BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage®

October 29, 2025

Canadian Life/Annuity: Steady Growth Brings Steady Results

Companies continue to bolster enterprise risk management programs to manage uncertainty, and capital management for the industry has remained strong

Principal Takeaways

- Canada's life/annuity industry performed well in 2024, owing to record-high new annualized premium growth for the mortality business.
- Insurers continue to focus on digitization and accelerated underwriting to improve the customer experience.
- Assets under management and fee-based business have helped support revenue growth.

AM Best's outlook on Canada's life/annuity (L/A) insurance industry is Stable, based on the following factors:

- Prudent regulatory capital levels and financial flexibility to support steady growth.
- Favorable earnings and underwriting, which are supported by diversified lines of business and a diversified geographic footprint.
- Favorable top-line growth with a focus on enterprise risk management.

Canadian L/A insurers have performed relatively well over the past year due to sales growth and solid investment returns, but they still face a number of challenges, including:

- Continued coverage gap for life insurance products in Canada and reaching an underserved market.
- Ongoing uncertainty about domestic and global economies and the potential for further Bank of Canada interest rate cuts.
- Concerns about L/A insurers' exposures to alternative and private credit investments.

Through 2024, Canada's L/A insurers reported favorable operating results in their core lines of business due to solid investment returns and steady sales trends. Total Canadian life insurance new annualized premium was at a record high of CAD 2.04 billion in 2024, according to LIMRA. This is an 8% increase from 2023 and mainly driven by whole life premiums, which grew 11%, accounting for 69% of the premium market share. Within the whole life category, the participating whole life products remains the highest selling and represent 90% of the new premium sold.

This increase in sales is driven partially by increased accessibility in acquiring life insurance. In addition, economic uncertainty has led some individuals to purchase life insurance to help prepare for a more secure retirement and wealth planning. This includes growth in the affluent market, which continues to buy permanent life insurance. This sales growth has been supported by technology-driven, customer-centric business models. While premium trends are favorable, there continues to be a coverage gap, as 30% of Canadians remain uninsured.

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Credit impairments have been manageable and limited in recent quarters, but changes in interest rates and commercial real estate portfolios need to be monitored, especially amid global economic uncertainty. Still, Canadian L/A insurers remain in a solid position, with strong balance sheets marked by high levels of regulatory capital, deployable excess capital, and good financial flexibility with decreasing leverage metrics.

In addition, L/A insurers continue to focus on enterprise risk management programs to focus on emerging risks in a changing environment. Canadian life insurers have maintained an appropriate growth rate in the annuity space. In the US, most of the growth has been supported by asset-intensive annuity business, but the Canadian industry has focused more on mortality business and assets under management fee-based business for growth, which is less capital intensive. AM Best believes that the Canadian L/A insurers are well equipped to navigate changing conditions over the near term while focusing on steady growth and capital preservation.

Rating Actions

AM Best-rated Canadian life insurers continued to maintain favorable ratings in 2024. There was one upgrade while all other rating actions were affirmations driven by robust levels of risk-adjusted capitalization supported by consistently positive earnings (**Exhibit 1**). All of the Canadian life insurance companies currently rated by AM Best have financial strength ratings (FSRs) of A- (Excellent) or higher. Blumont Annuity Company, formerly known as Brookfield Annuity Company, was upgraded after being assigned a "Positive" outlook over the previous year.

The rating upgrade of Blumont Annuity Company was driven by a track record of favorable risk-adjusted capitalization supported by earnings growth and their competitive position in the Canadian pension risk transfer market. Due to the upgrade, the company's outlook was revised to Stable. The relatively high ratings distribution for Canadian L/A insurers is partly due to Canada's comprehensive regulatory environment, which advocates for conservative reserving practices, robust risk-adjusted capitalization, and high liquidity.

