



**IBC**  
Insurance Bureau  
of Canada

# COMMERCIAL INSURANCE

NATIONAL QUARTERLY REPORT | Spring 2023

## IN THE NEWS

Commercial insurance market conditions continue to stabilize; however, the [impact of the January 1 reinsurance renewal costs](#), along with a number of other factors exerting pressure on property lines including sustained inflation, has led to some concerns for those property lines with high-risk exposure to natural catastrophes. This trend was evident in [Marsh's Q1 2023 Global Insurance Market Index](#), with property lines driving a small increase in overall commercial insurance pricing.

In its 2022 [year-over-year report](#), Applied Systems, which aggregates commercial premiums across a number of commercial lines in Canada, reported a decrease in the magnitude of rate change across all lines relative to average premium renewals.

The Insurance Information Institute says in its [2023 Q1 market outlook report](#) that slow underlying growth and inflation are among the biggest challenges facing auto, home and business insurers. While the report focuses on U.S. insurance markets, Canada faces similar underlying challenges.

Risk Strategies, one of the largest brokerages in the United States, recently published its [2023 State of the Market](#) report, highlighting that inflation and interest rates continue to add volatility to commercial insurance pricing. The report referenced a recent building appraisal analysis that showed nearly 90% of buildings appraised in 2020 and 2021 were undervalued. As a result, 68% of buildings were underinsured by 25% or more and 19% were underinsured by 100%. This underlines the importance of speaking with your insurance representative to ensure your property has an updated valuation.

A white paper by TÜV SÜD Global Risk Consultants, [How Inflation Led to Property Insurance Coverage Gaps](#), focuses on how higher construction costs make it difficult to rebuild after a disaster. The white paper includes a handy FAQ on insurance asset valuations.



### What this means for you

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 **Outdated valuations could leave you underinsured if repair and/or replacement costs exceed your existing coverage limits, and you may become a co-insurer if your limit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

### National Commercial Insurance Task Force's progress report

IBC recently released its National Commercial Insurance Progress Report, which 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.

Read the progress report [here](#).

## Growing protection gap

When natural disasters strike, total economic and insured losses can be very different. Two recent reports highlight this growing protection gap, which weakens the financial resilience of economies by making it more difficult for people and businesses to recover from disasters.

According to a report from Swiss Re, over the last 10 years [45% of all catastrophic weather losses in Canada](#) were uninsured.

The protection gap dilemma was also the focus of a [recent report](#) by the Global Federation of Insurance Associations (GFIA). The report underscores the need for governments and the private sector to collaborate more closely to address threats that natural catastrophes pose to the well-being and economic prosperity of Canadians.

GFIA also highlighted a \$900 billion global protection gap for cyber risk. IBC helped develop the report's recommendations, including incentivizing and supporting the prevention of cyber attacks, conducting awareness campaigns, developing incident-reporting frameworks and fostering adaptation measures. GFIA pointed to IBC's [2022 cyber savvy campaign](#) as a best-in-class industry public education initiative.

IBC is also sponsoring the cyber education efforts of the Canadian Federation of Independent Business (CFIB), through financial support of CFIB's Business Advisor helpline. CFIB's advisors will 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 information on the latest cyber threats facing small businesses. IBC's funding provides any small business owner in Canada who has cyber security questions with access to CFIB's helpline at 1-833-568-2342.

### What is a protection gap?

**A protection gap is the difference between comprehensive financial protection and actual insurance coverage.** For example, in 2021, extreme weather in British Columbia – including heat waves, wildfires and floods – resulted in losses estimated as high as \$17 billion. Of that, only \$916 million was covered by insurance. The federal government estimates that flooding causes approximately \$2.9 billion in damage to homes and infrastructure each year, and homeowners typically end up bearing about 75% of uninsured losses.



## National Flood Insurance Program

In the recent federal budget, the government announced its intention to stand up [Canada's first National Flood Insurance Program](#) to protect Canadians at highest risk of flooding.

IBC and the property and casualty (P&C) insurance industry have worked with governments over the past five years on a solution to flooding and are eager to assist with implementing the program.

Canada now joins the U.K., U.S. and most other G7 countries in announcing a government-backed flood insurance program that collaborates with the P&C insurance industry.

While this initiative is focused on high-risk residential properties, IBC also continues to advocate for other public-private insurance models to address the growing protection gap businesses face on cyber risk and earthquake exposure.

## IBC's Risk Manager continues assisting businesses

Since 2020, IBC's dedicated Business Insurance Helpline, website and risk manager service(s) have assisted businesses across the country.

To date, more than 3,200 businesses have reached out to the helpline for assistance, and 325 have received one-on-one risk management assistance. 80% of the businesses that have asked for risk management assistance to date have been able to find insurance. Despite this success concern around valuations continue with businesses looking to understand the various appraisal types used in commercial real estate.

One type of appraisal, known as market-value appraisal, determines the market value of a building should it be sold. This type of appraisal takes into consideration that a large part of the purchase price of a commercial building depends on its rental income.

Another type of appraisal, the replacement cost appraisal, is used to estimate the cost to rebuild a commercial building in compliance with current building standards and bylaws in the jurisdiction. Often building owners and property managers may not realize the standards and bylaws that relate to the existing building have changed over time, sometimes dramatically. For example in some cases if the building needed to be rebuilt it could require more square footage, improved accessibility, or different building materials or roof designs. A current replacement cost appraisal becomes the limit of insurance to rebuild the building, using up-to-date standards. This type of appraisal should be done at least once every three years to keep the building value accurate. This helps the business owner obtain adequate insurance coverage and avoid having to pay a large portion of the rebuild cost out-of-pocket if they experience a substantial loss.

Businesses 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](https://businessinsurancehelp.ca)) to find important resources.





## Commercial insurance: Absorbing the shocks along the road to sustained economic growth

Commercial insurance acts as the bedrock of the Canadian economy. Insurers protect the economic system from failure by assuming the risks inherent in producing goods and services. This transfer of risk frees insured companies from the fear that an accident or mistake could cause large financial losses or even financial ruin.

**There are approximately 1.3 million businesses in Canada. All have one thing in common: Without adequate insurance coverage, each could be wiped out by a disaster or significant lawsuit.**

### Key facts

- The Canadian P&C insurance industry employed about 140,500 workers in 2022, close to 1% of the nation's workforce.
- Over the past five years, P&C insurers have paid out an average of \$26 billion annually in claims that helped Canadian businesses across the country recover from losses.
- In 2022, the P&C insurance industry invested about \$22 billion in provincial, municipal, public authority and school bonds, and another \$17 billion in federal government bonds. These bonds account for 56% of total bond investment in Canada.
- In 2021, P&C insurers contributed \$13.4 billion in taxes and levies to government treasuries across Canada.

Click [here](#) to learn more about how Canada's P&C industry underpins economic growth.