



**IBC**  
Insurance Bureau  
of Canada

# COMMERCIAL INSURANCE

NATIONAL QUARTERLY REPORT | Winter 2023

## IN THE NEWS

Canada's commercial insurance market is in a period of uncertainty. While the industry has seen some underwriting improvements to sectors impacted by the pandemic, businesses with a higher insurable risk may continue to face challenges in 2023.

For Canada, [Aon's "Q3 Global Market Insights"](#) reported moderate market conditions despite ongoing economic volatility, geopolitical uncertainty, supply chain challenges and climate change concerns. Underwriters remained disciplined and focused on risk quality. Cyber insurance continues to be a challenged line; however, there are indications that the [market is beginning to stabilize](#).

In its Q3 report, [Applied Commercial Index](#), which aggregates premiums across a number of commercial lines in Canada, said that quarter over quarter, Q3 2022 results showed that the average renewal rate change continued to decrease across business and professional services, and real estate commercial property. However, it increased across construction, retail and hospitality services.

Canada's property and casualty (P&C) industry did not escape [volatility in the global reinsurance market](#). (learn more about reinsurance on page 3). Gallagher Canada, a global insurance brokerage that offers risk management and consulting services, recently released its [January 2023 market turns report](#), highlighting the impact of reinsurance renewals on Canadian insurer capacity. Gallagher reports that overall, the Canadian market did not see the same level of pressure around terms and conditions as other regions and although pricing did experience meaningful increases in certain cases, the reinsurance market still offered financially viable pricing to support long standing trading relationships.

## Steps a business can take to prepare for insurance renewal

- **Start early (four to six months before renewal)**, building in time for delays in the quoting process.
- **Create a thorough underwriting submission** that is accurate and up to date.
- **Be ready for supplemental applications** that may involve highly specific questions about specialized areas, such as cyber security.
- **Develop relationships with underwriters**, both at your current insurance provider as well as alternatives.
- **Work with your broker or insurance representative** to shop around for quotes.
- **Take advantage of risk management services.** Insurance Bureau of Canada (IBC) continues to offer a risk manager program, providing a risk manager at no charge to any business struggling to find insurance options that meet their needs. If you have questions about commercial insurance, contact IBC's risk manager service at **1-844-2ask-IBC** (1-844-227-5422) or [riskmanager@ibc.ca](mailto:riskmanager@ibc.ca).



## Commercial insurance outlook for 2023

A confluence of factors continue to challenge the stability of the P&C insurance market. This includes persistent inflation, rising losses from natural disasters, supply chain disruptions and a shortage of skilled labour, and the increased cost of reinsurance.

Canada's P&C insurers are not immune to the challenges impacting the global economy, and must adapt in order to continue to meet obligations to policyholders. The P&C market could continue to face challenges in 2023. Personal and commercial property are specific areas of concern.

IBC offers many resources for individuals and businesses looking for ways to minimize their risk. IBC continues to offer free risk management services for businesses and organizations across Canada that are experiencing challenges in securing appropriate insurance coverage.

### **Inflation, rising interest rates, supply chain disruptions and the strained labour market**

Record levels of inflation and rising interest rates are contributing to economic uncertainty in Canada. In addition, supply chain disruptions and pandemic-related labour shortages are expected to persist in 2023 due to simmering geopolitical tensions and the threat of recession. The insurance industry is not immune to these pressures. While inflation levels eased slightly in the last quarter of 2022, the insurance industry continues to face replacement cost claims nearly twice the rate of inflation and longer cycle times to complete repairs.

To put this into context, Statistics Canada's November Consumer Price Index reported auto insurance increases at 3.9% across the country, while vehicle repairs costs were up 7.4%. Insurers have been absorbing these cost pressures, but may need to re-evaluate their responses to ensure financial stability.



### **What is reinsurance?**

Reinsurance is insurance for primary insurers. Reinsurance is a risk management tool insurers use to transfer portions of their risk portfolios to other parties. This protects insurers against the possibility that the total value of claims may be much more than the premiums collected in a given year.

The reinsurance market plays a critical role in the Canadian insurance industry. It acts as a safety net for insurance companies, allowing them to spread the risk of large, unexpected losses.

Broker Howden Re [recently referred](#) to the property-catastrophe reinsurance market as the 'hardest in a generation' with average global renewal rate increases recorded at 37% for global property catastrophe (the biggest year-on-year increase since 1992).

## Reinsurance costs

Global geopolitical tensions, high inflation and climate change have heightened demand for risk protection. Canada's P&C insurers rely on reinsurance capital to help spread out the risks assumed on behalf of policyholders.

