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Insurance Bureau
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COMMERCIAL INSURANCE

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IN THE NEWS

The first half of 2022 has seen inflation and supply chain issues emerge as the dominant challenges to the growth of the Canadian economy. While these pressures could contribute to prolongation of the global correction of the commercial insurance market for some customers, the trend of premium pricing stability continues for most lines.

According to Aon Canada's quarterly [Global Market Insights](#) report, rates and capacity have either improved or stabilized in casualty/liability, property, trade credit and D&O lines. Cyber coverage continues to experience the most pressure on premiums.

Marsh, a leading insurance broker and risk advisor, [recently reported](#) the 18th consecutive quarter of commercial insurance rate increases in Q1 of 2022, but the rate of increase (11%) has moderated across most lines of business and in almost all regions, continuing a trend of rate moderation that began in the first quarter of 2021.

The Council of Insurance Agents & Brokers [Commercial Property/Casualty Market Report Q1 2022](#) reported that while premium prices increased in the United States, there were signs that market conditions have eased somewhat.

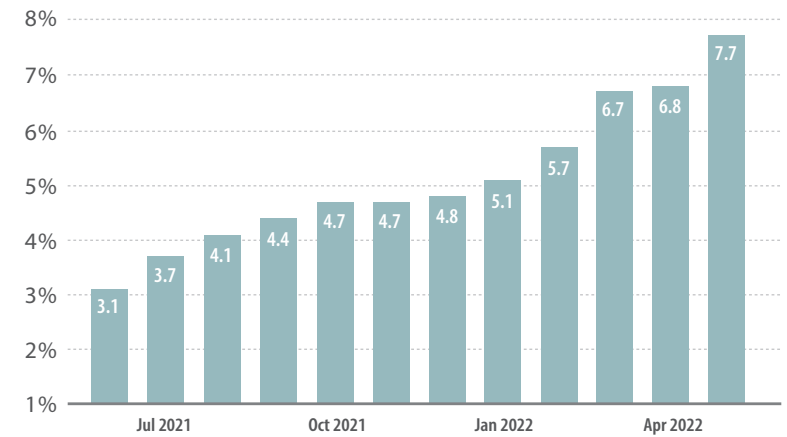
According to [Applied System's Commercial Lines Premium Rate Index for Canada](#), quarter over quarter, Q1 2022 results showed average renewal rate change decreased across all lines of the most commonly placed Commercial Lines categories, including Business and Professional Services, Construction, Hospitality Services, Real Estate Property and Retail Services.

What this means for you in a nutshell

In this challenging market cycle, it is critical that the insurance company you are working with accurately and completely understands your organization or business, your exact exposures to risk and how you manage these exposures via various loss control procedures. Having a broker and risk management partner that understands your business – both where you have been and where you are going – and how to differentiate from your competitors can and should be used to your advantage when insurance company underwriters are inundated with new business opportunities.

Inflation soars to record levels

Canada's Inflation Rate Increase



Source: Statistics Canada

In May 2022, Canada's inflation rate hit 7.7%, its highest level since 1991, according to Statistics Canada. P&C insurers are not immune to the impact of inflation, which leads to higher operating expenses and, more importantly, higher claims costs. While this is particularly acute for personal auto and property lines, inflation is also impacting commercial construction costs, which are up 13% according to the latest CPI data.



Tips to Mitigate Inflation Complications

Inflation could heighten your premium costs, influence coverage restrictions and promote underinsurance concerns. You can minimize these complications by implementing the following steps:

1. Start Early

Schedule in advance with your trusted insurance representative to strategize for the upcoming renewal process. They can help you understand current inflation trends and how they could affect your policy. Starting early will also provide you time to prepare for potential policy changes and perhaps engage a replacement cost appraisal for your building(s). While inflation remains volatile (especially commercial building reconstruction cost inflation), you may also want to schedule quarterly broker meetings to adjust coverages to current market conditions.

2. Review Coverage Terms & Conditions

Your insurance representative should assist with reviewing your current coverage terms and conditions, especially any exclusions – specifically any Margin Cost endorsements. Verify your policy limits and potential sub limits are adequate to cover a loss. Should any underinsurance issues be identified, you can ensure proper protection by updating coverages and purchasing higher limits of insurance, even in the middle of your policy term.