Exhibit 1

Canada Life – AM Best Ratings

As of August 27, 2025

AMB #	Company Name	Long-Term ICR	FSR	ICR Rating Outlook	Rating Effective Date
08074	Assumption Mutual Life Insurance Company	a-	A-	Stable	9/11/2024
94126	Beneva Inc. (C)	a	A	Stable	12/18/2024
62246	Blumont Annuity Company	a	A	Stable	1/17/2025
66835	BMO Life Assurance Company	a	A	Stable	1/9/2025
06493	Canada Life Assurance Company	aa	A+	Stable	3/7/2025
66801	Canadian Premier Life Insurance Company	a	A	Stable	12/5/2024
06290	Co-operators Life Insurance Company	a	A	Stable	4/24/2025
66893	First Canadian Insurance Corporation	a	A	Stable	2/5/2025
66847	Foresters Life Insurance Company	a+	A	Stable	9/6/2024
60132	Independent Order of Foresters	a+	A	Stable	9/6/2024
06554	Industrial Alliance Ins & Financial Svcs	aa-	A+	Stable	8/30/2024
66805	ivari	a-	A-	Stable	4/9/2025
06688	Manufacturers Life Insurance Company	aa-	A+	Stable	10/25/2024
66827	Optimum Reassurance Inc.	a	A	Stable	10/11/2024
66889	PartnerRe Life Reinsurance Co of Canada	aa-	A+	Stable	2/7/2025
60156	Primerica Life Insurance Co of Canada	aa-	A+	Stable	1/22/2025
66806	RBC Life Insurance Company	a+	A	Stable	5/23/2025
66817	RGA Life Reinsurance Company of Canada	aa-	A+	Stable	1/10/2025
07101	Sun Life Assurance Company of Canada	aa	A+	Stable	4/3/2025
66882	TruStage Life of Canada	a+	A	Stable	12/4/2024
60079	Wawanesa Life Insurance Company	a	A	Stable	2/27/2025

ICR = Issuer credit rating; FSR = Financial strength rating; u = under review.

Source: BESTLINK

Solid Operating Performance Growth

In 2021 and 2022, the Canadian L/A industry produced outlier earnings

by jumping up 34% on a pre-tax operating income basis and 27% on a net income basis from 2020 results. However, 2023 reverted back to pre-COVID levels, reporting under the new IFRS 17 accounting regime. Pre-tax operating gains increased notably in 2024 to CAD 18.6 billion, just shy of the CAD 19.3 billion reported in both 2021 and 2022 (**Exhibit 2**). Looking purely at the IFRS 17 reported earnings of three full calendar years, the restated 2022 results demonstrate a clearly favorable trend. AM Best notes, however, that restated 2022 results were heavily impacted by one-time, non-recurring accounting changes and therefore are not the best representation of actual performance, as companies were still optimizing results to report under the previous accounting regime.

Group life insurance continued to be the leading line of business by revenue with just over CAD 33 billion, followed closely by individual life insurance at just over CAD 29 billion. Both lines saw a pre-tax return on revenue of approximately 7% with operating gains of CAD 2.5 billion and CAD 2 billion, respectively. The annuity business resulted in insurance revenues of CAD 6.1 billion for group and CAD 4.7 billion for individual. Group and individual annuity lines had more favorable returns on revenue of 13% and 15%, respectively.

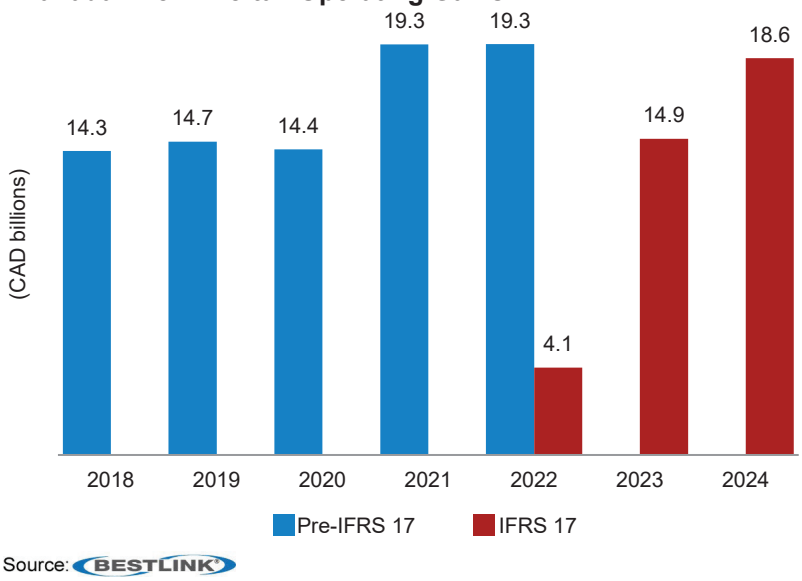
International business continued to show strong growth and makes up a significant portion of revenues and returns for those that engage in the markets. European business had insurance revenues of CAD 11.6 billion, while Asian/other produced revenues of CAD 8.3 billion (**Exhibit 3**). Asian/other business continues to be a notable outlier as the most profitable line despite being fourth in total insurance revenue behind individual life, group life, and European business. The return on revenue for the Asian business exceeded 50% with pre-tax operating earnings of CAD 4.5 billion. The Asian jurisdictions have continued their rebound from 2022, as insurers with exposure to markets such as Hong Kong and mainland China experienced a significant disruption in sales due to prolonged and widespread COVID-related lockdowns. With multiple restrictions lifted, the Asian market's operating performance in 2023 improved substantially and has continued to show favorable growth through 2024. Barring new external disruptions, the higher growth rates in this market are expected to continue, at least relative to the performance of the more mature economies of Canada, the US, and Europe.

