

MARKETPLACE INSIGHTS

2018 YEAR END RESULTS | June 2019

Hard Times In 2019

The Canadian insurance market has taken a turn that is impacting clients. Now is the time you need the expertise and guidance of Partners Indemnity the most.

After over a decade of a “soft market” the Canadian insurance marketplace showed definite signs of “hardening” in early 2019.

Canada’s predominantly commercial insurers paid out \$1.03 for every \$1 in premium earned in 2018.

Clients and their brokers are now encountering a shift that brings an end to an extended period of intense competition defined by abundant capacity, attractive terms and low rates.

Insurers are taking action with client selection in an effort to return to profitability.

“We have seen a shift in commercial lines that is pretty abrupt in the past six months...We are surprised at the speed by which this market is hardening”

Charles Brindamour,
CEO, Intact Financial Corp.

WHY IS THIS HAPPENING?

The factors weighing down insurer profitability are not new.

- **Claims:** Predominantly commercial insurers in Canada enjoyed year-over-year top-line growth of 11% in 2018, but claims grew at 22%.
- **Low Interest Rates:** Investment yields were 1.51% last year which is less than the return on a GIC.
- **Low Return On Equity:** ROE was a very weak 2.07%, making it difficult to attract investors to inject capital into the Canadian insurance industry.
- **Water Damage:** Water damage losses, including severe storms, over take fire as the leading cause of property damage.

4 Ways We Can Help.

- 1 **You have a valuable business partner in Partners Indemnity Insurance Brokers**
 - We can guide you through the current market minefield.
 - We understand your industry, your business and your risks.
 - We have national strength as a Navacord Broker Partner and have access to markets in Canada and globally.
- 2 **We know how to navigate a hard market. We’ve done it before.**
 - Our tenured staff have experience dealing with all phases of the insurance market cycle. Not all brokerages can say that.
- 3 **We manage your risk profile with insurance companies.**
 - Our value-added services can help improve your risk profile and position it to the insurance market to attract interest.
- 4 **We know the market.**
 - The landscape has changed, but we have a map.
 - We’ll help you find the right insurance partners for the long-term, not just for this phase of the market cycle.

COMPANY RESULTS

Year-End 2018 Combined Operating Ratios (COR) for several key commercial insurers

AIG	99.90	Arch	85.4	Chubb~	74.2	CNA	101.5
Allianz	109.6	Berkley	91.9	FM	202.5	Northbridge~	95.9
Liberty	103.4	SGI	102	SovGen	104.8	Travelers~	105.6
Aviva**	102.4	RSA	97.6	Intact**	91.7	Zurich	133.1

* Source: MSA Research Inc., Predominately Commercial Lines Companies
~ Includes results of personal lines portfolio

** Includes results of significant personal lines portfolio

HOW ARE DIFFERENT KINDS OF INSURANCE AFFECTED?

Property

Changing weather patterns and water damage claims have led to mounting property losses that insurers can no longer sustain without rate adjustments.

- We expect to see catastrophe-related and residential real estate property coverage rate increases from **10-25%** along with reduced capacity for wild fire, earthquake and flood exposed properties.
- Insurers are looking for rate increases from **2-10%** for general property.

Liability

The average increase in claims costs in 2018 was over 15%.

- We expect liability insurers to look for rate increases of up to **5%**.
- Some industry segments prone to large losses such as roofers and liquor liability are experiencing higher percentage increases and reduced capacity.
- Directors and officers' liability (D&O) coverage and rates for private companies remain relatively stable, while public companies can expect rate increases of up to **10%**.

Auto & Transportation

The advances in technology that have become standard in most vehicles in the last few years have driven up repair costs dramatically.

- Most insurers across the country are struggling with unprofitable auto business and are asking for rate increases ranging from **5-20%**.
- Insurers in the trucking and transportation space continue exiting or adjusting their risk appetites resulting in higher rate increases and tighter underwriting requirements.

5 STEPS TO STRATEGIC RENEWAL PLANNING:

- 1 Early planning of your renewal strategy.
- 2 Leverage the expertise of your Partners Indemnity Broker.
- 3 Engage value added services.
- 4 Understand your tolerance for risk and insurance business goals.
- 5 Meet your underwriter.

Contact your Partners Indemnity advisor at 1 (877) 427-8683 or 905 464-2311 with any questions you may have.

CANADA'S CHANGING WEATHER

Severe storms that cause hundreds of millions of dollars in property damage, once rare outliers in Canada, have become commonplace in recent years. These events have put extreme pressure on property insurers to raise rates to remain profitable. Below are the insured damage totals for some recent weather events.



April 2018 – Storms - \$85mm in Ontario and Quebec

May 2018 – Windstorm - \$190mm in Southern Ontario

Summer 2018 – Summer storms - \$240mm in Prairies

September 2018 – Tornadoes and Windstorms - \$295mm Ottawa-Gatineau

February 2019 – Winter storm - \$48mm in Ontario

March 2019 – Winter storm - \$124mm in Quebec, Ontario and Maritimes

INSURANCE 101: Measures of Success

Loss Ratio: The ratio of losses incurred (both from current period claims and development on prior period claims) to Earned Premiums.

Expense Ratio: Includes overhead expenses, commissions, premium taxes etc. to Earned Premiums.

Combined Operating Ratio, (COR): Equals the sum of the Loss Ratio and Expense Ratio. A COR of 100 is break even for an insurer but most target 95% or less.

Investment Yield: Result of the insurer's success in earning income/gains from investments.

THE GUIDANCE OF YOUR PARTNERS INDEMNITY ADVISOR

Your Partners Indemnity Advisor knows that a transitioning market requires a strategic approach to your insurance program.

This is why we ask you to have confidence in our ability to navigate this turbulent marketplace as we guide the way forward.

Navacord, one of the largest commercial brokers in Canada, has strong, established relationships with leading Canadian insurers.

We are confident in our ability to negotiate superior terms and conditions for our clients. Please contact your advisor with any questions, regardless of renewal date.