3. Reassess Property Valuations

Verify your commercial property insurance coverage reflects correct property valuations (replacement cost appraisals). Confirm your current policy will cover recovery expenses after a loss in light of current property repair, new building by-laws, heritage building additional costs, materials inflation, and labour cost inflation. Outdated valuations could leave you underinsured if expenses exceed your existing coverage limits and you may become a co-insurer if your limit of insurance is less than 90% of the correct amount at the time of the claim.

4. Ensure Adequate Risk Management Practices

Risk management mitigation can save your organization from unnecessary incidents and reduce the severity of incidents if they do occur. Work with your insurance representative or risk management expert to verify you have effective risk mitigation in place to prevent potential incident and claims. Be sure to outline all of your risk mitigation strategies to your insurance professional or risk manager in order that this information is shared with the insurers who will evaluate the risks associated with your operations and determine whether they will accept to offer insurance and at what premium. Positive risk mitigation documentation helps to achieve premiums discounts.



IBC launches Enhanced Risk Manager Program

While the commercial market continues to experience challenges, IBC and its members remain committed to assisting small business customers still facing challenges securing affordable commercial insurance. Since the start of the pandemic, and through the global correction of the commercial insurance market, the risk manager has achieved an 89% success rate in helping to resolve commercial insurance price and capacity issues.

To provide ongoing assistance to small business customers facing affordability and availability challenges, or who need assistance with risk management, IBC and the insurance industry will continue to offer the following suite of consumer resources to help businesses including:

- An enhanced risk manager program, where a risk manager is available, free of charge, to any business struggling to find insurance options that meet their needs.
- A Business Insurance Helpline (1-844-2-ASK-IBC) that provides specialized advice to consumers who need help shopping the market.
- A portal of resources for businesses available at businessinsurancehelp.ca.

IBC and its members remain steadfast and available to help our customers. If you require assistance, please contact your insurance representative or **IBC's Business Insurance Helpline (1-844-2-ASK-IBC)**. We're here to help.

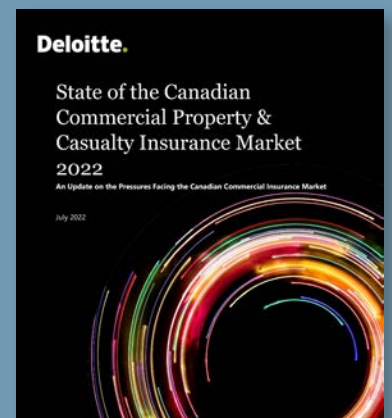


New Deloitte report on State of the Canadian Commercial Property & Casualty Insurance Market 2022

In 2020, IBC commissioned an independent report by Deloitte that illustrated challenges affecting the availability of commercial insurance are global, and that the COVID-19 pandemic compounded this issue. To gain a understanding of what the commercial market looks like today, Deloitte has released a follow up report highlighting that new challenges have arisen that will require prudent management, and will likely prolong the global correction of the commercial insurance market. They include:

- Catastrophic weather losses continue to rise, and \$2B in annual natural catastrophe losses appears to now be the norm, rather than an exception.
- Inflation is at a 30-year high, which will have a direct and material impact on claims costs.
- Hiring and retaining talent is a challenge across the industry, and the need to invest to retain staff will contribute to increased operating costs for the industry.
- The digitization of the economy has created new risks and increased exposure across all industry sectors. Cyber insurance is emerging to address these risks, but to date, performance in that line of business has been challenging.

To read the report, [click here](#).



Cyber insurance is just one component of a cyber risk mitigation strategy

As many companies continue to operate remotely, cyber criminals are looking to take advantage of [increased opportunities to attack systems](#), such as a greater reliance on mobile devices or less secure networks. As the risks increase, more businesses are considering cyber insurance to protect themselves from liability and expenses that result from attacks. Small and medium-sized organizations are often more susceptible to cyber attacks, as they typically have fewer resources to devote to cybersecurity, have fewer controls in place, and often, have less training on cyber hygiene. Larger organizations are also at risk: while they are often less susceptible to cyber attacks, thanks largely to more sophisticated controls and general awareness of the cyber threats they face, they are more likely to be the target of cyber criminals because of the data they hold or the impact of a successful attack.

What protection does cyber insurance provide?

Most IT professionals will tell you that they are constantly upgrading their defences as attacks are becoming more frequent and fraud attempts are more convincing than ever. Preventative measures should always be the first priority, however, for some organizations, cyber insurance can provide an extra layer of protection against the consequences of cyber events, which frequently include data confidentiality breaches, cyber extortion and technology disruptions.

