AUTORITÉ DES MARCHÉS FINANCIERS

INTERVENTION GUIDELINES FOR QUEBEC P&C INSURERS AND PACICC MEMBER COMPANIES

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TABLE OF CONTENTS

PREAMBLE **3**

1. COMMON GOAL TO PROTECT POLICYHOLDERS **3**

2. THE ROLE OF THE AUTORITÉ DES MARCHÉS FINANCIERS **3**

3. THE ROLE OF PACICC **3**

4. OVERVIEW OF INTERVENTION STAGES **4**

Stage 1 - No Significant Problems 5

Stage 2 - Early Warning 5

Stage 3 - Watch Condition 6

Stage 4 - Solvency Seriously Compromised 7

Stage 5 - Insolvent Insurer 8

5. COOPERATION WITH OTHER COMPENSATION CORPORATIONS **10**

6. GLOSSARY **11**

PREAMBLE

The Intervention Guidelines (the “Guidelines”) for Québec P&C insurers and PACICC member Companies (the “Insurers”) outline the actions and measures that can be implemented by the Autorité des marchés financiers (the “AMF”) and by the Property and Casualty Insurance Compensation Corporation (“PACICC”) respectively, or by both organizations jointly, when an Insurer experiences difficulty that may jeopardize its ability to meet its commitments to its policyholders.

The actions and measures outlined in these Guidelines are not exhaustive and should not restrict the discretion of the AMF and PACICC, under the laws and statutes that govern each of them.

1. COMMON GOAL TO PROTECT POLICYHOLDERS

The AMF and PACICC are committed to working together to mitigate solvency risk, assess and improve the resolvability of an Insurer and maintain the industry’s stability. If an Insurer fails, the AMF and PACICC will work together to protect policyholders and minimize their losses. The AMF has the power to recognize compensation bodies and PACICC is recognized as such.

A Participation Agreement[1] establishes the cooperative relationship between the AMF and PACICC. This includes sharing information, working together, coordinating and collaborating to deal with deficiencies that may impact the Insurer’s financial condition and its ability to meet their commitments to their policyholders.

2. THE ROLE OF THE AUTORITÉ DES MARCHÉS FINANCIERS

The AMF is the body mandated by the Québec government to regulate Québec’s financial markets and assist consumers of financial products and services, in particular in the areas of insurance, securities, derivatives, deposit institutions – other than banks – and the distribution of financial products and services.

3. THE ROLE OF PACICC

PACICC’s mission is to protect policyholders from undue financial loss in the event that their insurer becomes insolvent. PACICC works to minimize the costs of insurer insolvencies and seeks to maintain a high level of consumer and business confidence in Canada’s property and casualty insurance industry through the financial protection it provides to policyholders[2]. PACICC coordinates its actions closely with those of the AMF when intervention is needed with one of its member companies.

[1] Participation Agreement between the Gouvernement du Québec and the Property and Casualty Insurance Compensation Corporation, signed December 15, 1988

[2] For complete information about PACICC’s protection of policyholders, please visit PACICC’s website at www.pacicc.ca

Since PACICC's Board of Directors is partially composed of members affiliated with P&C insurance companies, PACICC has created the Pre-insolvency Regulatory Liaison Committee ("PIRL Committee") comprising only the members of the Board of Directors who are not affiliated with any PACICC member company, to discuss and share sensitive information with regulators.

At every step of an intervention with the Insurer, the content of the exchanges between the AMF and PACICC are confidential and made available only to the AMF representatives, PACICC's staff members and PACICC's PIRL Committee members. It is only when the Insurer's assets are insufficient or it is insolvent that the content of these exchanges may be made available to PACCIC Board members that are not PIRL Committee members.

All changes regarding the PIRL Committee membership are promptly disclosed to the AMF.

