



Understand trends. Manage risk. Protect your assets and business.



INSURANCE MARKET OVERVIEW

Last year was the most profitable year for Canada's property casualty insurance market since 2006. Why?

The industry has been caught in a hard market cycle for a few years now and, while COVID-19 may have amplified many issues for the industry and insurance customers alike, there were less cars on the roads due to more people working from home – which meant less traffic and therefore less auto accident claims. The industry has also been able to release pent-up reserves and there have been fewer large-scale natural catastrophe losses in the past two years – all

contributing to the industry's positive financial results, reports MSA Research.

As with many markets, the insurance market is cyclical. During a soft market there's lots of competition between insurers, it's easier to get coverage and your insurance premiums stay the same or decrease. Even before the pandemic struck, the insurance industry found itself in a hard market, which means insurance companies implement increased underwriting scrutiny, apply new coverage limitations and higher deductibles to every policy renewal to stay profitable. You may have found it harder to renew your policy, even for best in class risks, or get coverage at all. In addition to a hard market, there are a number of other factors causing insurance premiums to rise, like low interest rates and regulation.

CURRENT SITUATION: THE TIDE IS TURNING

According to MSA Research's Q4 2021 Quarterly Outlook Report, which tracks insurers' financial results, the insurance industry reported a combined ratio of 83.7%. The main reason for this positive performance is a 10.7% decrease in claims, yielding over \$10.6 billion in underwriting and net income. Overall, the industry boasted an ROE of 17.2 compared to 11.2 in 2020. Canada's commercial property insurance saw the highest growth (115%) over the past decade, soaring to \$12.3 billion in 2021, while personal auto insurance grew by 43% over the past decade. It wasn't rosy results all-round though, with cyber losses and professional liability continuing to plague the industry.

Hard Market

- ▲ Strict Underwriting Standards
- ▲ Reduced Capacity
- ▲ Fewer Competitors
- ▲ Higher Premiums
- ▲ Restricted Coverage



- ▼ Easier Underwriting
- ▼ Increased Capacity
- ▼ More Competitors
- ▼ Lower Premiums
- ▼ Broader Coverage

Soft Market

"With insurers returning to profitability, the tide is turning on rising insurance premiums, with more competitive rates, more choice in the marketplace, more acceptable terms and easier buying experiences in sight for insurance customers."

— Andrew Kemp, CBN Chairman and President, CapriCMW Insurance.



"Whilst we need to stay mindful of inflationary pressures on rates, insurance companies are now competing more aggressively than they have in the last two years. This means insurance customers, in particular businesses, have opportunities again to improve their insurance programs – both on pricing and terms & conditions."

— Warren Griffiths, President, FCA Insurance Brokers, a CBN Member.

"While capacity comes back into the marketplace, limits will become available again and harder risks will become easier to write. While increasing premiums will be relative to inflation, competition is increasing – companies trying to grow will create opportunities for more attractive packages for insurance customers and it will become easier to get the coverage you need."

— David Edgar, Chief Broking Officer, CapriCMW, a CBN Member.



	2021.4	2020.4	Δ%
Key Ratios			
Net Loss Ratio	52.69	63.95	-11.26
Expense Ratio	30.97	30.51	0.47
Combined Ratio	83.67	94.46	-10.79
Net Underwriting Leverage	105.65	108.75	-3.10
Gross Underwriting Leverage	141.44	144.48	-3.04
Investment Yield	2.51	3.58	-1.05
Return On Equity	17.23	11.22	6.01
MCT or BAAT Ratio	275.72	246.16	29.56
Accident Year Loss Ratio	58.71		
Undiscounted Net Loss ratio	49.55		
Undiscounted Combined Ratio	80.52		
Impact of Discounting	3.14		

Source: MSA Research Quarterly Outlook Report Q4, 2021

WHAT THIS MEANS FOR YOU

Good industry results generally mean good news for insurance customers. CBN brokers look at insurance carriers' combined ratio as a key indicator of whether an insurance company is profitable (combined ratio under 100%), has an appetite to place more business and what their expectations of insurance buyers will be. You should also consider the financial strength of an insurer when deciding which carrier to choose for coverage.

There are signs that the hard market is starting to soften, which means relief is in sight for insurance customers. Due to insurers' realizing better performance, expect to see more capacity and capital deployed into the industry, resulting in more competitive rates and making buying insurance easier for most sectors.

TRENDS THAT WILL IMPACT YOUR INSURANCE

1 SUPPLY CHAIN & LABOUR | As we emerge from the pandemic, a prolonged global supply chain crisis and Canada-wide labour shortage in most sectors will continue to impact the industry and some insurance customers. In addition, the knock-on effects of the war in Ukraine are yet to be known. Some classes of risk will continue to struggle to get insurance coverage. With a global pandemic rated as the third highest concern for CEOs globally (behind climate change and cyber risk), insurance buyers should consider the associated risks.

2 CYBER RISK | With increased frequency, severity and sophistication of cyberattacks, and the move to remote workplaces, came a surge in record-high claims and cyber losses – it's the one big exception to improved insurer performance. As a result,

expect to see cyber insurance rates double over the next year whilst industry experts predict it can take up to two years after the pandemic ends before the market softens. It's more important than ever for every individual and businesses of all sizes to ensure they have the right cyber protection and risk management strategies.

"Insurance customers can expect to see improved digital customer experiences – from day-to-day service options to claims handling – as the industry adopts new technologies and embraces virtual work to meet consumer demands."

—Lorie Phair, CBN President.

86%

The percentage of Canadian businesses that experienced at least one cyberattack in 2021. *

TOP 5 RISK CONCERNS FOR CANADIAN BUSINESSES:

- 1 Public health events
- 2 Cyber security and cyber incidents
- 3 The health and mental wellbeing of employees
- 4 Shortage of skilled workforce
- 5 Business interruption, including disruptions in supply chain. **

Sources: *CyberEdge Group's 2021 Cyberthreat Defense Report. **Aviva Canada Risk Insights Report.

3 CLIMATE CHANGE | While the industry is adjusting to a new normal of \$2 billion-a-year losses in natural catastrophes, as severe weather events including earthquake, flood, hail and wildfires rage on – meaning the industry will continue to suffer huge losses, resulting in surging premiums, the MSA report states. Increased severe weather events may also mean less availability of property insurance in Canada (rating agency DBRS Morningstar report). However, the industry and government is working together on solutions, for example, Canada's Emergency Preparedness Minister Bill Blair recently promised a new private-public flood insurance program is in the works.

WHAT CAN YOU DO?

- > Improve your risk profile.
- > Invest in risk management.
- > Get out in front of your policy renewal.



"Ongoing effects of a massive labour shortage is leaving most Canadian business sectors, including insurance, with a talent gap. We're a people business, and we need great people to connect with customers and deliver great service."

— Bill Dalton, Senior VP, Cal LeGrow Insurance, a CBN Member.



"While capacity returns to the market and rates become more stable, the insurance industry, and our customers, continue to grapple with cyber risk. The unpredictability of climate change and rising cost of construction also remain top concerns impacting insurance. CBN brokers have the power of independence and collaboration to help you manage today's marketplace challenges."

—Jean-Sébastien Larivière, President, Synex Assurance, a CBN Member.



"CBN is Canada's largest network of independent brokers, with access to local, national and international markets to find you the best coverage, offer you superior risk management tools and unrivaled services to help you manage your insurance needs. Being proudly Canadian and fiercely independent means our brokers have your best interest at heart."

—Lorie Phair, CBN President.

