AM Best
September 7, 2022
Best's Market Segment Report

Canada Insurance: Favorable Results in 2021 Despite Pandemic

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Despite a number of headwinds, both P/C and L/A insurers posted favorable underwriting results

Principal Takeaways

- Canada's economy continues to recover. GDP growth in 2022 will outpace that of other advanced economies but remains subject to downside risk. Among the headwinds: spillover impacts of Russia's invasion of Ukraine, growing geopolitical tensions, tighter financial conditions, higher inflation, depressed consumer and business sentiment, continued supply chain complications, housing market vulnerabilities, and a slowdown in economic domestic/global activity.
- The P/C insurers' operating results continued to improve in 2021, with good overall underwriting performance and solid risk adjusted capitalization, building upon already strong performance in 2020. Our outlook for the segment remains at Stable, as Canada's P/C insurers remain well equipped from a capital and liquidity perspective and have proven their ability to adapt quickly to a dynamic landscape.
- Canada's L/A insurers generated favorable earnings and underwriting results in 2021 despite the pandemic, the impact of which was unexpectedly muted. Given the segment's resilience, our outlook remains at Stable despite persistent economic uncertainty and equity market volatility. The outlook takes into account a general improvement in mortality, the positive impact of higher interest rates on investment income, and strong capitalization.

Economic Activity To Slow in 2022 but Still Above Peers

Canada's economy continues to recover, following a contraction of 5.4% in 2020, the worst slump in the country's modern history, owing to the pandemic. According to the International Monetary Fund, Canada's economy grew by 4.5% in 2021 but is expected to slow to 3.4% in 2022 and 1.8% in 2023. Despite the slowdown, the IMF expects Canada to grow faster than any of its G7 counterparts in 2022 and 2023 (**Exhibit 1**).

Last year, overall economic activity was driven by a strong housing market, buoyant domestic demand, a tight labor market, and continued government spending. Economic momentum heading into 2021 was strong, as Canada's economy grew at a robust 9.6% in the fourth quarter of 2020. The momentum continued into the first quarter of 2021, with the economy growing at 4.4%, despite renewed containment measures due to a spike in the Omicron variant at the end of 2020. Consumers pulled back on spending, so growth in the first quarter was driven by business investment, government spending, and housing investment.

The economy slowed in the second quarter, contracting by 3.1% due to weakness in manufacturing, retail trade, and construction. New global COVID-19 outbreaks exacerbated supply-chain complications resulting in chip shortages that caused a sharp drop in exports (particularly for automobiles). Strict lockdown measures also impacted consumer spending and resulted in higher unemployment as businesses cut jobs.

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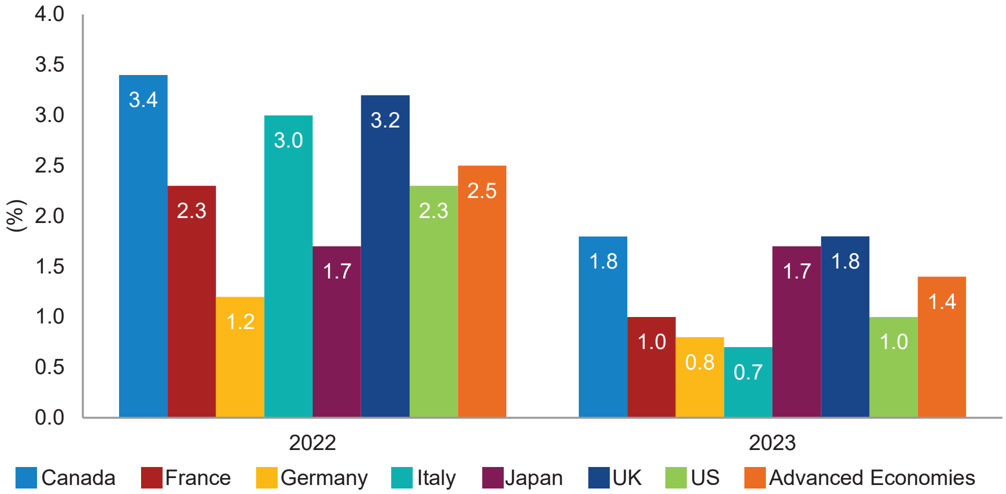
Exhibit 1

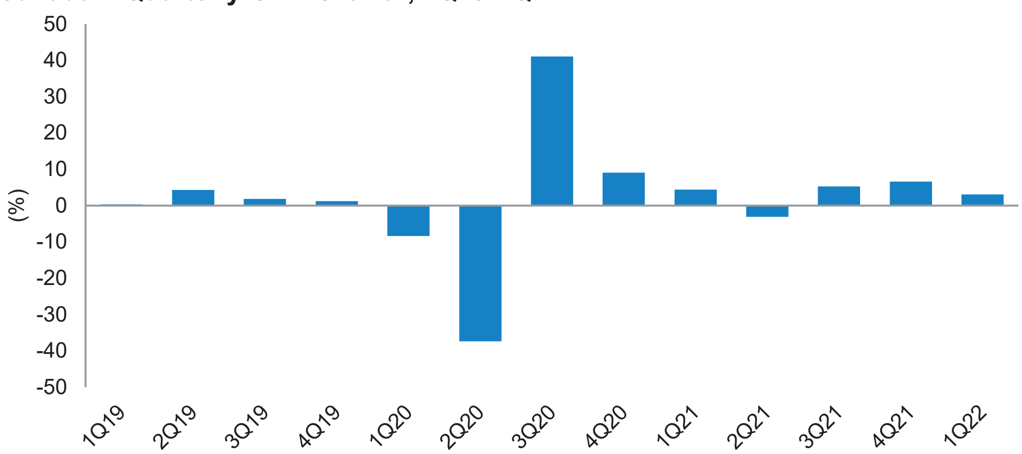
G7 – GDP Growth Estimates 2022 and 2023



Source: IMF World Economic Outlook, July 2022

Exhibit 2

Canada – Quarterly GDP Growth, 1Q19-1Q22



Source: Statistics Canada

However, the second half of 2021 saw strong growth of 5.3% in the third quarter and 6.6% in the fourth, driven by robust Canadian consumer spending, with demand for services particularly high, as containments measures were eased. Business optimism was high as the economy reopened, and the outlook for sales improved. Companies spent more on inventories, machinery, and equipment, boosting business investment. After cooling slightly over the summer, housing came back strong, as people tried to lock in lower mortgage rates before the telegraphed rate hikes (**Exhibit 2**).

Despite its relatively strong footing, the Canadian economy will face some headwinds in 2022 on both the global and domestic fronts. Headwinds include the spillover impacts of Russia's invasion of Ukraine, growing geopolitical tensions, tighter financial conditions, higher inflation, depressed consumer and business sentiment, continued supply chain complications, housing market vulnerabilities, and a slowdown in economic domestic/global activity.

Strong Consumer Supported by Historically Tight Labor Market

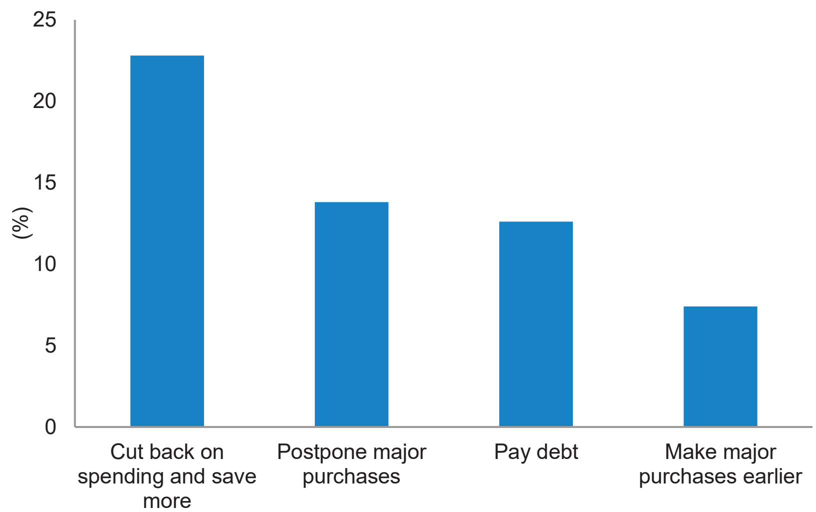
Personal consumption accounts for approximately 60% of Canada's GDP but will face pressure, despite its strength in the first half of 2022. Higher interest rates and elevated inflation will likely weigh on consumers, as both will diminish real wages and disposable income, which will dampen consumer behavior, particularly those on the low end of the earnings spectrum. According to the second quarter report of the Canadian Survey of Consumer Expectations, consumers are expected to change their behavior somewhat in response to interest rates increasing by one percent over the next year, by cutting spending, increasing savings, paying down debt, and delaying major purchases (**Exhibit 3**).

However, consumers plan to spend "significantly more over the next 12 months," according to the same survey. Despite the fall in real wages, consumers are still well positioned to spend given the tight labor market, asset appreciation, and savings accumulated during the pandemic. Although the savings rate has come down from the pandemic-era highs, it is still above historical averages and at a rate that will support consumer spending over the short term. Consumers who are able to do so may draw down on accumulated savings to offset elevated inflation rather than dramatically altering their spending behavior. Spending will likely shift from durable goods towards services, reflecting more historical spending patterns and the demand for goods being met (**Exhibit 4**).

Consumer spending has also been supported by an extremely tight labor market. Unemployment, at 4.9% in July, is at a historic low and well below the pre-pandemic rate of 5.7% in February 2020. Growing competition to attract talent has resulted in higher pressure on

Exhibit 3

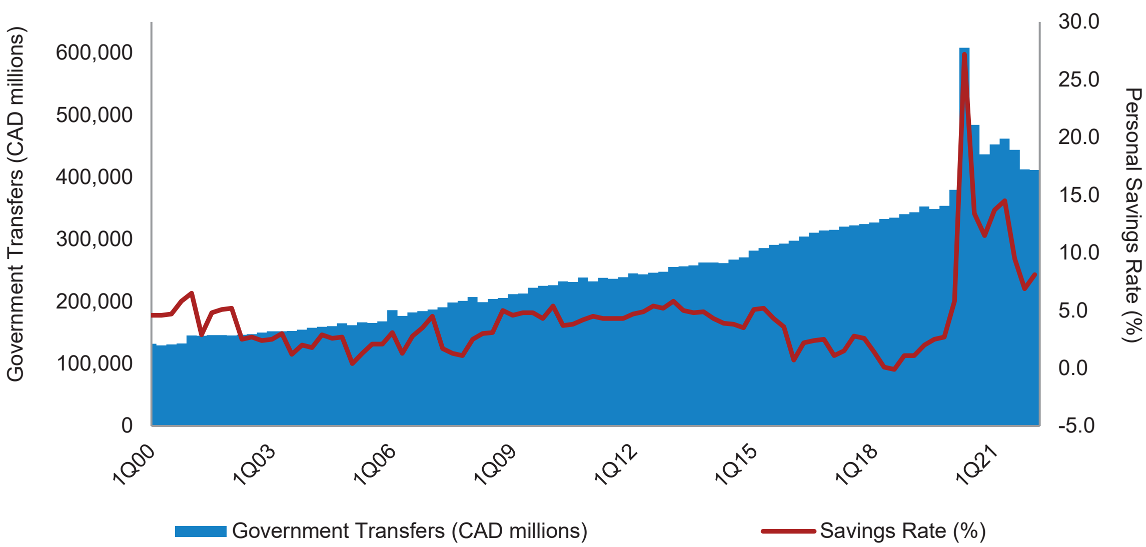
Canada – Consumer Response to 1.0% Interest Rate Increase over Next Year