Cyber insurance can help businesses cover a number of costs resulting from these events, such as:

- **Legal and civil damages:** the cost of legal representation and possible damages related to a privacy or network security breach;
- **Security breach remediation and notification expenses:** the costs to notify affected parties and mitigate potential harm from a privacy breach such as providing free credit monitoring;

- **Forensic investigations expenses:** the costs of hiring a firm to investigate the root cause and scope of a data breach; and
- **Computer program and electronic data restoration expenses:** expenses to restore or recover damaged or corrupted data caused by a breach, denial-of-service attack or ransomware.

Cyber Insurance is provided in one of three ways:

1. Standalone Cyber Insurance Policies (policies specifically for cyber risk) are the most common cyber policies in Canada, the U.S. and Europe.
2. Coverage for cyber events may be included in a traditional property and liability insurance policy. These policies typically have very low limits that would not cover the full cost of a breach or cyber attack.
3. Endorsements (also known as riders) can add, remove or exclude certain cyber coverages, altering a cyber or traditional insurance policy to meet specific needs.



Silent Cyber

Unless a business has standalone cyber insurance, which clearly defines the parameters of coverage, they could be responsible for paying out-of-pocket for cyber losses in certain circumstances.



Cyber insurance cost and availability

Specialty insurance coverage for cyber risks is relatively new and continually evolving. While the need for cyber insurance has increased in recent years, the frequency and severity of claims have increased at a faster rate. Data from MSA Research shows that on average over the past three years, insurers paid out \$2.30 in claims and operating expenses for every dollar they earned in premiums. Consequently, some business owners may experience challenges when trying to secure cyber insurance. Speak to your insurance representative to find the coverage you need to reduce your cyber risk.

Cyber crime is on the rise – know how to protect yourself

Incidents of cyber crime – particularly ransomware attacks – have [drastically increased](#) since the start of the COVID-19 pandemic.

As more people began to work from home, more criminals began to prey. Many small businesses adopted digital processes and moved some of their business online, and cyber criminals found yet more opportunities.

A cyber attack can be expensive. According to a 2021 IBC survey, almost half of the small business owners that had been subject to a cyber attack reported that it had cost them at least \$100,000. A [report by the law firm McCarthy Tétrault](#) estimates that paid ransoms and the resulting lost productivity from ransomware attacks cost Canadian organizations \$4 billion in 2020 alone.

Research shows small businesses are vulnerable to cyber crime

In 2021, Insurance Bureau of Canada (IBC) published [a report highlighting research that Leger conducted to help educate small business owners](#) on the risk of a cyber attack and the ways they can protect themselves.

The research found that despite the increased threat of cyber attacks during the pandemic, almost half (47 per cent) of Canadian small business owners said they are not allocating any budget to cyber security. In 2021, 41 per cent of small businesses reported that they had previously suffered a cyber attack, up from 37 per cent in 2019. However, fewer than half of the businesses surveyed (46 per cent) said they have implemented defences against possible cyber attacks, and only a quarter (24 per cent) said they plan to purchase cyber insurance within the next year.



There are a number of measures that businesses can adopt to assist in managing the risk of a cyber attack

A cyberattack can be expensive, but protection doesn't need to be costly or complicated. Organizations can learn more about protecting themselves from cyberattacks through [Canadian Centre for Cyber Security](#). This federally run authority on cyber security has a series of publicly available educational articles on the topic of cyber security and resilience, including a [certification program](#) delivered in partnership with Innovation, Science and Economic Development Canada that can help small and medium-sized enterprises audit their cyber hygiene.

Cyber protection doesn't need to be costly or complicated. The [Canadian Centre for Cyber Security](#) has outlined a number of measures that small businesses can take to protect themselves against cyber attacks, including (but not limited to) the following:



Develop an incident response plan

If you have a plan, you can quickly respond to incidents, restore critical systems and data, and keep service interruptions and data loss to a minimum. Your plan should include strategies for backing up data.



Use strong user authentication

Implement user authentication policies that balance security and usability. Ensure your devices authenticate users before they can gain access to your systems. Wherever possible, use two-factor authentication or multi-factor authentication.

Train your employees

Tailor your training programs to address your organization's cyber security protocols, policies, and procedures. Having an informed workforce can reduce the likelihood of cyber incidents.

Insurance Bureau of Canada is here to help.

If you have questions about cyber insurance, contact our risk manager service by calling **1-844-2ask-IBC (1-844-227-5422)** or send an email to riskmanager@ibc.ca. This service is provided free of charge to help brokers and their clients with commercial insurance challenges.