How policyowners are safeguarded

Clients may want assurance that the company behind their insurance policy has the strength and stability to be there when it's time to pay a death benefit. This article briefly discusses the history and financial highlights of Canada Life, its regulatory framework, and the role of Assuris, including what happened in the past regarding four Canadian insurers that became insolvent.

About Canada Life

The Canada Life Assurance Company ("Canada Life") formed from the recent amalgamation of three iconic Canadian companies: The Great-West Life Assurance Company ("Great-West Life"), London Life Insurance Company ("London Life") and The Canada Life Assurance Company. Each company was created more than 125 years ago and have benefited from common ownership and management since Great-West Life acquired London Life in 1997 and then Canada Life in 2003. The three companies amalgamated on January 1, 2020 to become one company and "Canada Life" became the brand under which we create and deliver our wealth and insurance products and services.

Canada Life's business

Canada Life is a leading financial services organization that provides insurance and wealth management products and services primarily in Canada and Europe. The shares of Canada Life's holding company, Great-West Lifeco Inc., are listed on the TSX and the New York Stock Exchange under the symbol GWO. As a public company, Canada Life's financial information is available on its website (canadalife.com) and sedar.com. Its financial highlights at the end of December 2020 include:

- Total net earnings of $2.874 billion for the 12 months ended on December 31, 2020
- A *Life Insurance Capital Adequacy Test* (LICAT) ratio of 129%, which exceeds the Office of the Superintendent of Financial Institutions' (OSFI) Supervisory Target Total Ratio of 100%[i].
- Total assets under administration of $499.76 billion.
- Strong financial strength ratings from A.M. Best Company (A+), DBRS Limited (AA), Fitch Ratings (AA), Moody's Investor Service (Aa3) and Standard & Poor's Ratings Services (AA).

Canada Life's product offerings include a wide range of investment, savings and retirement income plans, payout annuities, as well as life, disability, critical illness and health insurance for individuals and families.

The Regulatory framework for life insurers in Canada

Canada Life is regulated under the *Insurance Companies Act* (Canada) (the Act) and, as such, is subject to capital requirements under the LICAT ratio guidelines established by OSFI. The LICAT guidelines came in effect in 2018 and replaced the *Minimum Continuing Capital and Surplus Requirements Guideline* (MCCSR) that were in place since 1992. The LICAT guidelines are intended to ensure that insurers are adequately capitalized to protect policyholders, creditors and promote confidence in the financial strength of life insurers. Canada Life's financial strength is reflected in its LICAT ratio, which as noted is well above minimum regulatory requirements, and its capital position is set out in its most recent financial statements, which are available on its website.

There are other safeguards under the Act which are designed to protect policyholders. For example, an insurer isn't permitted to declare or pay shareholder dividends to an upstream company if doing so would cause it to be unable to maintain adequate capital and appropriate liquidity as required under the Act, including applicable regulations, OSFI guidelines and directives[ii]. Also, notwithstanding that an insurer may meet the LICAT standards, OSFI may still direct the insurer to increase its capital.

It's important to note that Canada Life follows prudent and conservative investment policies and practices with respect to the management of its consolidated assets. The company is a conservatively managed organization with strong risk management disciplines. These qualities have maintained the company in good stead over the long term, including during periods of market volatility.

Assuris and the insolvency of a Canadian insurance company

Although insolvency is highly unlikely for a well-established company like Canada Life, the Act and the federal *Winding Up and Restructuring Act* ("WURA") govern the winding up of an insolvent insurance company conducting business in Canada.

If an insolvency occurs, Assuris becomes involved in the administrative tasks associated with the winding up of an insurance company. Assuris is an industry-funded, not-for-profit organization that helps protect Canadian policyholders if their life insurance company should fail. Its role is to protect policyholders by minimizing the loss of benefits and helping to ensure, where possible, a quick transfer of their policies to a solvent insurer, where their benefits will continue. Every life insurance company authorized to sell insurance policies in Canada is required, by the federal, provincial and territorial regulators, to become a member of Assuris.

When a life insurance company fails, Assuris will seek to transfer such policies to a solvent insurer and guarantee that policyholders will retain at least 85% of their insurance benefits (i.e., death benefit, cash value, health expense and monthly income) under their insurance product and 100% protection when such benefits are below certain dollar values[iii].

For example, in the case of a participating life insurance policy, Assuris guarantees that the policyowner will retain at least 85% of the death benefit. For policies that have a death benefit of $200,000 or less, the policyowners will retain the full amount of the benefit. In respect of the policy's cash value, Assuris guarantees that the policyowner will retain at least 85% of the policy's cash value. For policies that have a cash value of $60,000 or less, the policyowner will retain the full amount of their benefit. In respect of policy dividends, the Assuris website states that "dividends will continue to be paid. However, the amount of the dividends paid may be adjusted." For more information on the benefits protected by Assuris, please visit www.assuris.ca.

Insurer insolvencies in Canada

Although not guaranteed, past industry experience with insurer insolvencies have shown that close to 100% of policyholders' insurance benefits have been protected. Four life insurance company (Les Cooperants, Sovereign Life, and Confederation Life) insolvencies occurred during the 90s, and Union of Canada Life[iv] in 2012. The following is a summary of the results Canadian policyholders experienced in the wake of these insolvencies:

- 1992 – Les Cooperants – all policyholders received full benefits.
- 1993 – Sovereign Life – 96% of policyholders were 100% protected by Assuris and the 4% who were not received at least 90% of their benefits.
- 1994 – Confederation Life – all policyholders received full benefits.
- 2012 – Union of Canada Life – 99% of policyholders were fully protected and the 1% who were not received at least 95% of their benefits.

All four of these insurer insolvencies were resolved by transferring policyholder rights and obligations to solvent life insurance companies.

Conclusion

Canada Life's financial strength, prudent investment approach and the insurance industry's safeguards place Canada Life policyowners in good stead for the long term.

This material is for information purposes only and should not be construed as providing legal or tax advice. Reasonable efforts have been made to ensure its accuracy, but errors and omissions are possible. All comments related to taxation are general in nature and are based on current Canadian tax legislation and interpretations for Canadian residents, which is subject to change. For individual circumstances, consult with your legal or tax professional. This information is provided by The Canada Life Assurance Company and is current as of October 2021.

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[i] See the Management's Discussion and Analysis document for the 4th Quarter 2020 results posted on www.canadalife.com. OSFI is an independent federal government agency that regulates and supervises federally regulated financial institutions, like Canada Life, and pension plans to determine whether they are in sound financial condition and meeting their requirements.

[ii] See sections 83 and 761 of the *Insurance Companies Act* (Canada) and the advisories and directives posted on the OSFI website, https://www.osfi-bsif.gc.ca.

[iii] The extent of the benefits protected depends on the recovery percentage that's derived from the assets recovered by the insurer's liquidator. The court appointed liquidator will sell the company's assets and transfer its liabilities with the aim to get the best value for policyholders. This will determine the recovery percentage. A policyowner's benefits will be adjusted to the greater of the Assuris protection or the recovery percentage achieved by the liquidator.

[iv] This company was not related to Canada Life.