4. OVERVIEW OF INTERVENTION STAGES

Based on the AMF's assessment of the Insurer's risk profile, the intervention stages are as follows:

- Solvency stages
    - Stage 1 - No Significant Problems
    - Stage 2 - Early Warning
    - Stage 3 - Watch Condition
    - Stage 4 - Solvency Seriously Compromised
- Insolvency Stage
    - Stage 5 - Insolvent Insurer

The actions and measures that can be implemented by the AMF and PACICC at each intervention stage are outlined below. The AMF may stage an Insurer for other reasons than solvency risks, for example governance issues. In such instances, no action may be required from PACICC. The determination of the intervention stage is not necessarily a linear process. An Insurer assessed staged 2 can be reassessed stage 4 on its next assessment.

Stage 1 - No Significant Problems

The AMF considers that the Insurer generally adhere to sound and prudent management practices and that its financial condition is satisfactory

The AMF follows its Financial Institutions Supervisory Framework (the "Supervisory Framework[3]"). At Stage 1, the Insurer's Risk profile is low or moderate and there are no solvency risk concerns.

The AMF may have identified one or more deficiencies in sound and prudent management practices that are not expected to have a material impact on its solvency or business continuity if they are corrected with due care. The AMF implements its three-year supervisory plan. It revises the Insurer's risk profile on an ongoing basis and ensures that the intervention stage continues to be appropriate.

All PACICC member Insurers are required to provide their financial filings to PACICC. PACICC will pursue its analysis activities based on the information disclosed directly by the Insurer. If necessary, it will discuss the results of its analysis with the AMF representatives. PACICC will also inform the AMF of any material fact that may be brought to its attention regarding the Insurer.

Stage 2 - Early Warning

The AMF has concerns regarding the Insurer's financial condition and/or has identified deficiencies in the Insurer's sound and prudent management practices that if they are not corrected within the timeframes prescribed by the AMF can have a material impact.

The AMF follows its Supervisory Framework. At Stage 2, the Insurer's Risk Profile is moderate or high. The Insurer's High-Risk Profile is mainly due to deficiencies on the effectiveness of the functions represented by the lines of defence or the governance bodies.

The deficiencies in sound and prudent management practices that have been identified can have a material impact on the Insurer's solvency or business continuity if they are not corrected within the timeframes prescribed by the AMF.

Although the Insurer complies with the capital adequacy standards, concerns may have been raised with regard to its current or future financial condition.

In accordance with their Supervisory Framework, the AMF modifies its three-year Supervisory Plan on an ongoing basis to increase the frequency and scope of its supervisory activities.

3 Autorité des marchés financiers. Financial Institutions Supervisory Framework, 2020.

The AMF will revise the Insurer’s Risk Profile on an ongoing basis and will ensure that the intervention stage continues to be appropriate.

PACICC will pursue its analysis activities based on the information disclosed directly by the Insurer if necessary and will discuss the results of its analysis with the AMF representatives. PACICC will also inform the AMF of any material fact that may be brought to its attention regarding the Insurer.

Stage 3 - Watch Condition

The AMF has identified serious concerns in the Insurer’s financial condition and/or substantial or repeated deficiencies in sound and prudent management practices. These may have a material impact in the short term on the Insurer’s solvency or business continuity if they are not corrected immediately.

At Stage 3, the Insurer’s Risk Profile is high.

Substantial or repeated deficiencies in sound and prudent management practices that have been identified can compromise the viability of the Insurer’s governance bodies or ultimately affect its business continuity if they are not corrected immediately.

Insurer’s financial condition is problematic, not to say unsatisfactory. For example, the Insurer’s capital falls below its target ratio, actuarial liabilities are considered insufficient or profitability has deteriorated substantially. The AMF informes the Insurer that it is under watch conditions. In addition to intensifying its scrutiny of the Insurer, the AMF may:

- Periodically request additional information from the Insurer;
- Carry out special inspections;
- Meet with the Insurer’s senior management or board of directors;
- Request a special/expanded audit by an outside firm;
- Request a valuation by an independent actuary;
- Require the Insurer to provide an action plan.

The AMF may give the Insurer written instructions or may issue an order for the Insurer to cease a course of action or; implement specified measures or adopt a Compliance Program with a prescribed timeline and to rectify specific deficiencies.