Capitalization Solid Through IFRS 17 Transition

Canada's L/A insurers maintained their strong capital positions, as evidenced by Life Insurance Capital Adequacy Test (LICAT) ratios well in excess of the OSFI Supervisory Target Total Ratio of 100% and the Supervisory Minimum Total Ratio of 90%. The four largest Canadian life insurers all have maintained an operating company LICAT above 120% as of 2Q 2025. The capital of entities under Quebec's Capital Adequacy Requirements Guideline for Life and Health Insurance ratios (CARLI) also remains well in excess of the AMF's (Autorité des marchés financiers) supervisory target. The

Exhibit 2

Canada Life – Pre-tax Operating Gains

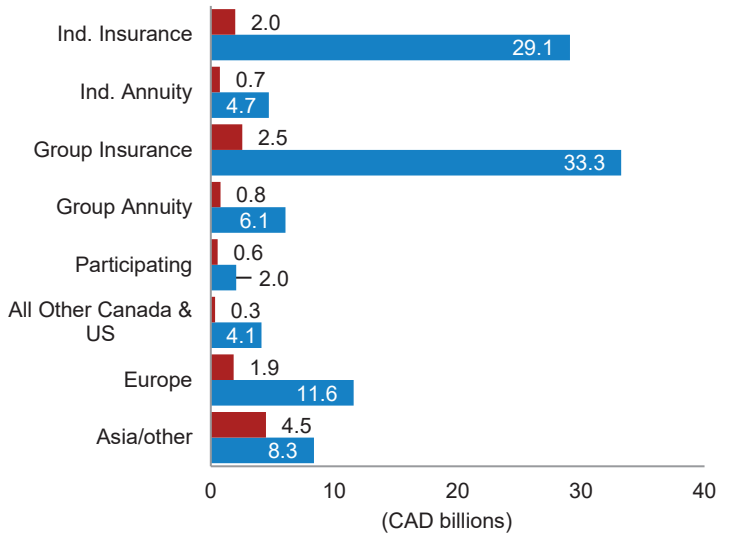


Source: BESTLINK

strong ratios are supported by capital growth and prudent investment allocations to support long-tail liabilities. Furthermore, L/A insurers have generally maintained adequate financial leverage, as they have been hesitant to issue new debt due to the rising costs, leading to moderately lower leverage ratios.

Exhibit 3

Canada Life – Insurance Revenue and Pretax Operating Gain by Line of Business, 2024



Source: BESTLINK

Capitalization is a strength to Canadian life/annuity ratings, and we have seen some M&A activity recently. While we do not expect large transactions to occur regularly, there might be some appetite for bolt-on transactions to support growth and deploy capital. Total equity in 2024 for the industry grew 7% to CAD 140 million, supported by net income growth (**Exhibit 4**). OSFI treats the contractual service margin (CSM) as available capital when calculating LICAT ratios. The CSM defers the recognition of new business gains and certain investment-related activities under IFRS 17. As the CSM arising from life business is viewed as economic capital, AM Best currently adjusts reported equity when assessing available capital for the Best's Capital Adequacy Ratio (BCAR) to allow for the net economic value due to long-term business in the life segment. AM Best currently has allowed 50% equity credit for the CSM and risk adjustment when calculating available capital for the Canadian BCAR models.

Capital Focus Remains a Focus While Dealing With Uncertainty

Canadian L/A insurers remain well-positioned for steady growth despite headwinds that include economic uncertainty for Canada and globally. While an economic slowdown has occurred in Canada during the first half of 2025, the insurance industry continued to fare well and grow as some consumers saw an increased need for protection in an uncertain time. Companies have continued to bolster enterprise risk management programs to manage through uncertainty, and capital management for the industry has remained strong. Many Canadian insurers have done a solid job at remaining focused on core lines of business and not chasing the hot trends, which could lead to volatility in results or higher capital requirements. Going forward, AM Best expects continued steady results for the industry with the strong focus on capital protection and further customer-centric enhancements.

Exhibit 4

Canada Life – Balance Sheet

(CAD billions)

	2024	2023	$CAD Change from 2023	YoY % Change
Total Equity	139.9	130.3	9.6	7.4
Investments	912.2	841.7	70.5	8.4
Segregated funds	954.0	822.7	131.3	16.0
Total Assets	2,151.4	1,919.8	231.6	12.1

Source: BESTLINK

Investments Stay Conservative

While the market has seen a full three years of higher interest rates, the long-term nature of many investments held on carriers' balance sheets makes

taking advantage of the rate environment gradual as proceeds from maturing assets with lower rates get reinvested in the current higher rate environment. Despite this, the Canadian L/A segment produced a nearly 24% year-over-year improvement in net investment results, which rose to CAD 8.8 billion for 2024. Interest revenue on financial assets not measured at fair value through profit or loss partially drove the investment gains in 2024 with a 41% increase from the previous year to CAD 31.3 billion. Investment income in segregated funds also saw favorable growth of 17.5% to CAD 74 billion, offset by a decline of just over 50% in investment income, excluding segregated funds, to CAD 15 billion.

