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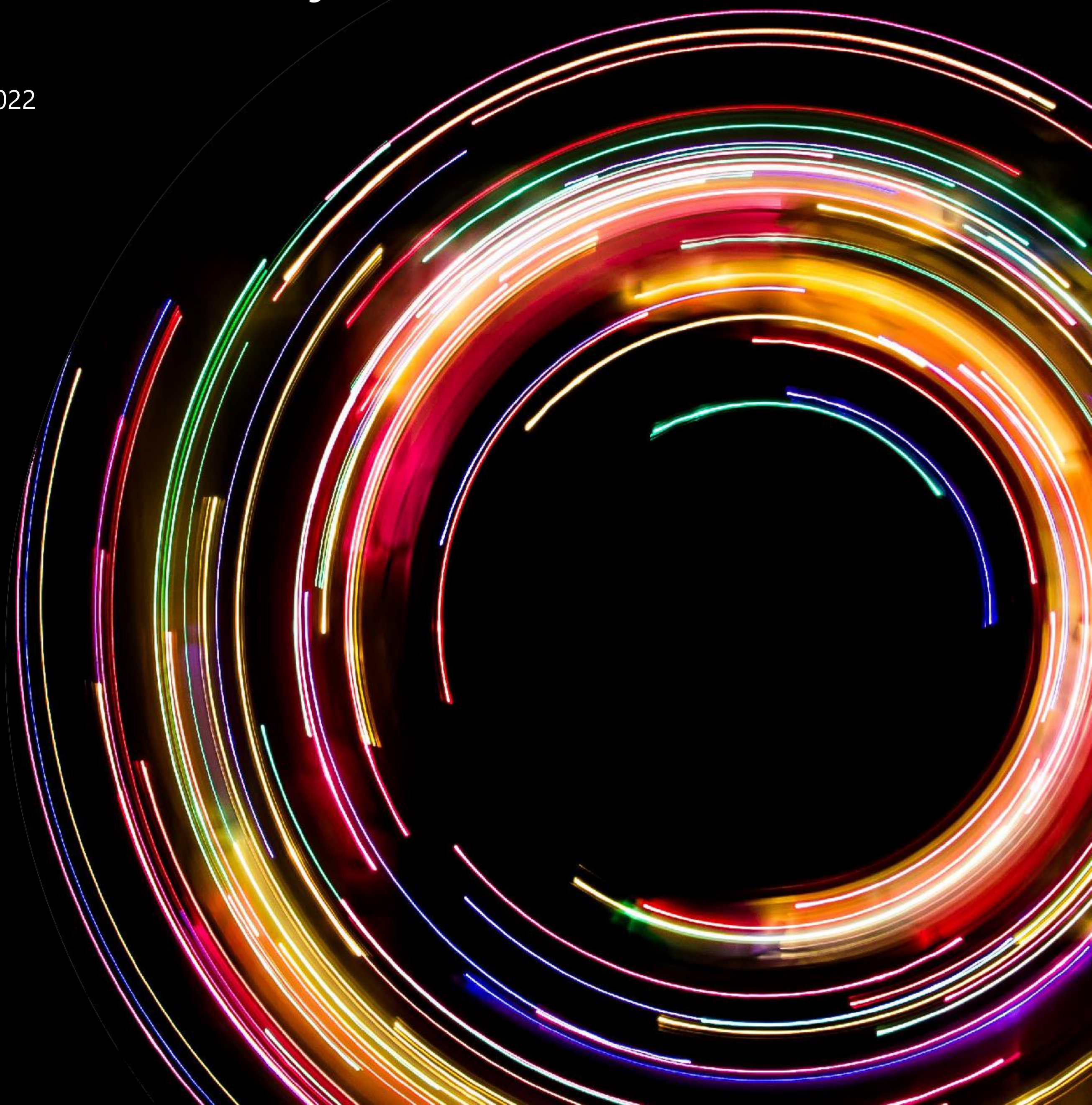
State of the Canadian Commercial Property & Casualty Insurance Market 2022

An Update on the Pressures Facing the Canadian Commercial Insurance Market

August 2022



Executive Summary

This paper is an update to one we wrote in early 2020. That was a challenging time for the property and casualty (P&C) insurance industry. A decade of low interest rates and increasing competitive intensity had left the industry performing at an unsustainable level. In response, in 2019 the market began to "harden" – capacity left the market and rates began to rise.

Over the following three years, the market saw average rate increases of ~9% per year. This average includes both good and challenged risks. Risks with challenged claims history, and risks in high-claim industry sectors, like hospitality, real estate, and transportation, often saw much higher increases, and at times had difficulty getting coverage.

Starting in 2020, the COVID-19 pandemic also contributed to the challenges of the insurance market. It created financial strain and uncertainty across the economy. Businesses failed at record numbers and overall economic activity was down. In response, the insurance industry stepped up and supported their customers with over $3.7 billion in COVID-19 consumer relief measures.

Today, with the pandemic restrictions winding down, economic activity returning to pre-pandemic levels and three years of rate increases, the insurance industry's financial performance and sustainability has improved significantly.

There are signs that the hard market is moderating, at least in well-performing lines and for good risks, and the rate of increase of premium has slowed.

At the same time, new challenges have arisen that will require prudent management.

- Catastrophic weather losses continue to rise, and $2 billion in annual natural catastrophe losses appear to now be the norm, rather than an exception.
- Inflation is at a 40-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.

Because of these factors, insurers are likely to remain cautious despite their improved results. Underwriting has become more rigorous over the last three years, and that discipline, and a conservatism in the face of market uncertainty is unlikely to lessen any time soon. So even as the industry turns to growth, the focus on risk quality will likely keep rates stable for the next several years. Whether that will be enough to maintain insurer's return on equity (ROE) is anybody's guess.

For policyholders, the lesson of the last few years is that risk mitigation does matter. Insureds can take actions to better manage their risks, and those actions in turn make it easier to access insurance at better rates.

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The authoring team expresses their gratitude to the many Canadian commercial insurance subject-matter experts who contributed their valuable perspectives.

This report was commissioned by the Insurance Bureau of Canada.