The AMF may further impose restrictions or conditions related to the authorization to carry on insurer activities in Québec or may apply to a court for an injunction in respect of any matter relating to the carrying out of the *Insurers Act*.

The AMF informs PACICC of the supervisory measures and powers exercised with respect to the Insurer. The AMF will revise the Insurer’s risk profile on an ongoing basis and will ensure that the intervention stage continues to be appropriate.

In accordance with Participation Agreement, the AMF informs PACICC on any additional information obtained from the Insurer as well as reports from special inspections, special audit, actuarial valuations and enhanced monitoring.

The AMF and PACICC hold more in-depth and more frequent discussions regarding the Insurer’s deficiencies, which includes evaluating the Insurer’s progress on its corrective actions to improve its financial viability.

At this stage, PACICC will evaluate the compensation risk presented by the Insurer and plan for the funding of its commitments in the event of insolvency. It will inform the AMF of its compensation capacity in respect of the Insurer. The AMF may work with PACICC to explore available options.

If the Insurer conducts activities outside Québec or if it belongs to a financial group regulated by another jurisdiction, the AMF should keep other interested regulatory authorities informed about the developments concerning this Insurer. This information sharing could be done through a Crisis Management Group (“CMG“) which may be initiated by the AMF. The AMF may invite any participants deemed relevant to join the CMG.

Stage 4 - Solvency Seriously Compromised

The Insurer’s financial viability or solvency is deteriorating. The Insurer may no longer be able to meet its financial obligations in the short term

At Stage 4, the AMF’s supervisory activities on the Insurer reveal material deficiencies or the Insurer fails to meet capital adequacy standards. These deficiencies are a serious solvency risk and the Insurer may not be able to meet its policyholder obligations.

The AMF may suspend or partially revoke the Insurer’s authorization to carry on insurer activities in Québec. Under the *Insurers Act*, this revocation will be final only once the Insurer ceases to be bound by the contracts entered into in accordance with its authorization.

The AMF informs PACICC that they will apply for an order of appointment of a receiver by the Superior Court of Québec (the “Court”), as it has reasonable grounds to believe that the assets of the Insurer are insufficient to meet its obligations. As part of the receivership order application process, the AMF will recommend to the Court persons who could act as a receiver.

The AMF will inform PACICC of any other relevant information concerning the receivership order.

The AMF and PACICC coordinate on a communication plan which may include communication to the industry, the media and the policyholders.

The receiver may exercise any power or function the Court grants it. In accordance with the receivership order, the receiver may take possession and control of all the Insurer’s assets; conduct a sale process to find the best possible transaction or develop and implement a restructuring plan.

The AMF can request from the receiver any information on their findings, their management or their investigation conclusions or any information collected within the scope of the receivership.

PACICC will evaluate alternatives available to protect policyholders in accordance with its Resolution Protocol to achieve its mission. The receiver may discuss with PACICC about the evaluation’s conclusions.

In accordance with the receivership order and to ensure policyholders' priority in the transaction, the receiver may seek to transfer the policyholders to a solvent Insurer.

Once all policyholders have been transferred and the Insurer ceases to be bound by the contracts entered into in accordance with its authorization, the revocation of the Insurer’s authorization to operate is final. If the company is solvent but not viable, the receiver may proceed with the liquidation and winding-up of the Insurer in accordance with the receivership order.

At this stage, if the Insurer conducts activities outside Québec or if it belongs to a financial group regulated by another jurisdiction, the AMF will initiate, if not already done, a CMG in order to keep other interested regulatory authorities informed about the development concerning this Insurer. The AMF may invite any participants deemed relevant to join the CMG.

Stage 5 - Insolvent Insurer

The Insurer is insolvent such that it can no longer meet its liabilities or pay its debts as they become due. The Insurer is wound up under the Winding-up and Restructuring Act (“WURA”).

In that context, the AMF and PACICC will work together in the best interest of policyholders and may discuss the steps leading to the appointment of a liquidator.