Source: Bank of Canada

Exhibit 4

Canada – Savings Rate To Support Spending over the Short Term



Source: Bank of Canada

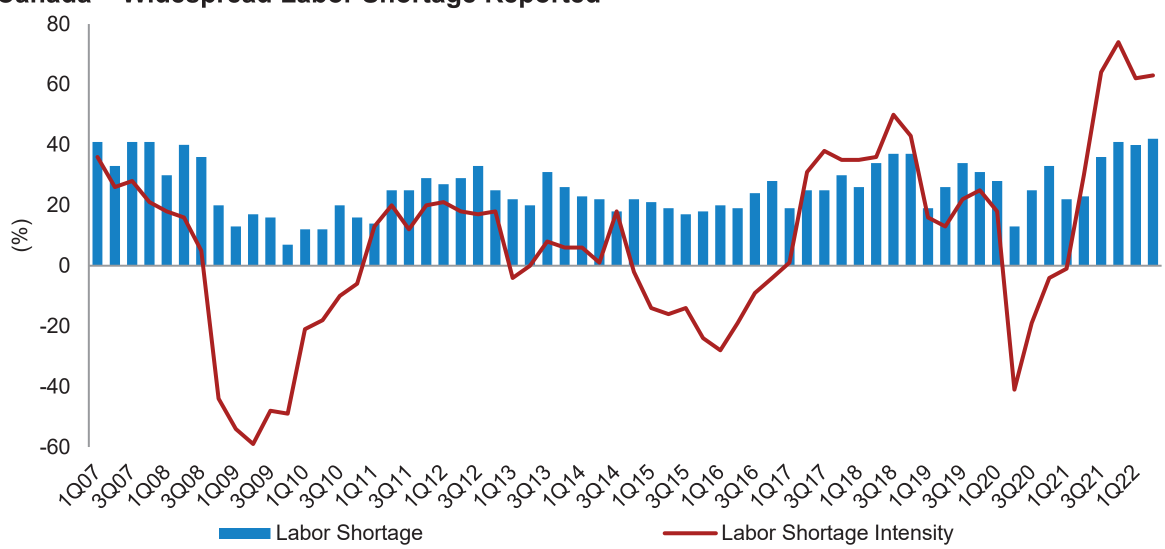
wages, adding to already elevated inflation pressures. The average hourly rate was up 5.2% year over year (**Exhibit 5**). Other labor market statistics such as labor participation, hours worked, and job openings all point to a tight labor market.

According to the most recent Business Outlook Survey, business leaders in a broad range of industries are reporting difficulty attracting workers to fill open positions—particularly industries trying to fill vacancies for service positions. Some businesses believe that labor constraints have restricted their ability to meet demand (**Exhibit 6**). According to the survey, over 40% of businesses responded that labor shortages have impeded their ability to meet demand in the second quarter of 2022, with 63% reporting that labor shortages are more intense than they were a year ago. Many firms reported that they expect to increase wages to attract and retain workers.

Exhibit 5
Canada – Unemployment Rate, Hourly Wage Growth, 2002-2022

Source: Statistics Canada

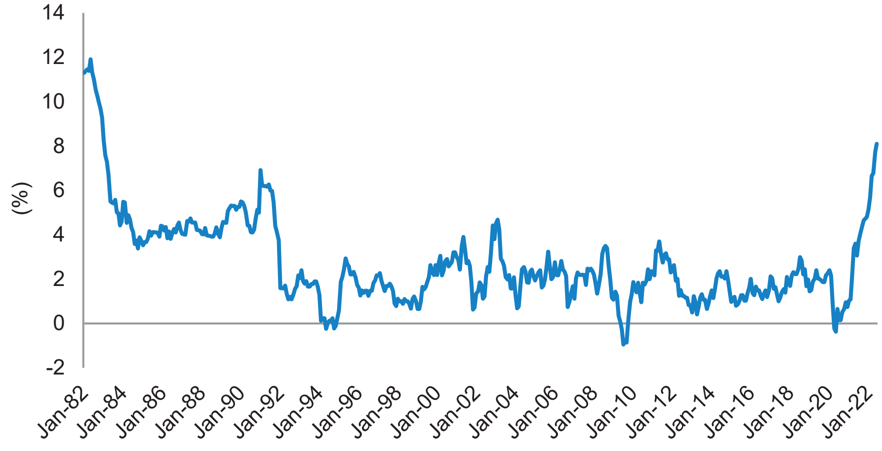
Exhibit 6
Canada – Widespread Labor Shortage Reported



Source: Bank of Canada

Persistent Inflationary Pressures and Higher Commodity Prices

Exhibit 7
Canada – Headline Inflation



Source: St. Louis Federal Reserve

The rate of inflation continues to rise, with headline inflation reaching 8.1% in June, following a 7.7% rise in May (**Exhibit 7**)—the largest yearly increase in decades. Price increases were broad-based, but the rise in gas prices contributed the most to headline inflation. Year over year, consumers paid almost 55% more for gas. Food prices, while not increasing as dramatically as energy prices, have also trended above headline inflation. June food prices increased 8.8% on an annual basis.

Inflation pressures have been much more persistent and pronounced than originally anticipated by the Bank of Canada (BOC). The BOC notes that pricing pressures are coming from global factors such as supply chain disruptions and the spillover impact of the war in Ukraine, as well as domestic factors such as excess demand, both of which factors are driving prices higher.

The commodity markets have been volatile since the pandemic. At the start of the pandemic, global demand plummeted, and the ensuing global recession caused a widespread collapse in commodity prices. But prices of commodities have climbed since spring of 2020. Supply factors (such as reduced production, transportation bottlenecks, and weather events) and the rapid increase in demand have pushed prices higher. For 2021, global demand for oil rebounded by an estimated 5.6 million barrels per day, while supply rose by only 1.4 million barrels a day. And Russia's invasion of Ukraine has further complicated the commodity markets and added to pricing pressure.

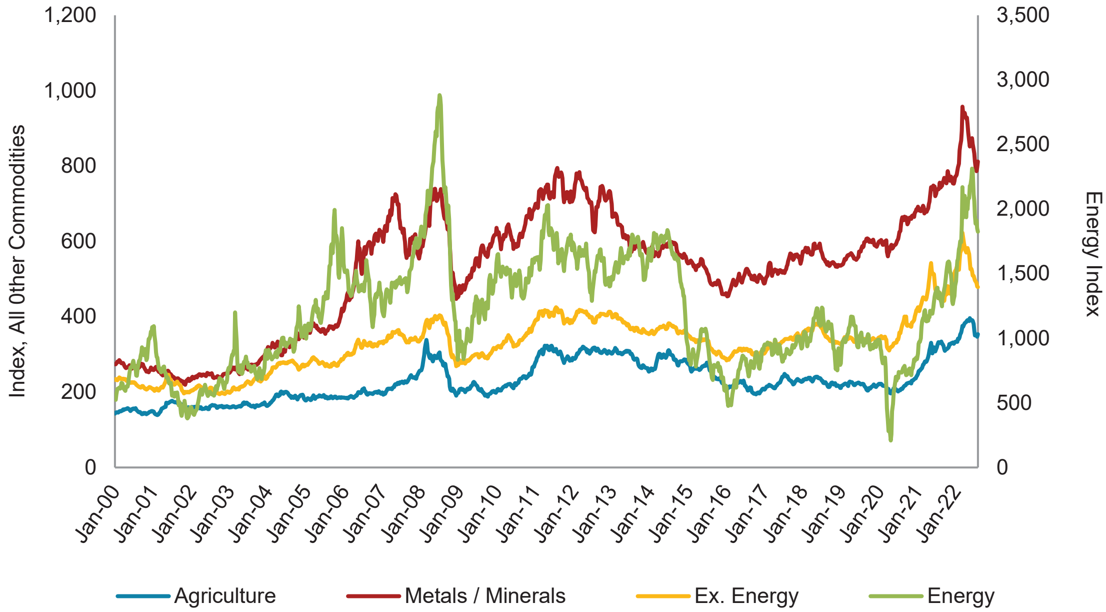
Although Canada is a major commodities exporter, it has limited trade links with Russia, Ukraine, and other hard-hit economies. As a result, Canada is relatively well positioned to withstand the shock from the invasion. In fact, higher commodity prices will help the country's export sector and improve its terms of trade. Higher prices for commodities also typically increase investment in commodity-related industries, which boosts employment and increases both business and government revenue (**Exhibit 8**). However, the positive impact on the economy has been much more muted than historically has been the case during a higher commodity price cycle. Toni Gravelle, the deputy governor of the Bank of Canada, expects business investment in the energy sector be less than half what it has been historically when prices rise.

The negative impact of higher commodity prices on Canada will be through higher inflation for consumers, which can affect consumer spending behavior and consumer inflation expectations. Higher prices for food and energy will disproportionately affect lower-wage earners and their spending patterns. However, rising inflation, along with higher interest rates, will chip away at the purchasing power of all households and consumer sentiment.

Bank of Canada Continues To Tighten Monetary Policy

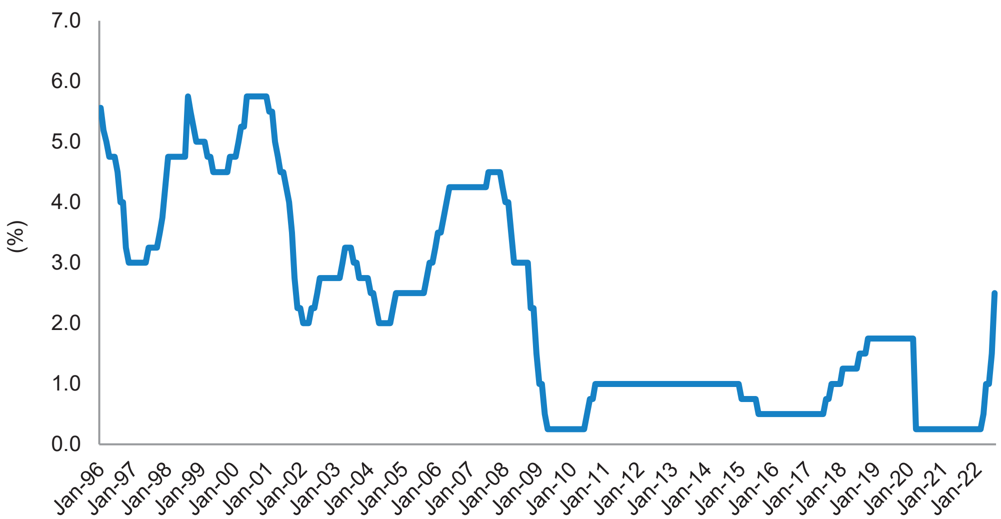
In response to persistent inflation and a tight labor market, the BOC started to normalize monetary policy at the beginning of the year and raised its policy interest rate in subsequent meetings. In

