

2020 LICAT Ratio Public Disclosure Summary

As a federally regulated financial institution, Blue Cross Life Insurance Company of Canada (“Blue Cross Life”) is required to comply with the Office of the Superintendent of Financial Institutions (“OSFI”) Life Insurance Capital Adequacy Test (“LICAT”). At a minimum, Blue Cross Life therefore needs to maintain a Total LICAT Ratio of 90%, and a Core LICAT Ratio of 55%. In addition, OSFI has established a supervisory target Total LICAT Ratio of 100%, and a corresponding Target Core LICAT Ratio of 70%. Definitions of terms used in this disclosure can be found in the LICAT guideline on OSFI’s website.

As at December 31, 2020, the Blue Cross Life LICAT ratio was 129%, well in excess of both the supervisory target Total LICAT Ratio and Blue Cross Life’s internal target. A breakdown of this solvency ratio by component, with comparatives to the previous year, is presented in the following table.

	December 31, 2020 (\$000,000)	December 31, 2019 (\$000,000)
Available Capital	230.1	176.7
<i>Tier 1 Capital</i>	<i>193.6</i>	<i>141.0</i>
<i>Tier 2 Capital</i>	<i>36.5</i>	<i>35.7</i>
Surplus Allowance	160.2	130.4
Eligible Deposits	0	0
Total Capital Resources	390.3	307.1
Base Solvency Buffer	302.8	236.1
Total Ratio	129%	130%
Core Ratio	101%	98%

The increase in available capital was mainly driven by net income, an increase in the market value of assets backing capital, and the onboarding of two new shareholders: PacBlue Life Services Ltd. and Canassurance Financial Corporation. The increase in surplus allowance was mainly driven by the acquisition of PacBlue Life Services Ltd.’s life and disability business, as well as organic growth throughout the year.

The increase in the base solvency buffer was mainly driven by the following factors:

- The acquisition of PacBlue Life Services Ltd.’s life and disability business;
- A reduction in Blue Cross Life’s reinsurance levels;
- A change in the asset mix of Blue Cross Life’s portfolio; and
- Organic growth throughout the year.