



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



## HARD MARKET OVERVIEW

Canada's property casualty insurance market has been caught in a hard market cycle for a few years and, even though COVID-19 has amplified a multitude of issues for the industry and insurance customers alike, industry experts believe some relief is in sight.

As with many markets, the insurance market is cyclical. During a soft market there's lots of competition between insurers and therefore your insurance premiums remain the same or decrease. It's also easy to get coverage for a variety of different risks.

Even before the COVID-19 pandemic struck, the insurance industry found itself in a hard market cycle, which means insurance companies struggle to

reach positive financial results, there's increased underwriting scrutiny and new coverage limitations and higher deductibles apply to every policy renewal.

That's why your personal and business insurance premiums keep rising, even for the best in class risks, and it may be harder to renew your policy, or, depending on where your property is located or what industry your business is in, you might find it difficult to 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, for example.

### THE CURRENT SITUATION

So far in 2021, the insurance industry reported a historically low combined ratio of 81.1%, according to MSA Research's Quarterly Outlook Report for Q2, 2021, which tracks insurers' financial results. The main reason for this historic figure is a 23% decrease in claims and adjustment expenses, from \$20.26 billion in the first six months of 2020 to \$15.5 billion in the first six months of 2021. The industry-wide combined ratio improved 20.79 points - from 101.89% in the first six months of 2020 to 81.1% in the first six months of 2021. The majority (93%) of insurers fared well with combined ratios of less than 95% in the first half of the year, compared to 50% in 2020 and 22% in 2019.

### Hard Market

- ▲ Less Competition
- ▲ Higher Premiums
  - ▲ Coverage Restrictions
- ▲ Capacity Reduction
- ▲ Strict Underwriting Rules



- ▼ More Competition
- ▼ Lower Premiums
- ▼ Broader Coverage
- ▼ Increased Capacity
- ▼ Easier Underwriting Requirements

### Soft Market

"With the exception of cyber, we see glimmers of market stability. Although premiums may continue to rise, they will be more predictable, with fewer underwriting surprises for insureds. Insurance buyers need to take insurers' loss control requirements seriously and respond on a timely basis."

— Brooke Hunter, President & CEO of Hunters International Insurance Brokers, a CBN Member.



### 7 in 10

The number of small businesses who say their insurance premiums increased since the start of 2021.

— Canadian Federation of Independent Business report.



"With the industry combined ratio dropping 20%, insurance buyers can expect some relief in the future."

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

### WHAT THIS MEANS FOR YOU

For insurance customers, this is good news. 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. The MSA research has noted how the hard market may not be sustainable. 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.

However, while the market currently sees some softening, with less aggressive increases and some broadening of appetite, it will take a few more quarters of good results to change the very hard market. In addition, the world has changed since the pandemic, and the due diligence that's required by insurers before they decide to insure someone will likely remain unchanged.

	2021.2	2020.2	Δ%
<b>Key Ratios</b>			
Net Loss Ratio	50.14	71.29	-21.15
Expense Ratio	30.96	30.60	0.36
Combined Ratio	81.10	101.89	-20.79
MCT or BAAT Ratio	274.13		
Accident Year Loss Ratio	56.96		
Undiscounted Net Loss ratio	47.42		
Undiscounted Combined Ratio	78.39		
Impact of Discounting	2.72		

Source: MSA Research Quarterly Outlook Report Q2, 2021

### TRENDS THAT WILL IMPACT YOUR INSURANCE

**COVID-19** | Ongoing effects of the pandemic will continue to impact the industry and insurance customers. 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, insurance buyers should consider the associated risks.

The good news for insurance customers: COVID-19 has accelerated trends of digitization in the industry in the race to meet insurance customers' increased demands to buy insurance online.



**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, especially ransomware demands of millions – it's the one 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.

**\$137,000**

**The average cost of a data breach, increased due to remote work."**

—Insurance Bureau of Canada.



**CLIMATE CHANGE** | As severe weather events, including earthquake, flood, hail and wildfires rage on, the industry will continue to suffer huge losses, resulting in surging premiums. An increased awareness of catastrophe insurance and related exposures will impact available terms for insurance customers located in high risk areas. Increased severe weather events may also mean less availability of property insurance in Canada (rating agency DBRS Morningstar report).

**4,000**  
**The number of cyberattacks on Canadian businesses over the past year.**

—Tucu 2021 Ransomware report.

### WHAT CAN YOU DO?

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

**500%**

**The percentage by which the industry's cyber loss ratio increased in Q2 2020. So far this year, the loss ratio is at 113%.**

—Office of the Superintendent of Financial Institutions H1 2021.

### CBN IS HERE TO HELP

CBN brokers have 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 overcome and manage today's marketplace challenges.



**"Due to COVID, Senior Care Facilities will continue to struggle to get coverage, while pandemic-related Employment Practices Liability claims and financial hardship has led to extreme tightening of underwriting criteria in Directors & Officers insurance."**

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



**"While the industry is performing better, insurers will increasingly be more selective in who they choose to insure. Underwriting scrutiny and a better understanding of risk management and loss control will continue."**

—Lee Rogers, President of Rogers Insurance, a CBN Member.



**"As the industry continues to adopt new technologies, embrace virtual work and get better at meeting consumer demands, insurance buyers can expect to see improved digital customer experiences – from interactions and services to claims."**

—Lorie Phair, CBN President.