Exhibit 8
Canada – Commodity Price Index



Source: Bank of Canada

Exhibit 9
Canada – Bank of Canada Policy Rate



Source: Bank of Canada

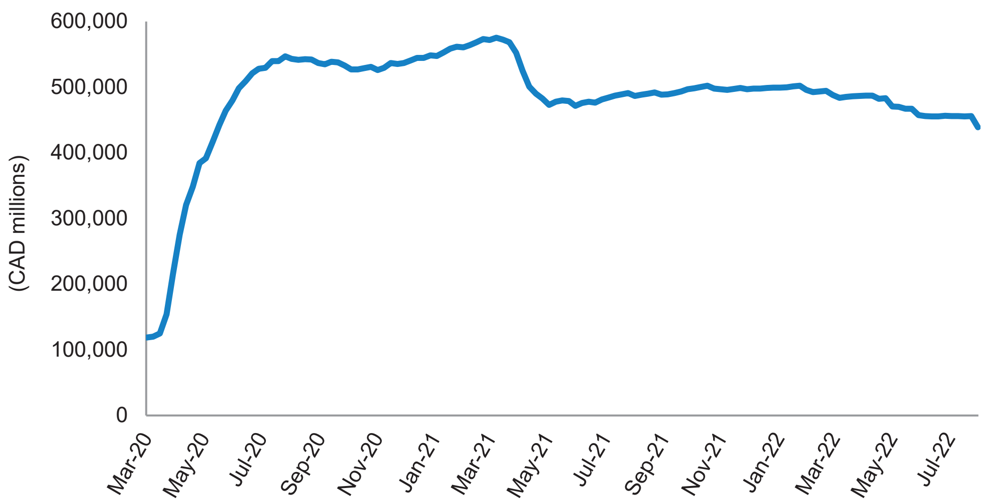
March 2022, the bank hiked its benchmark overnight interest rate by 25 basis points to 0.50%. Since then, the BOC has raised the overnight rate three times for a total 150 basis points, bringing the current rate to 2.5%. The rate increases include a 100-basis point hike in July, the largest in more than two decades (**Exhibit 9**). The bank said it wanted to "front load" rate rises, as inflation had proven "higher and more persistent" than it had previously indicated. In a July press release, the BOC noted that inflation would likely remain around 8% for the next few months.

The bank also began to reduce its balance sheet. In October 2020, it discontinued both mortgage bond and money market purchases. In April 2021, the BOC became the first major economy to scale back purchases of government debt. In March 2020, at the start of the pandemic, total assets on the bank's balance sheet came to approximately CAD119 billion. The balance sheet hit a peak of approximately CAD575 billion in March 2021 and stands at about CAD440 billion as of August 2022 (**Exhibit 10**).

Growing Vulnerabilities in the Housing Market

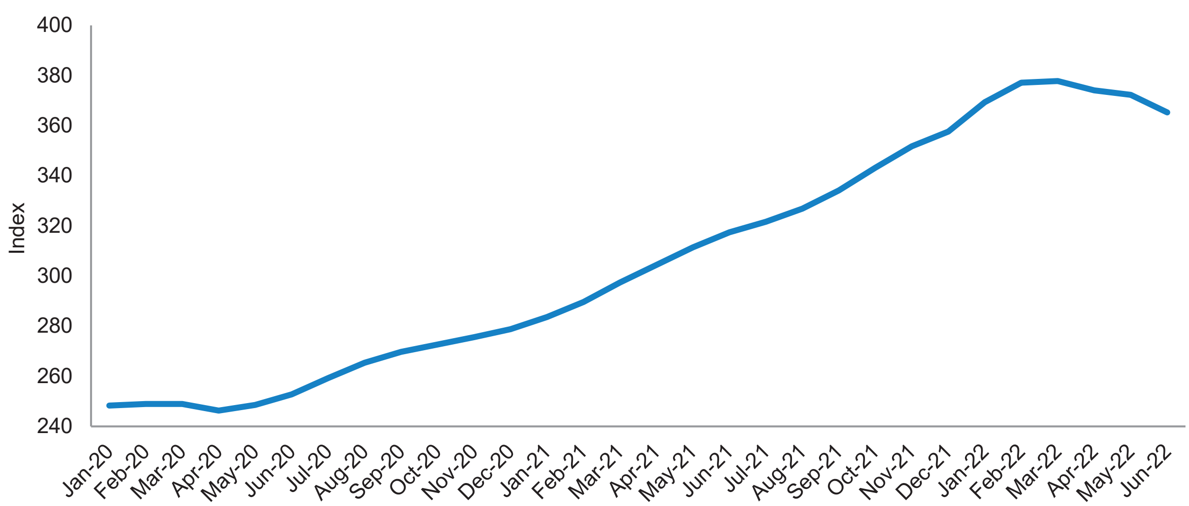
Housing prices continued to outperform expectations in 2021 due to low interest rates and a lack of supply. After a slight dip at the very start of the pandemic, housing prices rose approximately 45% from March 2020 to June 2022, according to the Canadian Relators Association Composite Pricing Index (**Exhibit 11**). However, given the recent interest rate increases and already elevated home prices, the housing market is expected to cool down. Housing prices started to drop in April 2022, after the first interest rate hike, and continued to come down in May and June, particularly in higher-priced regions such as British Colombia and Ontario (markets where home affordability is particularly stretched). Housing prices will likely be increasingly pressured the rest of the year

Exhibit 10
Bank of Canada – Balance Sheet, Total Assets



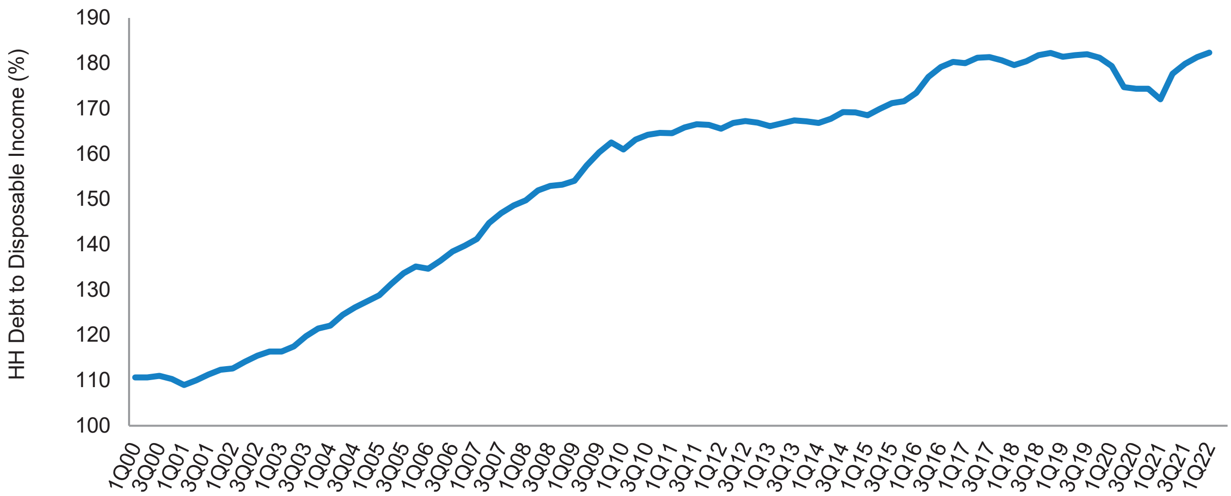
Source: Bank of Canada

Exhibit 11
Canada – Composite Housing Index



Source: Canadian Relators Association

Exhibit 12
Canada – Household Debt to Disposable income



Source: Canadian Realtors Association

following the 100-basis point interest rate increase in July and signaling by the BOC that additional rate increases are on the table.

The BOC notes that elevated housing prices and household indebtedness are two of the six key vulnerabilities in the financial system. With regard to the rise in housing prices, the BOC notes that the vulnerability stems from households' ability to continue servicing debt if incomes decline or if interest rate rise, without having to significantly reduce their consumption. Rising home prices have increased the net worth of most homeowners, but the most highly indebted homeowners have generally seen the smallest increase in the home values. With home prices rising, particularly over the last two years, homeowners have had to take out larger mortgages to purchase homes.

Interest rates are also rising. Renewing a mortgage when interest rates are high will diminish the financial flexibility of some households. Elevated inflation, which is occurring in tandem, will impact the purchasing power of households. The ratio of household debt to disposable income was at an all-time high of 182% in the first quarter of 2022 (**Exhibit 12**). The BOC notes that, although most households have increased the equity in their homes since purchasing, a growing number of households have been stretched financially to purchase a home due to elevated home prices.

Canada's P/C Industry Remains Resilient

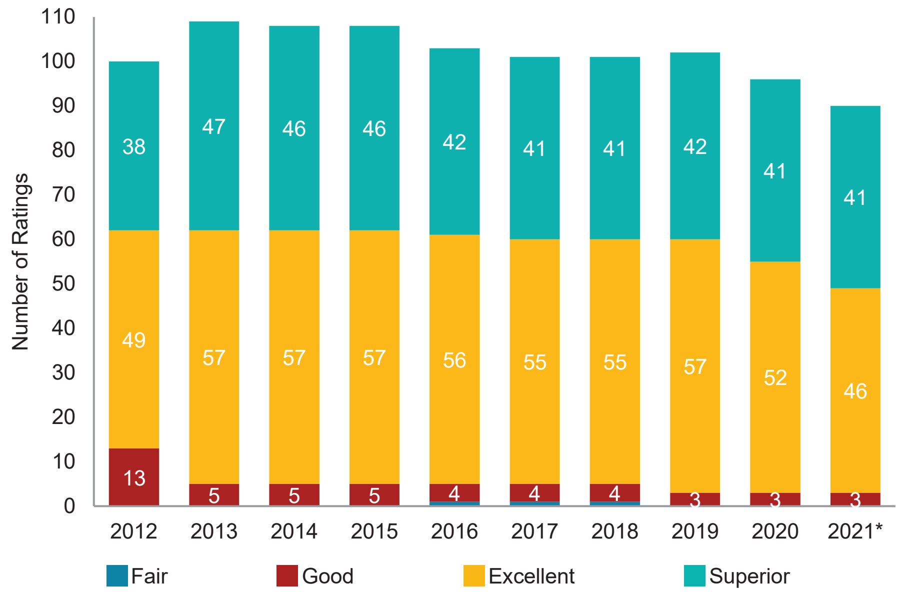
Despite persistent challenges, Canada's property/casualty industry has been resilient, with good overall underwriting performance and solid risk adjusted capitalization throughout 2021.

