

INSTITUTIONAL RISK ASSESSMENT

PROTECTION FOR YOUR LIFE INSURANCE POLICY

WESTWARD'S VIEW

In Canada, a life insurance policy, including the cash value accumulated within it, is protected in the event that the insurance company becomes insolvent.

Most Canadians are familiar with the protection provided by the Canada Deposit Insurance Corporation against a bank failure for deposits up to \$100,000 in accounts with financial institutions.

Few Canadians are familiar with the minimum 85% policyholder protection provided by Assuris against a life insurer failure.

This Viewpoint outlines how and to what degree a policyholder is protected by Assuris in the rare event that a life insurance company fails.



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What is institutional risk?

Institutional risk is the risk that the insurer becomes insolvent and is unable to honour its obligation to pay the life insurance policy benefits, including the death benefits payable to beneficiaries and the cash values payable before death to the policyholders.

What's the risk of the insurer failing?

The risk of any Canadian insurer failing is extremely low. The industry is closely regulated by the Office of the Superintendent of Financial Institutions ("OSFI"), and the insurers are required to maintain large capital reserves to cover their policy obligations.

Institutional risk is very low. Even if an insurer becomes insolvent, the policyholder's loss is limited to 15% of the cash value.

Have any Canadian insurers failed before?

There have been four life insurance company failures in Canadian history: Les Cooperants (1992), Sovereign Life (1993), Confederation Life (1994), and Union Life (2012).

What happened to the policies?

In each case, OSFI stepped in to liquidate the insurer, and Assuris protected the interests of policyholders. All policies were transferred to other Canadian life insurance companies who assumed the policy obligations. The policyholders of Les Cooperants and Confederation Life retained 100% of their policy benefits. Sovereign Life policyholders retained at least 90% of their policy benefits. Union Life policyholders retained at least 95% of their policy benefits.

Who is Assuris?

Assuris is the non-profit organization that protects policyholders against the financial failure of a life insurance company in Canada. Every company authorized to sell life insurance policies in Canada is required to be a member. Assuris works with OSFI and the liquidator to transfer policies from an insolvent insurer to other life insurance companies. Assuris also protects the value of the policies for the policyholders.

What protection does Assuris provide?

For universal life insurance policies, Assuris guarantees that a policyholder will retain at least 85% of the promised death benefit, plus at least 85% of the cash value. As at December 31, 2014, Assuris had \$114 million of liquidity funds on hand to support a failure, and the ability to further assess its members to deliver on its guarantee in the event of any life insurance failure.

Assuris is a valuable risk management benefit for policyholders who assign their policies as collateral for loans, minimizing the worst case collateral shortfall to 15% of the policy value.

For full details go to: www.assuris.ca.