



IBC
Insurance Bureau
of Canada

COMMERCIAL INSURANCE

NATIONAL QUARTERLY REPORT | Spring 2022

IN THE NEWS

Inflation, supply chain disruptions, and geopolitical instability are coming together and have adversely impacted market conditions for commercial insurance in the first quarter of 2022. However, premiums appear to be stabilizing, and new capacity is returning to the Canadian market.

Cyber insurance remains a difficult line for commercial insurers, with industry loss ratios still in the unprofitable range of more than 142% in 2021. The hard market conditions for cyber insurance are being pushed by three main drivers – **supply chain attacks, the evolution of ransomware and privacy regulations**. Russia's invasion of Ukraine has also increased the **risk of cyberattacks** across the globe.

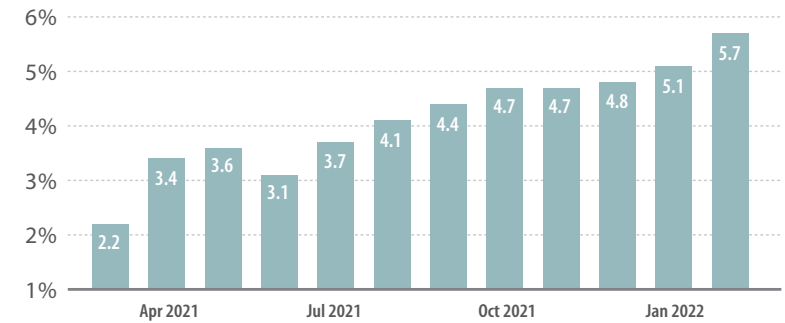
Marsh, a leading insurance broker and risk advisor, recently released its **Q4 Global Insurance Market Index**, highlighting that global commercial insurance prices rose 13% in the fourth quarter of 2021, which is less than the 15% increases seen in both the second and third quarters. Analysts with Marsh noted that the moderating rate increases in the fourth quarter is the continuation of a trend that began in the first quarter of 2021.

Applied Systems Applied Commercial Index's Q4 2021 results reported the rate change in Canada in Q4 was flat across all lines relative to average premium renewals, remaining at 9.23% as it was in Q4 2020. Notably, hospitality and retail services experienced their highest rate change in Q4 2021. Results from 2021 indicate that, across all lines of business, average premium renewals experienced the highest rate change in Q4 at 9.23% and the lowest in Q1 at 7.68%.

Aon's **report for the fourth quarter of 2021** emphasizes how new forms of volatility are affecting insurance market trends and the risk agenda for organizations, driving the growing need to innovate and develop solutions to assess, quantify, and treat emerging risk profiles. Aon predicts that, in 2022, the **Canadian insurance market** will continue to climb out of the hard market and that many insurance carriers will look to grow, which will translate to more favourable terms for clients.

Inflation, supply chain disruptions and war – effects on the commercial insurance market

Canada's Inflation Rate Increase



Source: Statistics Canada

In February 2022, Canada's inflation rate hit 5.7%, its highest level since 1991, according to Statistics Canada.

The combination of several factors – inflation, labour shortages and global supply chain disruptions – is contributing to increasing claims costs across both personal property and commercial insurance lines. For example, **hot demand and relentless delivery delays served to pop up lumber prices yet higher**. This can result in higher costs to repair insured damage to a home or business. The price for **new vehicles** and heavy equipment has also increased exponentially due to a global shortage of parts, affecting claims costs.

Rising energy costs due to Russia's invasion of Ukraine and the reciprocal international sanctions are also pushing inflation higher.



How inflationary pressures directly affect commercial insurance

During late 2021 and early 2022, general inflation and construction cost inflation have significantly increased due to many factors: the price of lumber and other materials, transportation costs, supply chain disruptions affecting availability and cost of materials, and labour shortages affecting pricing and completion delays.

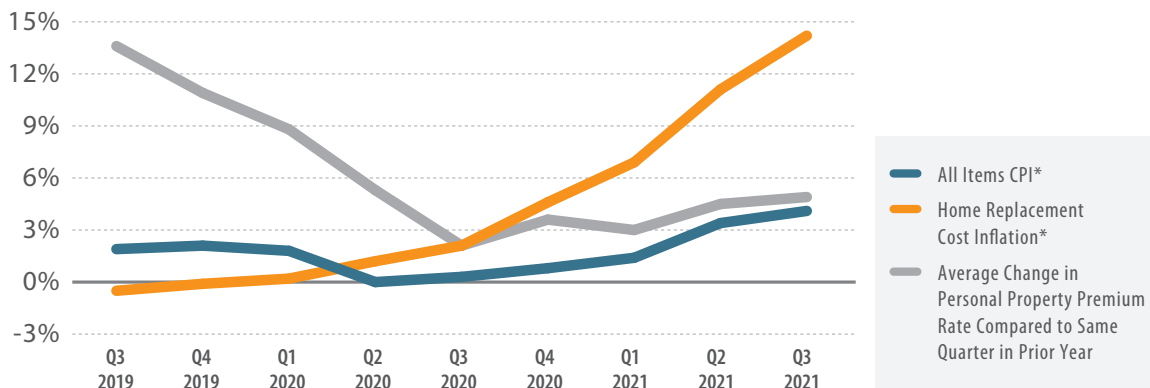
Looking at commercial property insurance as an example, underwriters review [four risk characteristics](#) when evaluating a submission and determining a rate – construction, occupancy, protection, and exposure risks.