Among the industry headwinds is environmental sustainability, a growing focus for all industry constituents—shareholders, regulators, board members, employees, and consumers. Other headwinds for the segment include equity market declines, inflation, weather-related concerns, supply chain imbalances, and broker consolidation. However, P/C insurers have generally adapted their risk management and business strategies in response to these challenges. As a result, AM Best's outlook on the segment remains at Stable, owing to the following factors:

- Solid-risk adjusted capitalization
- Three years of operating performance improvement, due primarily to increases in underwriting profits despite COVID-19, macro-economic challenges, and the growth of weather-related events

- Continued expansion of distribution partnerships, despite growing consolidation of brokers and carriers
- Ongoing enhancement of enterprise risk management (ERM) capabilities and the continued integration of ESG into companies' risk management framework and strategic plans

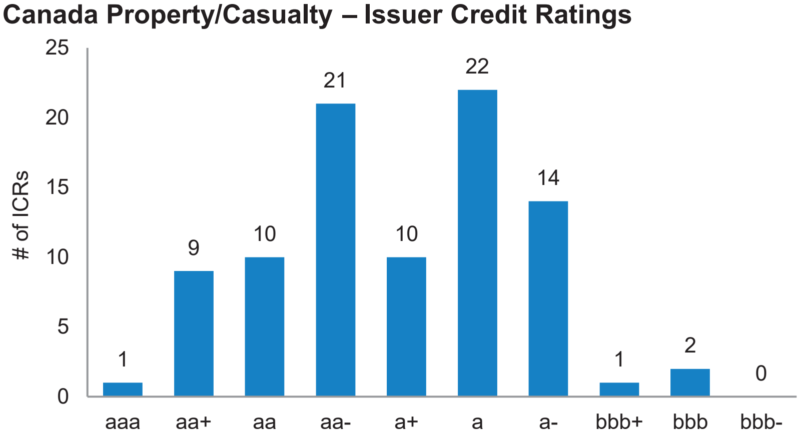
Exhibit 13
Canada Property/Casualty – Interactive Ratings, 2011-2021*



* As of July 16, 2021.
Source: AM Best data and research

Canada has navigated the challenges presented by the COVID-19 pandemic for the last two and half years reasonably well, and P/C insurers have persevered in this unprecedented environment. Although 2021 started with optimism about a return to normalcy, the emergence of the Omicron variant late in the year resulted in further lockdowns, from which Canada took longer to recover than the US. Omicron also contributed to supply chain imbalances and inflationary headwinds, as did monetary policy tightening. Furthermore, volatile weather and changing weather patterns, as well as economic volatility and broker consolidation, played a prominent role in the P/C industry through 2021. Regardless, Canada's P/C insurers remain well equipped from a capital and liquidity perspective and have shown the ability to adapt quickly to the changing landscape. However, insurers will need to remain active participants to continue to evolve to meet market, climate risk, and social challenges over the near and longer terms.

Exhibit 14
Canada Property/Casualty – Issuer Credit Ratings



ICR = Issuer Credit Rating
* As of July 16, 2021.
Source: AM Best data and research

Rating Actions Reflect Industry Resilience

In 2021, 97% of the AM Best-rated entities had either a Superior (A++ or A+) or an Excellent (A or A-) financial strength rating (FSR), consistent with trends in recent years (**Exhibits 13 and 14**). All rated entities currently have FSRs of B++ or higher. During 2021, the vast majority of all of the rating actions taken were affirmations, which reflects the resilience of the industry and the diminishing impact of COVID-19.

In 2021, five issuer credit rating (ICR) actions were taken. Of the five, four were rating upgrades. Three rating upgrades reflected higher levels of rating lift, with one the result of an acquisition by a higher-rated ultimate parent, and the other two the result of increased strategic importance to the ultimate parent. Finally, one upgrade was due to ongoing positive trends in underwriting performance. The lone rating downgrade for 2021 was due to an increase in adverse reserve development in recent accident years.

No outlooks were revised to Negative in 2021; three Negative outlooks from 2020 were maintained. Finally, the ratings on several rating units were withdrawn owing to a European parent's strategic assessment.

2021 Financial Results Build Upon Strong Performance in 2020

Financial performance has benefited from four years of improvements in operating results, with 2021 results building upon already strong performance in 2020. This reflects firm to hard market conditions of last year, along with growth of net premiums and underwriting gains for the vast majority of the industry. Operating earnings improved owing to favorable calendar year reserve development of $2.9 million.

The combined ratio improved significantly and remains strong relative to the last eight years. Investment income was lower due largely to derivative losses related to swap agreements and forward agreements, primarily the result of one large company using derivatives to hedge beta risk in its common stock portfolio, although the net impact to the balance sheet was offset by a gain in common stock equities. We expect pressure in 2022 for the segment owing to negative mark-to-market valuations on the industry's balance sheets.

Overall, net income rose 76% or CAD3.5 billion from the prior year-end, to CAD8.3 billion (**Exhibit 15**). Net earnings were driven predominantly by positive underwriting performance, which was only partially counterbalanced by a decline in investment income (**Exhibit 16**)—pre-tax operating income increased by over 100%. Despite weather-related catastrophe events, net underwriting performance was the most profitable year of the past five years. However, we expect this trend to moderate somewhat in 2022.

The Canadian P/C industry also reported growth in shareholders' equity of 12.9%, keeping pace with 2020. The growth in shareholders' equity was driven by net income of roughly CAD8.3 billion. Shareholder dividends rose significantly in 2021 but were largely offset by capital contributions from parent companies—the capital base increased to CAD53.4 billion, from CAD47.4 billion in 2020. Changes in accumulated other comprehensive income (AOCI) have varied the past five years owing to volatility in the capital markets. In 2021, the change in AOCI was minimal, at about CAD96,000. Net premiums written grew 7.1%, to CAD55.4 billion. Premium growth and equity growth have been on the same trend the past five years. As a result, the ratio of net premiums written to equity remained stable at 1.0 through 2021.

Through the first quarter of 2022, overall industry profitability was pressured despite an underwriting gain

Exhibit 15

Canada Property/Casualty – Net Income, 2017-2021, 1Q21/1Q22*

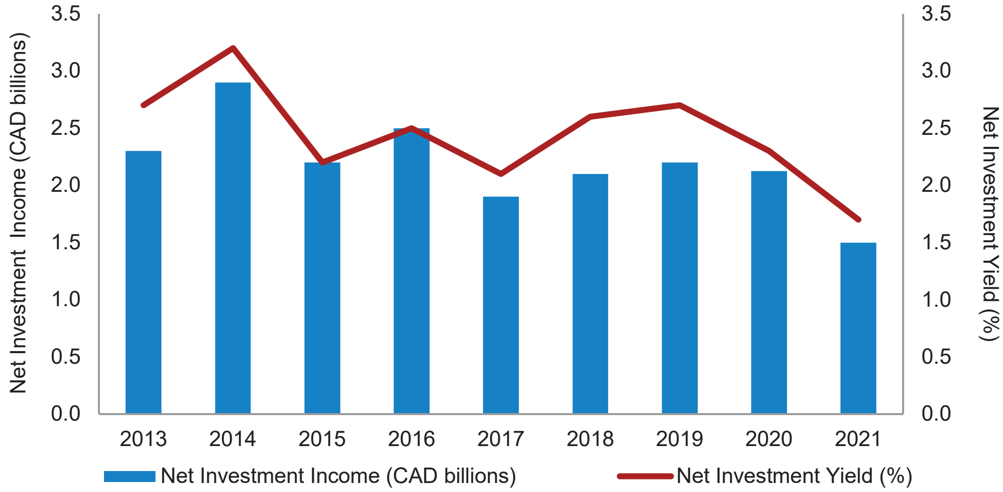
(CAD Billions)

	Net Underwriting Income	Net Investment Income	All Other Income/ Expense	Income Tax	Net Income/ Loss
2017	0.7	1.9	0.7	0.6	2.7
2018	-0.4	2.1	-0.1	0.3	1.4
2019	0.2	2.2	1.0	0.7	2.6
2020	1.9	2.1	1.8	1.2	4.7
2021	7.6	1.5	1.5	2.3	8.3
1Q21	1.8	0.4	0.3	0.6	1.9
1Q22	1.9	-0.1	-0.3	0.4	1.1

* Excludes Lloyd's, CAB and ICBC

Source: BESTLINK

Exhibit 16
Canada Property/Casualty – Net Investment Income and Net Investment Yield, 2013-2021*



Note: Excludes Lloyd's, CAB, and ICBC.
Source: BESTLINK

Exhibit 17
Canadian Property/Casualty – Invested Assets, 2014-2021*

	2014	2015	2016	2017	2018	2019	2020	2021
Bonds & Debentures	67.6	68.0	57.2	54.5	53.4	52.4	52.2	48.0
Total Stocks	12.2	11.4	8.3	8.9	7.3	7.4	6.5	8.0
Mortgage Loans	1.0	1.0	0.7	0.7	0.8	0.8	0.8	0.7
Affiliated Invested Assets	3.6	3.5	3.7	4.5	5.4	5.7	5.5	5.8
Cash & Cash Equivalents	3.9	3.9	3.5	4.2	4.0	4.3	6.0	7.3
Other Loans & Invested Assets	11.7	12.1	26.5	27.2	29.2	29.3	29.1	30.3
Invested Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Excludes Lloyd's, CAB, and ICBC.
Source: BESTLINK

of approximately CAD1.9 billion, slightly higher than in the first quarter of 2021. Shareholders' equity decreased by 2.4%, or CAD1.2 billion, to approximately CAD48.5 billion, due to volatility in the investment markets, which have been pressured by economic factors such as inflation and continued supply chain disruptions. The continued rise in interest rates has also driven fair value markdowns on the balance sheet, leading to a CAD1.7 billion drop in AOCI. Net investment income and realized capital gains accounted for roughly CAD134.2 million of the decline in overall shareholders' equity. Nonetheless, the industry remains well capitalized, with liquidity strong enough to withstand current economic and capital market conditions.

From an asset allocation perspective, there was a moderate shift from fixed-income toward stocks and other investments in 2021 (**Exhibit 17**). In 2016, other invested assets increased noticeably due to a reclassification related to pooling arrangements and partnerships with affiliated entities. These assets, predominantly composed of government and corporate bonds at the time, were reclassified to other loans and invested assets. Excluding this reclassification, the overall increase since then has been relatively modest.

Rising interest rates will result in fair value markdowns on the balance sheet and constrain capital growth, although insurers should be able to weather the effect on the balance sheet overall. We expect that rising rates will have a slightly more unfavorable impact, given that over

Exhibit 18

Canada Property/Casualty – Combined Ratio Components, 2014-2021*

	Net Premiums Written (CAD Billions)	Net Premiums Written Growth (%)	Loss & Loss Adjustment Expense Ratio	Underwriting Expense Ratio	Combined Ratio
2014	38.0	7.0	66.3	31.7	98.0
2015	39.3	3.5	63.2	32.2	95.4
2016	41.1	4.6	65.6	32.5	98.1
2017	40.7	-1.1	63.9	33.2	97.1
2018	43.8	12.8	69.6	31.9	101.4
2019	44.9	2.5	67.3	33.1	100.3
2020	51.1	13.0	64.9	31.9	96.8
2021	55.5	7.1	53.7	32.5	86.3

*Excludes Lloyd's, CAB, and ICBC.

Source: BESTLINK

the last two years PC insurers have lengthened portfolio durations by half a year due to "a lower for longer rate" mindset.

Pre-tax operating returns on revenue increased significantly, to 18.2% (above the five-year averages by 8.4 percentage points), as did pre-tax returns on equity, to 15.4% (6 percentage points), in line with the improvements over the last three years. Prior to 2015, return metrics were in the double digits, as catastrophic weather activity was not at recent levels. Returns continue to benefit very strong underwriting results in 2021, which highlights the effort and resilience of the P/C industry, as insurers navigate and adapt to an ever changing climate environment.

