for their investments and insurance products offers reassurance that their financial future is protected even in unforeseen circumstances
- ▶ **Encouraging informed decision-making:** Transparently discussing the protections offered by Assuris empowers clients to make well-informed decisions about their financial plans. In fact, 46% of financial advisors say that talking about Assuris helps alleviate their clients' fears and encourage decision-making²
- ▶ **Providing peace of mind:** Knowing that their investments and insurance benefits are secure under Assuris protection can clarify any misconceptions and provides clients peace of mind, according to 41% of advisors²

Fortifying the client-advisor relationship

Beyond the technical aspects, discussing Assuris can significantly strengthen the advisor-client relationship:

- ▶ **Demonstrating comprehensive due diligence:** Talking about Assuris shows clients that the advisor considers all possible scenarios and evaluates various options before making recommendations, highlighting the advisor's thoroughness
- ▶ **Educational opportunities:** According to more than half of advisors², Assuris can be used as a teaching tool to educate clients about the importance of life and health insurance protection and the stability of the Canadian financial system

Setting advisors apart

In a competitive landscape, discussing Assuris can also set advisors apart:

- ▶ **Highlighting expertise:** Demonstrating a deep understanding of the different types of protection offered by Assuris positions the advisor as a knowledgeable and reliable expert. About 1 in 2 advisors says that talking about Assuris sets them apart from the competition and showcases their thoroughness and commitment to their clients' financial well-being²
- ▶ **Offering unique value:** By proactively addressing potential risks and explaining the role of Assuris, advisors can offer a unique value proposition that goes beyond offering financial solutions

¹ CLHIA – Canadian Life & Health Insurance Facts, 2024 edition

² IPSOS – Assuris Policyholders and Financial Advisors Report, November 2024



Financial Advisor Corner

As Assuris continues to play a crucial role in protecting Canadian life and health insurance policyholders, its significance in advisor-client conversations will only grow, offering a valuable tool for advisors to differentiate themselves, build client confidence and foster long-term client relationships. Whether you're already talking about Assuris protection with your clients or would like to get started, you can access easy-to-use resources developed specifically for financial advisors to help facilitate the conversation. Visit the Assuris website to explore our [toolkit](#) and the [Assuris protection calculator](#).

The CE course that helps you build client confidence

Recent findings from our Assuris/IPSOS 2024 Financial Advisors Survey show that discussing Assuris with clients has a positive impact on their confidence in their financial future. Over 60% of advisors report that talking about Assuris helps clients understand the safety net protecting their investments and insurance products. And half of advisors say that talking about Assuris strengthens the advisor-client relationship¹.

To support you in having these important conversations, Assuris offers a CE-accredited eLearning course: [Understanding Assuris Protection](#). This course is designed to deepen your knowledge and give you the tools to build client confidence and foster long-term relationships.

Why take this course?

- ▶ **Strengthen your client relationships** – Educating clients about Assuris protection reassures them that their financial plan is secure, and builds confidence in your expertise.
- ▶ **Be the expert your clients trust** – Understanding Assuris' protection reinforces your ability to provide comprehensive financial advice.
- ▶ **Earn a CE credit** – This course is accredited, allowing you to earn a CE credit while expanding your expertise.

Your clients rely on you - help them feel secure

Providing clarity on financial protection strengthens your role as a trusted advisor. When clients understand that their life and health insurance benefits are automatically protected by Assuris if a member company fails, they gain confidence in the recommended solution and get peace of mind.

[Take the Assuris CE eLearning course today](#)

¹ Assuris/IPSOS 2024 Financial Advisors Survey