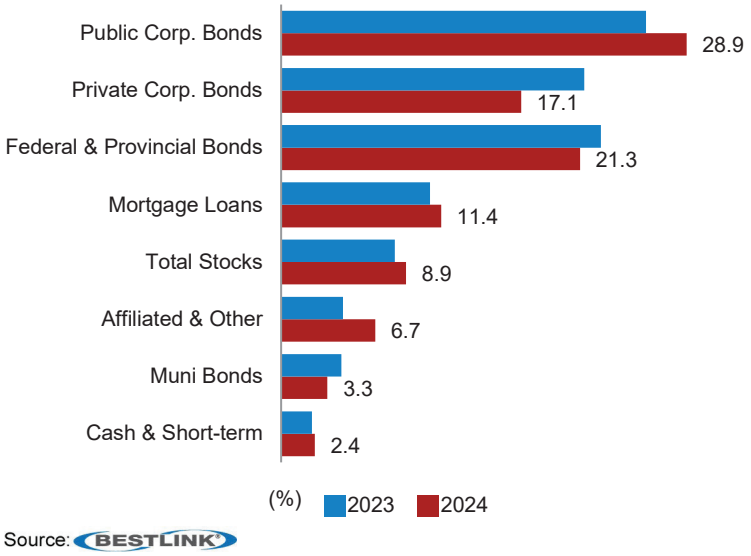
Overall total investment returns were slightly higher than the previous year, up 3% to CAD 120.1 billion but outpacing net finance expenses and movement in contract liabilities, which rose 1.5% to CAD 111.3 billion.

Generating these investment returns were largely stable invested asset allocations when compared to the previous year, as bonds of various forms continue to make up 70.6% of total holdings for year-end 2024. While AM Best notes this is a lower allocation than the 74.7% in 2023, the movements in the type of bond holdings have slightly favored safety. The industry saw a nearly 3% rise in allocation of public corporates and a move away from private corporates, which fell from a 21.6% to a 17.1% allocation in 2024 (**Exhibit 5**). While still higher than the 13.4% allocation in 2022, this is in direct contrast with Canada's southern neighbor, the US L/A insurers' portfolios, where the allocation towards privates has increased. Federal, provincial, and municipal bonds saw a modest decline in allocation as well, from 27.1% in 2023 to 24.6% in 2024.

Below investment grade bond holdings held largely steady relative to total bond holdings at roughly 2%, which in contrast is only half of the industry average for US-based L/A carriers. These holdings as a percentage of total equity, however, have seen modest growth over time, to nearly 10% at year-end 2024, up from 7% from five years prior. Other asset class holdings typically viewed as medium- to higher-risk saw modest gains in allocation for 2024, including mortgage loans to 11.4% from 10.6%, affiliated and other to 6.7% from 4.4%, and equities to 8.9% from 8.1%.

While AM Best continues to monitor mortgage loans and real estate holdings, particularly due to lingering concerns on office-type properties, results continue to be overall favorable. Any negative impacts from these properties to date have been largely mitigated by both strict underwriting standards leading to continued favorable performance and substantial diversification of property type and geographic location. Equity allocation gains have been driven by hot equity market returns over the previous two years, with the S&P/TSX composite returning over 8% in 2023 and nearly 18% in 2024, and over 20% returns within the US S&P 500 in both 2023 and 2024. AM Best expects these allocations to continue to move with general

Exhibit 5
Canada Life – Distribution of Invested Assets, 2024



Source: BESTLINK

market fluctuations over the near to medium term, while available cash from older maturing bonds is reinvested into higher-yielding issues.

With the US macroeconomic picture changing given recently reported disappointing job figures, the appetite for rate cuts in the third or fourth quarter from the Federal Reserve seems more likely. While the industry will be very familiar with lower rates given the extensive multi-year period post the Great Recession, challenges may arise. To further complicate matters, ongoing tariff changes from the current US administration have led to equity market volatility, strained US/Canada relations, and foreign exchange movements despite not impacting the L/A segment in North America directly. Regardless of these potential and current challenges, AM Best believes that Canadian L/A carriers are well prepared from both a risk-adjusted capitalization and enterprise risk management perspective.

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