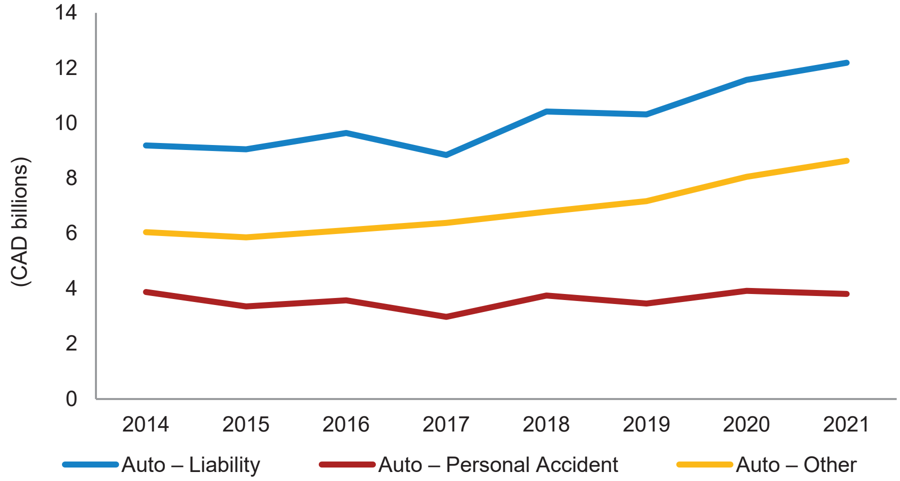
Underwriting performance remained challenged in 2021, with multiple cat events, but was largely offset by the decline in frequency in the auto segment because of continued lockdowns. Insured losses from catastrophic events topped CAD2.0 billion, marking it as one of worst five years in losses and a second year in which losses exceeded CAD2.0 billion. Fourteen catastrophic events of over CAD25.0 million in insured losses occurred. Western Canada suffered the worse impact due to wildfires, windstorms, and extreme flooding in British Columbia and the Prairies. Although Alberta historically experiences the worst weather-related events, cat activity spread geographically, with British Columbia, Ontario, and Saskatchewan accounting for significant proportions of the losses.

The largest and costliest event occurred in the fourth quarter of 2021 when severe flooding in British Columbia over two weeks caused damage in several communities, resulting in an estimated CAD515.0 million in insured losses. Additionally, tornadoes that swept through southern Ontario in mid-July and ravaged a neighborhood in Barrie caused an estimated CAD100 million in insured damages. Heat and drought conditions also continue to be factors, which led to an active wildfire season in 2021. In British Columbia, wildfires started in late June and continued into September, as the province had its warmest summer since 1948. Of these fires, the two largest were the Lytton fire, which destroyed approximately 90% of the town, and the White Rock Lake fire, which spread throughout the community of Monte Lake. Insured losses from these two fires are estimated at roughly CAD164.0 million.

In May 2022, a derecho in Ontario and Quebec occurred in heavily populated areas and caused widespread damage; industry observers estimated it may be the sixth-largest storm for P/C carriers, with losses expected to exceed CAD1 billion and most of the damage due to wind.

Direct premiums written as of the first quarter of 2022 increased by 3.6%, as premium continues the strong growth of the last few years. Underwriting performance thus far has driven pre-tax operating income of CAD1.5billion for the quarter. The industry reported a combined ratio of 80.2, driven by a loss and loss adjustment expense (LAE) ratio of 41.6 and an expense ratio of 38.6, which compare favorably to first-quarter 2021 results. However, the industry's operating ratio rose slightly to 81.0, owing to the decline in net investment. We expect that portfolio yields will benefit from rising reinvestment yields due to higher interest rates.

Exhibit 19
Canada Property/Casualty – Private Auto Insurers Net Premiums Written, 2014-2021

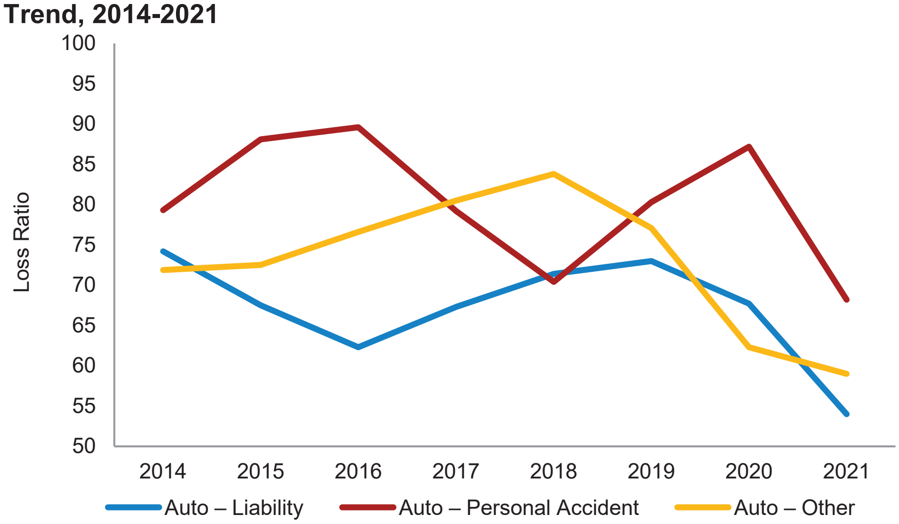


Note: Excludes Lloyd's, CAB, and ICBC.
Source: BESTLINK

Segment Results

Private Auto Market: Premium Growth Normalizing, Varied Impact of Rate Actions

Exhibit 20
Canada Property/Casualty – Private Auto Insurers Loss & LAE Ratio Trend, 2014-2021



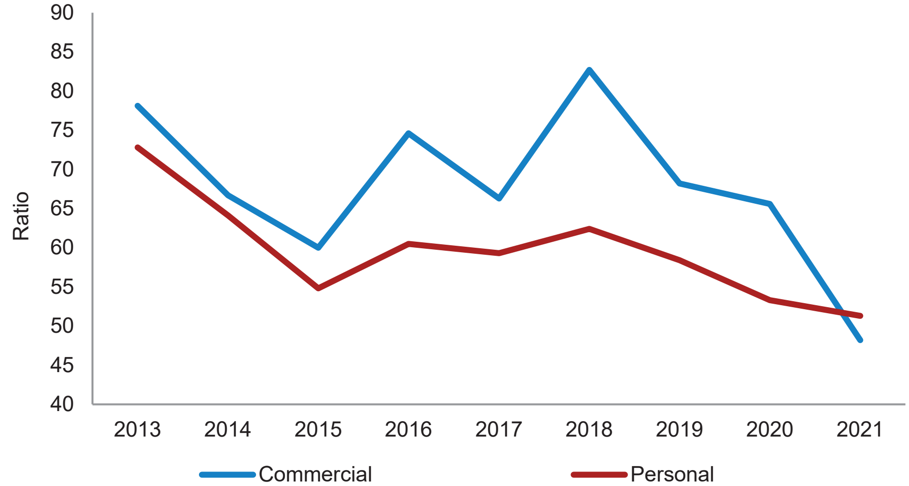
Note: Excludes Lloyd's. CAB, and ICBC.
Source: BESTLINK

The private auto market is an important component of Canada's P/C industry, accounting for roughly 45% of the market and consisting of three segments: auto liability, auto personal accident, and auto other (**Exhibit 19**). Consolidated auto net premiums written grew modestly, by 3%. Auto liability and other both rose by 3% to a respective CAD12.2 billion and CAD8.6 billion. The auto personal accident line declined slightly, 2%, from CAD3.9 billion to CAD3.8 billion. Overall premium growth benefited from the normalization of premiums, which helped improve overall underwriting results. However, underwriting results also experienced some pressure due to a resumption of driving activity and higher severity resulting from inflationary costs.

Rate actions have been rising in 2022, although the impact has been varied so far, with Quebec posting the highest level of rate actions, and Ontario the lowest, through the first quarter of 2022. Indications are that premium will continue to grow given that rates will likely continue to increase as inflation rises.

Underwriting for all three auto lines improved, after the volatile results of recent years (**Exhibit 20**). The auto other line improved marginally, by three percentage points, while the auto personal accident and the auto liability lines each improved by about 20 percentage points. The pandemic continued to have a significant, positive impact on underwriting results in 2021, with lower levels of driving due to lockdown conditions most of the year. However, claims severity increased due to more aggressive and distracted driving, as well as the impact of inflation related to supply chain imbalances. Still, the segment has benefited from higher rates and lower frequency, which have counteracted the uptick in severity.

Exhibit 21
Canada Property/Casualty – Personal and Commercial Property Net Loss Ratios, 2016-2021*



Source: BESTLINK

Driving still remains below pre-pandemic levels, which may be attributable partly to hybrid work schedules. Underwriting results will be challenged as driving patterns continue to normalize, leading to higher frequency and severity, exacerbated by the impact of inflation. Other headwinds include the rise in car thefts, particularly in large cities like Toronto.

Commercial Property Lines: Improved Net Loss Ratio, Rise in NPW, But Hard Markets To Continue

Despite 2021 being one of the most active catastrophe years in Canadian history, commercial property line results improved significantly (**Exhibit 21**). The line reported a net loss ratio of 48.2%, a 17.4 point improvement from the previous year, compared with the overall Canadian P/C industry loss ratio of 53.7%. The decline in commercial property losses partially reflects ongoing lockdowns throughout most of 2021 and the impact of business closures due to the pandemic. Additionally, carriers continue to emphasize the importance of risk management and improved risk selection, as well as pricing adequacy, helped by improved technological capabilities. Ultimately, innovation efforts along with potential technological solutions will be important to limit the impact of climate change on property losses.

Net premiums written (NPW) grew 12.7% to CAD8.5 billion, after growth of 21% in 2020. Direct premiums rose in line with the increase in NPW, highlighting two years of direct writers ceding more premium, following an increase in retentions in 2019. Premium production will face headwinds such as rising inflation and supply chain issues, which could increase costs significantly. Insurers continue to work to mitigate these headwinds by taking rate actions.

Top line revenue growth for commercial property has been much stronger, at over 100% the last decade, than for personal property, which has grown at half that rate. In 2021, commercial property loss rates were very favorable, which may be due to crediting risk mitigation efforts.

Hard market trends will continue, consistent with trends in the US. Some commercial property insurers are reducing risk, particularly on the earthquake side, while raising deductibles, particularly in British Columbia.

Personal Property Lines: Premiums and Retentions Up, Potential Pressure in 2022

Personal property trends improved in 2021, supported by moderate mid- to single-digit increases in premiums, firm market conditions, and retention levels. Utilization of CPI data for renewals should cushion and offset inflationary headwinds on the top line. Claims activity was much lower, which helped drive a double-digit increase in underwriting profitability. Underwriting results improved owing to a decline in loss ratios; more people were working from home, which averted home invasions and allowed for quick recovery of basic structural damages to a home, such as a pipe bursting.

Despite the improvement, potentially higher frequency of catastrophic losses, supply chain imbalances, and rising inflation, coupled with labor shortages, could pressure operating returns. The derecho storms in May 2022 will pressure 2022 results, given their severity and location in high population areas. Even though the market remains competitive, insurers continue to refine their risk management of weather-related risks, while seeking rate actions when appropriate. Recently, the Canadian government introduced regulations aimed at cooling Canada's hot housing market, among them an anti-flipping bill that could lower residential home values and help contain claims costs somewhat. Premiums could grow as consumers become more aware that flood and earthquake are not part of standard home policies and must be purchased separately.

Hot Topics

M&A and Consolidation To Continue

A recent survey by the Insurance Bureau of Canada statistics indicates that 15% of the P/C industry may consolidate over the next few years, driven by the need for scale, technological investment, and operating efficiencies in a highly competitive market. This trend is evident in the broker market, consolidation of which is expected to grow at a rapid pace in 2022 and possibly exceed the 2019 record of 40 M&A deals. In the brokerage segment, the need for scale is the major driver of M&A, with large brokerages such as Westland Insurance Group Ltd. and Hub International Limited leading M&A in 2021 and 2022. Many of these brokerages operate with the mindset of an insurance company, with a strong focus on risk selection and pricing adequacy. Because of ongoing consolidation, many of Canada's P/C carriers have focused on establishing long-term relationships with brokerages and developing key partnerships, to maintain a competitive advantage. We expect that consolidation will have an uneven impact on the industry, with some companies gaining market share and others losing. Overall M&A will be influenced by macro tailwinds related to geopolitical uncertainty, GDP growth, capital market activity, talent shortages, and the acceleration of digitization in the country's economy.