If deemed relevant, the Court will appoint a liquidator for the orderly winding-up. The liquidator may, according to the winding-up order, transfer the Insurer’s assets and liabilities to a third party or a bridge institution or place the remaining assets and liabilities in liquidation. The liquidator also reports progress and recommendations to the Court and meets with inspectors if appointed. The AMF and PACICC can be appointed inspector for the winding-up under WURA.

The AMF will suspend or partially revoke the Insurer’s authorization to carry on insurer activities in Québec. The revocation of the authorization to carry on insurer activities in Québec is final once the Insurer ceases to be bound by contracts entered into in compliance with that authorization.

PACICC will work with the appointed liquidator to ensure an orderly liquidation and winding-up. The protection of policyholders must be planned and carried out in accordance with the provisions set forth in the applicable statutes and regulations. The AMF and PACICC must be aware of the costs of compensating policyholders based on their obligations to guarantee the Insurer's operations. In addition, PACICC will use its resources to determine and validate the estimated amounts needed.

PACICC will obtain a commitment from its Board of Directors to provide coverage, as defined under PACICC's Memorandum of Operation, in the event of liquidation if it is determined that policyholders are at risk of loss and the resulting PACICC assessment will not cause additional insurers to fail. In anticipation of the winding-up order being issued, PACICC will proceed with planning an assessment to raise funds required to meet coverage obligations.

If an Insurer becomes insolvent, PACICC's Board of Directors can authorize the payment of benefits or provide a financial commitment to the liquidator in compliance with its Memorandum of Operation. From a practical standpoint, PACICC will collaborate with the liquidator to allow for claims to be settled quickly and efficiently[4].

[4] Details regarding the coverage provided by PACICC may be found at:www.pacicc.ca/industry-information/coverage/.

5. COOPERATION WITH OTHER COMPENSATION CORPORATIONS

Cooperation with Assuris

PACICC and Assuris are compensation corporations established and funded by Insurers. Their respective missions are to provide financial protection to policyholders if an Insurer fails. Where the Insurer is both a member of PACICC and Assuris and, if that Insurer fails, PACICC and Assuris will coordinate with the AMF, to discuss and evaluate resolution strategies. Where possible and for the benefit of policyholders, each organization agrees to cooperate with the resolution, liquidation or restructuring of an Insurer[5].

Cooperation with the AMF as Deposit Insurer for Québec Depositors

Where the Insurer can take deposits, the AMF, in its role as a deposit insurer, will protect the depositors of the Insurer. The AMF maintains a deposit insurance fund in respect of its obligation as well as for the performance of certain powers of intervention. If that Insurer fails, the AMF guarantees, under certain conditions and for anyone making a deposit or deposits at a registered Insurer, the repayment of such deposit or deposits up to a maximum of $100,000 including accrued interest, per person. Where possible and for the benefit of the policyholders and depositors, the AMF and PACICC agree to cooperate with the resolution, liquidation or restructuring of an Insurer.

[5] Assuris / Property and Casualty Insurance Compensation Corporation Cooperation Agreement, November 28, 2018.

6. GLOSSARY

Risk Profile: It corresponds to the combination of ratings given to the institution's aggregate net risk, its financial condition and its commercial practices. The Risk Profile established by the AMF is used solely for internal purposes and is not disclosed to insurers.

Insurer: Québec P&C insurer and PACICC member company.

Compliance Program: A plan of action established by the Insurer and approved by the AMF and describing the measures the Insurer must take to improve its financial condition with a view to meeting regulatory requirements and regaining the soundness of its operation.

PACICC's Resolution Protocol: A protocol intended for the purpose of evaluating the potential resolution action to be undertaken by PACICC in the context of a single insurer failure.

Supervisory Activities: The AMF's off-site supervisory activities including the analysis of the financial and non-financial information on an insurer, collected pursuant to laws, regulations and guidelines, and any other information required upon review of the insurer's activities.

Supervisory Plan: The AMF's three-year supervisory plan based on each insurer's Risk Profile, orientations and priorities set by the AMF, and available resources.

Pre-insolvency Regulatory Liaison Committee: A Committee of PACICC's Board of Directors comprised of PACICC's independent directors.