That rate is then multiplied by the value (insured limit) of the building being insured. For example, if the rate is 10 cents for every \$100 of insured limit on a \$5 million building, the premium would be \$5,000.

However, due to the factors listed above, in the event there are premium price increases in the future, it may be related to increases in the value, which is outside insurer control, and not specifically to the rate. The ongoing hard market has pushed insurers to focus on raising the rate of insurance to ensure premium adequacy, for example, from 10 cents per \$100 of insured limit to 20–30 cents per \$100. This increased rate is then multiplied against the current value, which has also increased in many cases over the past few years, depending on location.

In the chart below, personal property premium increases are compared to replacement cost inflation. While similar data is not yet available for commercial property, the impact of inflation on replacement costs is similar.

Canada Average Personal Property Premium Rate Increase vs. Inflation



Source: Statistics Canada and Applied Rating Index

What can commercial clients do?

Hard markets aren't caused by insurers looking to increase profits. Hard markets come about when insurer loss ratios (the losses an insurer incurs due to paid claims as a percentage of premiums earned) result in a shift to more stringent underwriting. In other words, hard markets are caused when insurers pay out more money in losses than they take in premiums – and they require higher rates to stabilize their books.

The inflationary strains at play in Canada have highlighted the need for commercial customers to prioritize business continuity planning and diversification of materials and suppliers. A new survey by [Canadian Manufacturers and Exporters](#) found nine out of 10 companies in the sector are grappling with supply chain issues.

Tips to manage supply chains:

- Conduct a thorough risk assessment to identify ongoing and emerging local, regional, national, and global disruptions that could affect your business operations.
- Review, enhance, and test your business continuity plan. Outline how your business will respond to a disruption, including plans for staffing, inventory and storage, supplier backups, communication, and more.
- Determine how you can diversify your organization's supply chain — your suppliers, the products and materials you use, and how these items travel to you.

(Source: Supply Chain Canada)

Risk management tips for commercial insurance customers

Now may also be a good time for your business to introduce enterprise-wide risk management (ERM). The four pillars of ERM are finance, operations, strategy, and hazard (insurance).



FINANCE

How much capital do you have available for the upcoming years? Consider refinancing existing loans and even obtaining new capital for cash flow, IT improvements and efficiencies, expansion and mergers.



STRATEGY

Consider the existing business model and whether it can succeed in the future. Is this a time to expand or retrench, or form critical partnerships with beneficial businesses?



OPERATIONS

Consider new suppliers and, where possible, local production (consider regional issues and whether supplies will continue to flow to Canada). Streamline production with new equipment or processes and consider adding new talent to the team.



HAZARD

Consider the events that can negatively impact your business (fire, water damage, smoke, vehicle damage) and determine how to finance your risks (deductibles, insurance, captives/reciprocals). Then you can determine what you need to insure and what risks you can assume.

Overall, depending on the size of your business, it's important to use every tool in the risk management toolbox, including:

- Avoid the risk
- Reduce the outcome
- Prevent the risk from happening
- Diversify your revenue stream
- Duplicate critical equipment, processes, or people skills
- Segregate the risk so that one event does not destroy the entire operation
- Contract out some of your risk to other parties that have more control over the outcome
- Buy insurance
- Adapt your old risk processes to today's needs



In short, avoid, reduce, prevent, diversify, duplicate, segregate, transfer through contract or insurance, and adapt.

Risk manager and Business Insurance Helpline services continue to support commercial customers



IBC's dedicated Business Insurance Helpline, website, and risk manager service continue to assist businesses across the country every day. Since IBC launched the Business Insurance Helpline in 2020, its team of experienced insurance professionals have helped more than 2,600 businesses by answering questions and providing information about commercial insurance.

Any business with questions about commercial insurance can call IBC's Business Insurance Helpline at **1-844-227-5422**. This service is offered free to commercial customers, and IBC's risk manager offers valuable information that can help with both your short- and long-term insurance needs.

You can also visit the Business Insurance Help website (businessinsurancehelp.ca) to find important resources.

Business Insurance Helpline Commercial Inquiries