Ongoing Improvements in Innovation and Technology

Insurtech and innovation remain key themes, as the industry continues to invest in data modeling, along with further expansion of digitization efforts, to improve the customer experience. We expect that the industry will also expand its focus beyond these objectives toward all critical business functions, particularly in claims management and product design. Technological innovation such as new AI and natural language capabilities will drive operational efficiencies across business functions, particularly by facilitating claims and diminishing fraud by spotting false claims.

Cyber Still a Threat

Cyber risk continues to grow because of growing digitization, which is a global threat. In 2022, the Canadian insurance industry experienced very high levels of digital fraud, well above other industries in the country. Cyber acts involving ransomware also have increased and will continue, with higher costs. According to an Insurance Bureau of Canada survey, 41% of respondents reported expenses of more than $100,000 related to cyber attacks.

These trends have contributed to a general lack of profitability for insurers specializing in cyber insurance, despite a decline in insurer capacity and increases in higher rate. Not only are profitability challenges being driven by rising cyber crime, but they are also being heavily impacted by IT talent constraints, which has created gaps on the industry's underwriting side.

Climate Risk Management/ESG Initiatives Growing

Canadian insurance executives have identified environmental sustainability as a key issue. The focus is on achieving an appropriate rate for the risk profile and underwriting, in addition to greater emphasis and opportunities on the asset side for sustainable investments to combat growing environmental threats. The Insurance Bureau of Canada has noted the significant increase in climate-related losses, averaging more than CAD2 billion annually.

On the regulatory front, the government introduced its 2030 Emissions Reduction Plan in March 2022. This plan provides a road map to achieve 40%-45% emissions reductions below 2005 levels by 2030, building upon actions outlined in Canada's previous climate plans. Achieving this goal is critical for Canada, although further progress is also needed internationally. Queens University estimates that if no new international greenhouse gas mitigation measures are taken and the climate warms by 5° Celsius by 2100, the cumulative cost to Canada would be CAD5.5 trillion. If global warming were kept to 2° Celsius, the cost would be around CAD2.7 trillion.

FM Global recently introduced two climate-related indexes on climate risk exposure and climate risk quality. Canada scored highly, 89.5 (on a 100 point scale), on the risk quality metric, which evaluates seismic risk, climate risk, climate risk quality, and fire risk quality, as well as cyber risk quality, and ranked 18th globally. The indexes separate environmental risk as a climate risk exposure and risk quality, which addresses the infrastructure to manage risk through building codes, code enforcement, and facilities improvements as examples.

Canada's Office of the Superintendent of Financial Institutions (OSFI) has released its draft of climate risk management, required for all financially regulated financial institutions, including banks and insurance companies. Key principles include expectations that insurers have the appropriate risk management and corporate governance framework to manage climate risk; that climate risk be embedded in their overall business strategy; and that insurers demonstrate they are able to remain financially resistant in severe but plausible climate risk scenarios while remaining operationally resilient. OSFI is developing a standardized climate risk scenario analysis that will be compared to insurers' own stress-testing. Financially regulated financial institutions will be required to apply the standardized scenarios although whether OSFI's stress testing will be more severe than what insurers are currently doing is as yet unknown.

More is being done on the educational, front with the Institute for Catastrophic Loss Reduction introducing a series of guidelines for preventing climate related losses on both the property and commercial side.

As new weather patterns emerge with potentially higher frequency and severity, best practices in risk management will be paramount, to maintain or improve underwriting profitability including enhanced CAT modelling, changes in reinsurance cover, improved operational efficiencies particularly within claims management, rate action, pricing changes and application of exclusionary covers, all of which are critical to the management of climate risk. AM Best regards these risk management activities as key to a robust ERM program.

Canada has experienced a degree of stress related to COVID, which has impacted poverty levels and social cohesion, but companies are increasingly engaged in promoting opportunities for diversity and inclusion to mitigate this stress, and Canadians remain confident that their economy will remain financially stable.

IFRS 17: Potential Significant Decline in Shareholders' Equity for the Largest Insurers

IFRS 17 becomes effective on January 1, 2023, and Canada's P/C insurers have indicated that despite people and system challenges, they are generally ready for implementation. The OSFI has asked Canadian companies to provide comparative first-quarter 2021 and first-quarter 2022 financial statements on an IFRS basis, complete with disclosures, by the end of the third quarter of 2022. Most companies have already vetted the impact of IFRS 17 on their financial statements with their boards, earlier in 2022.

P/C companies generally are reporting modest changes to insurance results when using the PAA (Premium Allocation Approach) accounting method, which will be used for all short-term contracts (i.e., 12 or fewer months). Based on its discussions with companies, AM Best believes the impact on the P/C segment will be modest overall. A moderate increase in shareholders' equity for many P/C insurers is likely, arising from a more inclusive approach to capitalizing DAC (deferred acquisition costs) and a reduction in liabilities, as using discounting on all claims liabilities and the elimination of PFADs (Provision for Adverse Deviation) will often be only partly offset by the IFRS 17 risk adjustment. Previously, only commissions and premium taxes were eligible expenses for DAC. IFRS 17 will allow for underwriting costs and a portion of overhead expenses allocated to underwriting to be considered product-related and therefore eligible for DAC.

Under IFRS 17, companies will be given a choice as to whether changes in the liability discount rate and the impact of interest rate changes on asset values flow through AOCI or through the income statement. Most companies are expected to flow these changes through net income, as the asset and liability changes should broadly offset each other. Nevertheless, the income statement choice will introduce more volatility to the income statement.

Most companies will keep their existing KPIs (Key Performance Indicators) but will be adding new metrics to share with their stakeholders over time. From a top-line perspective, NPW will be the metric, but companies will continue to measure GPW. For P/C companies using the PAA, the pattern of earnings is not expected to be that much different. There will likely be some differences in expenses in terms of geography on the income statement (i.e., expenses classified as underwriting versus general expenses), but the impact is not expected to be material. The impact on combined ratios is also not expected to be significant either. In general, companies are expected to continue using their existing KPI metrics while also using new IFRS 17 KPI metrics to measure performance. For an in-depth analysis of how AM Best views certain KPIs under IFRS 17 and how it may impact Best's Capital Adequacy Ratio (BCAR), please see ***IFRS 17: Transitioning to a Standard with New Concepts and Terminology*** (April 28, 2022).

Canada's L/A Industry Stable Despite Regulatory Challenges and Economic Uncertainty

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

- Persistently strong regulatory capital levels
- Favorable earnings and underwriting despite the impact of COVID-19 on mortality and overall global economic instability
- Refined business profiles through strategic acquisitions, continued divestiture of legacy, capital-intensive and interest-sensitive businesses, with a heightened focus on innovation
- Greater clarity among all stakeholders about the capital and financial impacts of IFRS 17

Contrary to expectations at the start of the pandemic, the overall impact on Canada's L/A insurers was more muted, with many insurers achieving record levels of capitalization while maintaining strong operating earnings. The massive amount of liquidity injected into the financial system by central banks around the globe, along with massive government assistance programs, played a part. Canada's L/A insurers are generally less sensitive to interest rates than their US counterparts because they have been de-risking their balance sheets for over a decade. However, a number of strong headwinds still face the industry, including the following:

- Growing inflationary pressure resulting in higher operating costs—primarily wage inflation, which is not helping the war for talent
- Increased geopolitical tensions and economic instability around the globe
- Persistent uncertainty about issues such as long COVID and other indirect impacts, including increased mental health issues, which have been plaguing the industry for some time now
- Potential impact of IFRS 17 on companies' financial and human resources over the next year

Canada's L/A insurers have been resilient over the past year, bolstered by strong equity market returns, only a modest rise in COVID-related mortality, and a renewed awareness of life insurance by the general population because of the pandemic, which resulted in record life insurance sales. In addition, credit losses in insurers' investment portfolios were limited. Many companies also benefited from prior investments to strengthen enterprise risk management (ERM), while continuing to shed legacy businesses in a robust transaction market. The pandemic led to some operating cost savings while forcing modernization. However, the industry is still working through a historically low interest rate environment despite the recent increase, with inflationary headwinds that are causing a reversal in the loose monetary policies of prior years. Rising rates have already begun to have a positive impact on insurers' investment yields, but they are also resulting in unrealized losses in insurers' available-for-sale investments. Cases of COVID continued over the past year, and—although death and hospitalizations remained low—uncertainty remains about potential variants and lockdowns in other countries in which Canada L/A insurers do business.

Rating Actions: All Affirmations

As in prior years, rating actions consisted of affirmations driven by solid levels of risk-adjusted capitalization and continued positive earnings. All of Canada's life insurance companies have financial strength ratings (FSRs) of A- (Excellent) or higher, and only one has a Negative outlook (**Exhibit 22**). The relatively high ratings distribution for Canada L/A insurers is due primarily to Canada's comprehensive regulatory environment, which generally requires conservative reserving practices and strong capital and liquidity.

2021 Net Income Rises Considerably

Pretax net income (based on International Financial Reporting Standards) for Canada's life insurance companies increased at the fastest pace in five years, to CAD19.3 billion, from CAD14.4 billion in 2020. Net income also increased (**Exhibit 23**). Overall earnings were bolstered by investment gains and new business growth, including higher net fee income from higher average assets under management due to the favorable equity markets. In addition, mortality for many Canada L/A insurers improved although partially countered by unfavorable policyholder experience in some insurers legacy blocks of life insurance business.

AM Best expects mortality to generally continue to improve over the near term due to high vaccination rates, immunity from prior COVID-19 infections, and the availability of new treatments to reduce the severity of infection. In addition, higher interest rates are already beginning to have a positive impact on investment income. However, some volatility of

Exhibit 22

Canada Life – AM Best's Ratings, by Rating Unit

.Ratings as of September 6, 2022

AMB #	Company Name	Long-Term ICR	Best's FSR	ICR Rating Outlook	Rating Effective Date
08074	Assumption Mutual Life Insurance Company	a-	A-	Stable	8/23/2022
66882	TruStage Life Canada*	a-	A-	Stable	3/10/2022
66835	BMO Life Assurance Company	a	A	Stable	11/18/2021
62246	Brookfield Annuity Company	a-	A-	Stable	8/24/2022
06493	Canada Life Assurance Company	aa	A+	Stable	11/11/2021
66801	Canadian Premier Life Insurance Company	a	A	Stable	12/10/2021
06290	Co-operators Life Insurance Company	a	A	Stable	12/16/2021
66893	First Canadian Insurance Corporation	a	A	Stable	10/6/2021
66847	Foresters Life Insurance Company	a+	A	Stable	8/4/2022
60132	Independent Order of Foresters	a+	A	Stable	8/4/2022
06554	Industrial Alliance Ins & Financial Svcs	aa-	A+	Stable	5/5/2022
66805	ivari**	aa-	a+ UR	Stable	8/31/2022
06688	Manufacturers Life Insurance Company	aa-	A+	Stable	7/21/2022
66827	Optimum Reassurance Inc.	a	A	Stable	7/12/2022
66889	PartnerRe Life Reinsurance Co of Canada	aa-	A+	Stable	7/22/2022
60156	Primerica Life Insurance Co of Canada	aa-	A+	Stable	10/6/2021
66806	RBC Life Insurance Company	a+	A	Stable	4/1/2022
66817	RGA Life Reinsurance Company of Canada	aa-	A+	Stable	9/30/2021
66903	SSQ, Life Insurance Company Inc.	a	A	Stable	11/18/2021
07101	Sun Life Assurance Company of Canada	aa	A+	Stable	1/28/2022
60079	Wawanesa Life Insurance Company	a	A	Stable	11/5/2021

* Formerly, Assurant Life of Canada.