Due to rising demand and increased natural catastrophe losses, reinsurance for the P&C market is experiencing tightening capacity. Ongoing inflation increases the cost of each loss, which leads to bigger payouts. Higher anticipated payouts may require reinsurers to charge higher premiums to remain viable, leading to higher insurance costs.



## Severe weather

Catastrophic weather losses continue to rise in Canada, with \$2 billion in annual insured losses now the norm. In 2022, a number of large weather events caused more than \$3.1 billion in insured losses and impacted every region of Canada, [according to CatIQ](#). While more severe weather events have led to an increase in demand for certain insurance products, the pricing of such policies is challenging given the wide fluctuations in weather patterns, which creates risk volatility.

## Social inflation from increased litigation

The ongoing effects of “social inflation” are elevating insurance claims costs. The pressures come from increased litigation frequency and broader potential sources of liability.

A review of the Canadian Bar Association’s national class action database showed a wide range of legal proceedings initiated by consumer classes against goods and service providers. A count of cases appears to show increased class actions in 2021 and year-to-date in 2022 compared with prior years. This increase has a direct impact on claims costs, putting further pressure on insurance premiums.

A [recent survey of 1,000 small business owners by ARAG Legal Solutions](#) found that 7 out of 10 Canadian small businesses dealt with at least one legal dispute in the last three years – a staggering 230% increase since 2015.

## Cyber insurance

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 this line of business has been challenging with an average combined loss ratio of 230% over the last three years. New capacity is coming to the Canadian market, which is helping to soften an extremely challenging line of business.

## National Commercial Insurance Progress Report – 2023

In May 2021, IBC released its [National Commercial Insurance Task Force Final Report](#) that outlines a suite of recommendations for improving the commercial insurance market in the short, medium and long terms. In the report, IBC committed to issuing a progress update that touches on its engagement with governments and stakeholders on commercial insurance challenges and its progress in implementing the task force’s recommendations.

The progress update offers a deeper insight into the factors impacting the commercial insurance market, as well as public policy solutions

that support the long-term availability and affordability of commercial insurance for businesses and organizations.

Feedback from stakeholders in the key sectors impacted by the hard commercial market is that the problems observed during the peak of the hard market are less severe now. While some sectors continue to see insurance affordability challenges, there do not appear to be insurance availability issues. The existing supports that IBC has put in place – such as ongoing risk management services and the Business Insurance Helpline – continue to provide workable solutions for those experiencing insurability issues.

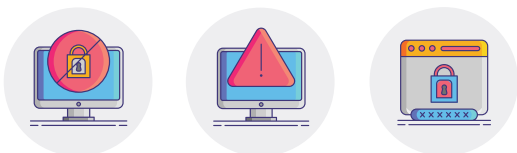
To read the progress report, click [here](#).

### New resources on IBC's BusinessInsuranceHelp.ca website

[Owner-Operator and Small Commercial Truck Fleets: How to secure affordable insurance](#)

[Directors' and Officers' Liability: Emerging risks and risk control considerations](#)

### IBC's Cyber Savvy campaign results



During Cyber Awareness Month in October 2022, IBC launched the Cyber Savvy Challenge, which allowed Canadians to test their cyber security knowledge through a quiz and gave them a chance to win a \$500 gift card. By October 31, the website saw more than **628,218** visits. Of those who took the online quiz, **only 14% scored a passing grade**, further underscoring the need for greater cyber awareness efforts.

IBC is sponsoring the cyber education efforts of the Canadian Federation of Independent Business (CFIB) by financially supporting [CFIB's business helpline](#). CFIB's advisors can answer basic questions on cyber security or refer the caller to trusted, third-party resources on topics ranging from best practices in cyber risk mitigation to the latest cyber threats facing small businesses. IBC's funding expands CFIB's helpline to all small business owners in Canada who have a cyber security question. The CFIB business helpline number is 1-833-568-2342.

Businesses with questions about insurance, including cyber insurance, can also speak with experts by contacting IBC's Business Insurance Helpline (**1-844-2ask-IBC**). Or, visit [cybersavvycanada.ca](#) for tips and resources on simple steps you can take to reduce your cyber risk at work.

### IBC continues to help businesses

The P&C insurance industry has continued to support customers over the course of the hard market and during the pandemic, providing \$3.7 billion in premium relief and deferrals. IBC's Business Insurance Helpline and Consumer Information Centre have provided support to more than 3,100 businesses, with close to 300 businesses obtaining additional support through IBC's free risk-management services. To date, 80% of the businesses that used risk management services found a path to insurance. IBC's risk manager continues to work on the remaining active files, as well as the files of any new businesses that have contacted the helpline since the start of 2023.