** Rating under review, with negative implications.

Source: BESTLINK

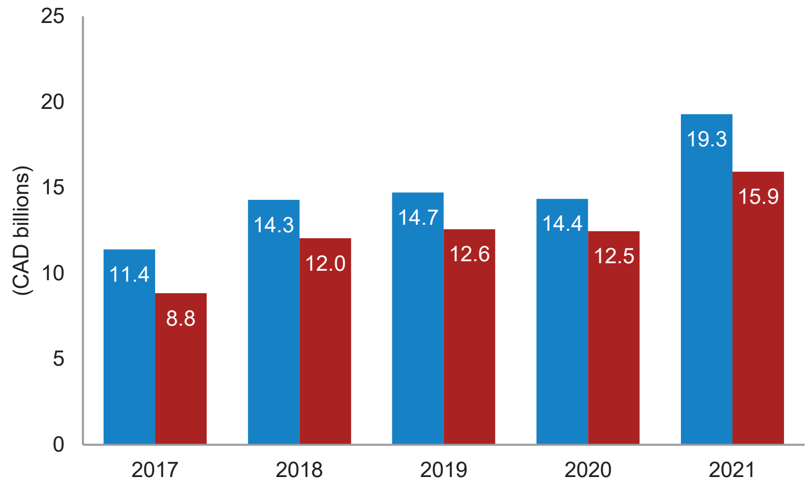
earnings can be expected due to rising equity market and interest rate volatility, as well as the negative impacts of higher inflation and a slowing global economy on growth and operating expenses. L/A insurers with a more diversified business profile—those with a focus on building scale in core segments through organic growth or acquisitions, along with continued digital enhancements to improve customer experience—will be best positioned to weather any future financial market and economic volatility.

Return on equity (ROE) measures have been consistent the past five years, at around 10%. Net income increased as capital for the industry grew CAD8.0 billion to CAD136.5 billion. Favorable financial markets led to an increase in the industry's investment income, excluding the impact of derivatives (**Exhibit 24**). The addition of derivative income resulted in a decline in investment income.

Direct premiums were up (**Exhibit 25**), driven by growth in annuities and participating life insurance products. Overall industry growth rates improved year over year due to a rebound from the negative impacts of COVID-19 lockdowns in 2020 and a new awareness of the value of life insurance in the general population due to the pandemic. In addition, the industry saw an increase in group annuity premiums, which can be lumpy due to the large size of pension risk transfer deals.

Canada's L/A insurers with a global presence continued to experience strong growth in emerging economies in Asia despite continued pandemic lockdowns (**Exhibit 26**). This continues a long trend of favorable top line growth for companies doing business in Asia due to its growing middle class, higher-growth economies, limited penetration of life insurance in the general population, and few competitors of any significance. Direct premiums in the US were essentially flat but rose notably in Europe and Canada, even though these two markets are very mature, with historically modest growth rates. The flat premiums in the US are not indicative of overall growth trends but include only the handful of Canadian L/A insurers that conduct business there.

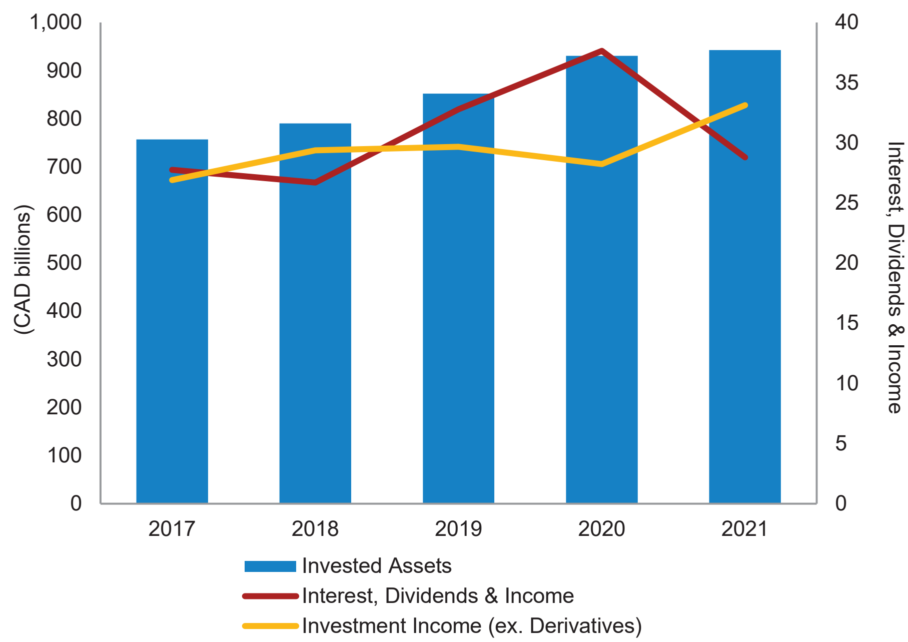
Exhibit 23
Canada Life – Pretax Operating Gains & Net Income, 2017-2021



Source: BESTLINK

With the tailwinds of favorable equity markets and low interest rates, which diminished yields on fixed-income assets, investors have been moving into mutual funds the past few years. Mutual fund deposits have increased substantially over the past two years in Canada, the US, and other countries, reflecting a rise in flows from both retail and institutional investors in L/A insurers' asset and wealth management segments. Canada's L/A insurers have gravitated to these less capital-intensive and more fee-driven retirement products in recent years partly because of the low interest rate environment (**Exhibit 27**). This has been a positive growth driver for the industry, but it has also been increasing L/A insurers' exposure to equity market volatility. The equity markets have performed well over the past two years, but AM Best expects more market volatility over the near term, which could dampen mutual fund inflows and reduce fees driven by assets under management.

Exhibit 24
Canada Life – Investment Income, 2017-2021

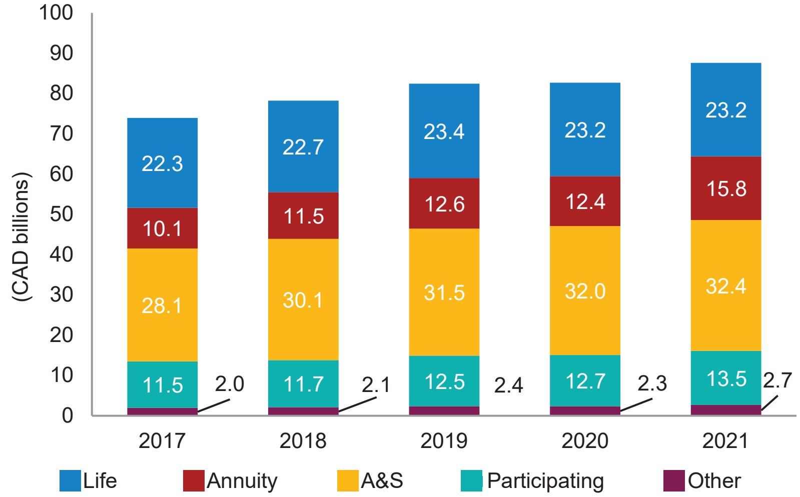


Source: BESTLINK

Capitalization Still Strong

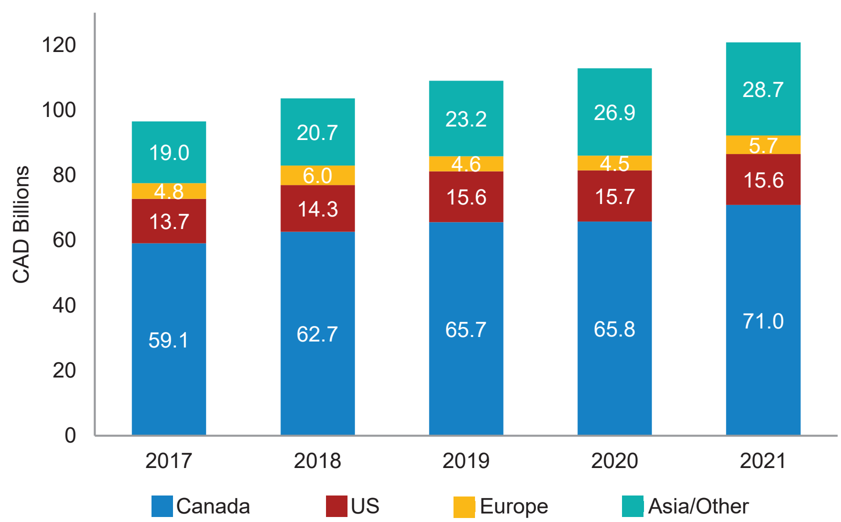
Canada's L/A insurers maintained their strong capital positions, as evidenced by Life Insurance Capital Adequacy Test (LICAT) ratios well in excess of the OSFI Supervisory Target Total Ratio of 100% and the Supervisory Minimum Total Ratio of 90%. These strong capital ratios are supported by growing capital due to strong core earnings, favorable equity markets, and minimal investment impairments. Financial leverage ratios rose for several insurers due to the financing of large acquisitions but declined for many others because of retained earnings growth and the maturity of some of the debt that had been raised at the beginning of the pandemic as a liquidity buffer. The industry continued to issue limited recourse capital notes, which were new to Canadian companies in 2021 and get favorable capital treatment, as OSFI considers them Tier 1 capital. The large publicly traded L/A insurers also began to announce additional shareholder dividend increases and share buybacks late in 2021, after the announcement by OSFI on November 4, 2021, that it had withdrawn its expectation that all federally regulated financial institutions halt dividend increases, share buybacks, and increases to executive compensation.

Exhibit 25
Canada Life – DPW by Line of Business, 2017-2021
Canada and United States only



Source: BESTLINK

Exhibit 26
Canada Life – DPW by Geographic Distribution, 2017-2021



Source: BESTLINK

Investment Allocations Remain the Same

Despite a challenging interest rate environment, the asset allocations of Canada's L/A insurers have not changed very much the past several years and generally remain more conservative compared to their US counterparts. Bonds made up the majority of the general account investment portfolio at just under 65%, followed by mortgage loans at 10%, with the remaining one-fourth of the portfolio consisting of stocks, real estate, policy loans, cash and short-term, derivatives, and other assets (**Exhibit 28**). Some insurers have gravitated away from alternative investments due to the punitive charges under LICAT and IFRS 17, but they still like these investments as part of a well-diversified portfolio, as they can offer some protection against inflation.

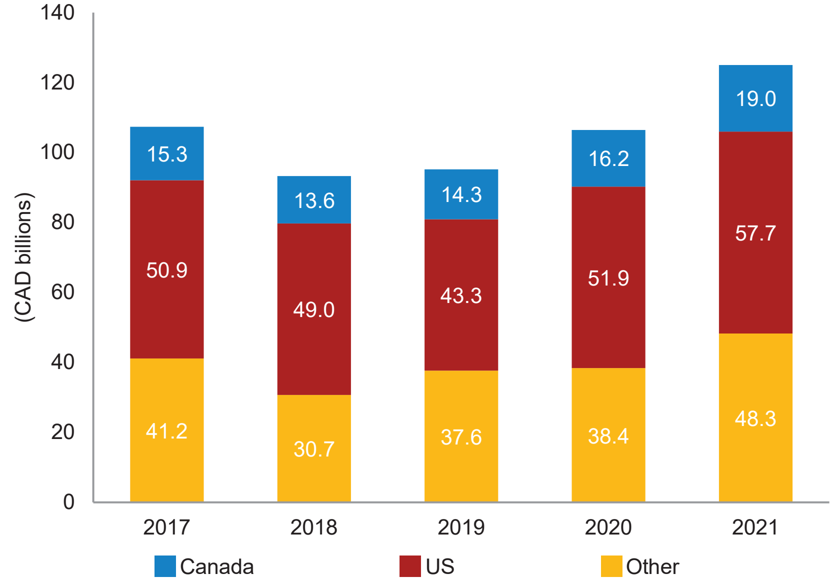
In the past five years, Canada L/A Insurer's bond portfolios have shifted away from government assets, which now constitute just under a third of fixed-income portfolios. Both public and private corporate bonds have grown, reaching the highest level as a percentage of insurers' bond portfolios in 2021 (**Exhibit 29**). Given the pressure of the low interest rate environment on investment yields, insurers are looking to corporate bonds for additional yield. AM Best expects this trend to continue over the near term, as corporate spreads have widened somewhat, making these securities more attractive. Given the fears of recession, credit quality may deteriorate in the coming year, although this is not likely to have a ratings impact over the near term.

Corporate sector allocations have experienced only modest changes (**Exhibit 30**), primarily a decline in energy due to the sector's volatility the past couple of years, as well as ESG guidelines on moving investments out of the oil and gas sector. Industrials continued to move up on strong business sentiment in core sectors of the economy and were expected to do well as the economy recovered from the pandemic. However, concerns about economic conditions in certain regions of the globe linger, as monetary authorities begin to focus on taming growing inflationary pressure.

In 2021, below-investment-grade bonds as a percentage of equity grew modestly after a more rapid rise the prior year, when these bonds reached their highest level in five years (**Exhibit 31**), due primarily to fallen angels (credit downgrades). However, some insurers grew these exposures as a means to fight lower interest rates. AM Best views allocations to below-investment-grade assets as appropriate for a well-diversified portfolio. Insurers are well positioned to manage any credit impairments, which thus far have been minimal.

Concerns about insurers' commercial mortgage loan (CML) portfolios remain, due primarily to excess office space because of the pandemic, but Canada's L/A insurers typically acquire high quality CMLs that meet strict underwriting standards and diversification criteria. As a result, the number of delinquencies to date has been modest; most CMLs are current on loan payments.

Exhibit 27
Canada Life – Mutual Fund Deposits by Geography, 2017-2021



Source: BESTLINK

Exhibit 28
Canada Life – Invested Assets, 2017-2021
(%)

	2017	2018	2019	2020	2021
Bonds	64.9	65.2	64.7	64.9	64.7
Mortgage Loans	11.0	11.4	6.1	10.0	10.1
Stocks	6.5	5.8	10.9	6.0	7.1
Real Estate	3.5	3.2	3.2	3.0	3.3
Policy Loans	1.9	1.9	1.8	1.6	1.6
Cash & Short-term	4.4	4.3	4.6	5.2	4.6
Derivatives	2.4	1.9	2.6	3.5	2.2
Other Invested Assets	5.4	6.3	6.1	5.8	6.4

Source: BESTLINK

Exhibit 29
Canada Life – Bond Portfolio Distribution, 2017-2021
(%)

Portfolio Components	**2017**	**2018**	**2019**	**2020**	**2021**
Government	36.0	34.3	34.0	33.5	32.3
Municipal, Public Authority, Schools	6.1	6.1	6.0	5.9	5.7
Corporate - Public	42.4	43.2	43.5	43.9	44.3
Corporate - Private	15.5	16.4	16.5	16.7	17.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BESTLINK

M&A: Insurers' Business Profiles Continue To Evolve

Insurers continued to find opportunities to diversify earnings, maximize shareholder value, and unlock value in the L/A business by divesting legacy businesses, making new strategic acquisitions, and entering into reinsurance agreements, as they have for well over a decade. Canada's L/A insurers continue to refine their business profiles to thrive in the current market environment.

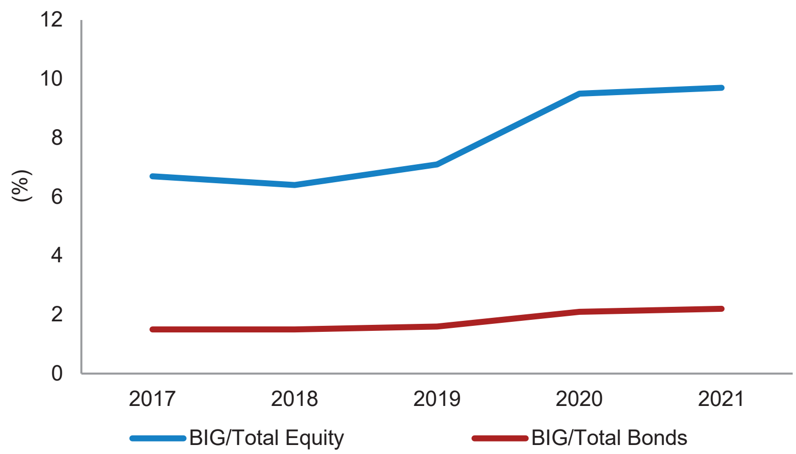
In 2021, several large transactions took place in Canada's L/A industry. These included Manulife entering an agreement in the fourth quarter to reinsure a significant portion of its legacy US variable annuity block with Venerable Holdings Inc. The transaction closed in February 2022 and is expected to result in approximately CAD2 billion of capital released during the year. The transaction is also expected to significantly reduce equity market sensitivity stemming from variable annuity guarantees. The company remains committed to optimizing its legacy portfolio, especially its long-term care and variable annuities, and will continue to seek opportunities to minimize risk and unlock value.

Exhibit 30
Canada Life – Corporate Investments, 2017-2021
(%)

Sector/Country	2017	2018	2019	2020	2021
Energy	10.7	10.5	11.0	10.5	9.7
Basic Materials	2.1	2.1	2.2	2.3	2.2
Industrial	10.4	10.8	11.1	11.6	12.1
Consumer Cyclical	4.9	4.7	4.3	4.2	4.1
Consumer Non-Cyclical	8.1	8.4	8.6	8.9	9.3
Diversified/Healthcare	2.2	2.3	2.4	2.3	2.3
Financial	21.7	22.0	21.3	21.4	22.0
Technology	1.9	1.8	1.9	1.9	2.2
Communications	3.7	4.2	4.3	4.6	4.6
Utilities	25.6	24.4	24.2	24.0	23.6
Other	8.7	8.8	8.7	8.3	7.9
Total All Sectors	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Canada	36.3	36.2	34.4	34.3	32.5
United States	41.9	41.6	41.3	41.6	45.1
Other	21.8	22.2	24.3	24.1	22.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*Totals may not tie to 100 due to rounding
Source: BESTLINK

Exhibit 31
Canada Life – Below Investment Grade Bonds, 2017-2021



Source: BESTLINK

In July 2021, Empower Retirement and Prudential Financial, Inc., announced it had entered a definitive agreement to acquire Prudential's full-service retirement business for CAD3.5 billion. The acquisition adds significant expertise, a broader set of capabilities, and an expanded product portfolio to Empower's business; it also makes Empower the second-largest full-scale retirement service provider by assets. Additional scale is vital for retirement service providers, as margins have been squeezed for some time now due to intense competition, along with other industry dynamics.

In October 2021, Sun Life Financial Inc. signed an agreement to acquire DentaQuest, the largest provider of US Medicaid dental benefits, for $2.47 billion. The deal makes Sun Life a leading dental benefits provider in the US. DentaQuest's 33 million members will more than double Sun Life's employee benefits revenue. The acquisition complements Sun Life's offering of dental benefits through employers for their employee benefits plans.

Innovation: L/A Insurers Striving to Become Digital Leaders

At the beginning of the pandemic, insurers were forced to modernize their infrastructure, and digitization remains a top priority for industry executives as we come out of the pandemic. The L/A industry was originally slow to adapt to technological innovation due to the costs of replacing legacy systems, a heavy regulatory environment, and relatively complex product offerings that were not conducive to automated processing. However, many of Canada's L/A insurers are now striving to become digital leaders, with the lofty goal of becoming fully digitized over the next several years. L/A insurers are launching new digital platforms in a number of markets that can leverage existing distribution channels, to offer a complete end-to-end digital platform for consumers. The use of mobile applications is taking hold in certain markets, as insurers realize the positive impact it can have on customer experience and therefore increased retention. Insurers that were early to embrace innovation have generally outperformed their peers during the pandemic and are well positioned to take advantage of future growth opportunities. Innovation is also imperative to drive down costs and improve efficiencies to combat the current inflationary environment.

IFRS 17: Potential Significant Decline in Shareholders' Equity for the Largest Insurers

After several delays, IFRS 17 will become effective on January 1, 2023. The transition has been years in the making, with a countless amount of human capital and financial resources used to make it a success. L/A insurers' budgets are stretched, as they have been running both IFRS 4 and IFRS 17 simultaneously over the past year. Insurers' preparedness for the transition varies considerably at this stage. At the same time, more clarity about the potential impact on financial statements is emerging.

The focal point of the transition from IFRS 4 to IFRS 17 is the timing and recognition of expected future profits on long-dated products. Under IFRS 17, new business gains will be recorded in CSM (Contractual Service Margin) and recognized over the life of the contract, along with investment-related activities. Previously, under the Canadian implementation of IFRS 4, new business gains were recognized immediately in income, and investment-related activities were treated similarly.

Several companies began communications with investors and other stakeholders in the first half of 2022 about the expected impact on financial reporting and KPIs, even though some items were still pending guidance from the International Accounting Standards Board. The general theme for the largest of Canada's L/A insurers is a significant decline in shareholders' equity (roughly 20%) due to the establishment of the CSM, and earnings will initially decrease as recognition of new business gains and certain investment-related activities will be deferred under IFRS 17. However, earnings are expected to become more stable in general, as CSM amortizes into earnings.

Although shareholders' equity is expected to decline, the OSFI has stated that the intention of IFRS 17 was not to cause significant disruptions in the industry and that CSM will be treated as available capital when calculating LICAT ratios. AM Best's understanding is that the OSFI is likely to apply a similar treatment to the IFRS 17 risk adjustment. Because of these factors and some changes to required capital charges, the majority of Canada's L/A insurers are not expecting a significant impact to their LICAT ratios at transition. The expectation is also that LICAT ratios will become less sensitive to interest rate movements under IFRS 17.

AM Best will maintain its economic view of insurers' balance sheets and does not expect the introduction of IFRS 17 to have a direct impact on the ratings of Canada's L/A insurers. In AM Best's discussions with insurers, they have stated that there will be no strategic or fundamental changes in the way they conduct business with regard to claims paying or shareholder dividends. Over time, however, new insights may emerge that may have an impact on ratings. For an in-depth analysis of how AM Best views certain KPIs under IFRS 17 and how it may impact Best's Capital Adequacy Ratio (BCAR), please see *IFRS 17: Transitioning to a Standard with New Concepts and Terminology* (April 28, 2022).

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