

# Commercial Insurance Symposium

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Good morning, everyone, and welcome. Thank you for joining us here today for IBC's first symposium on commercial insurance. It's long overdue. We hope you find that it was worth the wait.

We've got a full agenda and a number of terrific panels lined up for us today.

I want to begin by thanking Linda Regner-Dykeman, Chair of the Commercial Lines Committee, and David Yeatman, the Deputy Chair – along with everyone on the committee – for their hard work in advancing commercial insurance policy issues and for helping to put together this inaugural event. I know everyone's eager to get started.

In our first session, our friends from Deloitte are going to discuss the state of the commercial insurance industry today, the economic forces that are shaping the market and what's in store for the future.

They were in the field recently doing research – and they're here to report on what you and others in the industry are seeing in terms of market trends and customer preferences from both the carrier and broker perspectives.

Certainly, many of us in this room are already familiar with the financial landscape of the current market.

The public at large likes to think of insurance companies as wildly profitable at all times – but of course the reality is that the commercial insurance market has been showing signs of weakness of late.

The loss ratio on commercial property rose to 76 per cent last year – up from the usual 60 per cent or so. It's unlikely to have improved in 2019. And there are other signs of a hardening market across the country.

All of which makes it more important than ever that we exert control over the things we can control.

And make certain that we are in a position to take advantage of new opportunities as they emerge.

As many of you know, the public-facing elements of IBC are focused primarily on the risk issues that occupy the thoughts of most Canadians. Much of our public outreach is about auto insurance, home insurance, fraud protection, disaster preparation and so on.

Our best-kept secret seems to be the work we do to respond to – and advocate for – the priorities and needs of commercial insurers.

Of our four standing committees, three focus either in whole or in part on issues relating to commercial insurance.

The relatively unregulated nature of the commercial market creates a very different dynamic than exists in automobile insurance. Fewer rules means fewer reasons for common cause among insurers. There's not the same imperative to join together to change existing regulations. There's less of a need for high-profile information or persuasion campaigns.

Nevertheless, we have a clear agenda on the commercial front – one that responds to the evolving nature of risk. And we have a history of achieving progress on important regulatory and taxation issues.

In fact, we have seen some positive developments quite recently – especially related to proposed changes to the reinsurance framework here in Canada.

As many of you know, the Office of the Superintendent of Financial Institutions announced some time ago a plan to substantially increase the amount of capital that companies would need to hold in Canada.

The regulator described it as a necessary precaution. We saw it as a classic case of over-regulation – one that would risk isolating Canada from our global competitors.

These days, large financial companies have many choices for where they invest their capital – and where they base their operations. The OSFI reforms would basically have encouraged these companies to rethink their presence in Canada.

“Does it make sense anymore? Do the numbers still work? Would our capital produce a better return if we invested it elsewhere?”

We at IBC encouraged OSFI to slow things down – to take the time to conduct a thorough review of the potential business and economic impacts of their proposed changes. We put together a report outlining some of the likely impacts.

Last month, OSFI made an announcement: They are going to re-evaluate and reform their proposal. We expect the focus will be narrower. We hope the demands will be less onerous.

This is good news. In a competitive world, we should be working to make Canada a more attractive destination for investors – not giving them reason to pass us over.

We appreciate the willingness of OSFI to re-examine their proposal – and we look forward to continuing to work together.

As we all know from our daily experiences, the world of commercial insurance is becoming increasingly complex. Technology is changing many aspects of the business: what we insure, how we insure it, and how we assess and price new and traditional risks.

And it’s not just the technology itself – it’s the societal changes being driven by technological progress.

Think about all that’s changed for each of us personally – how we book hotels, how we get around town, how we bank, how we eat, how we buy.

Those same forces are bringing change to the business world. Corporations are under pressure from upstarts.

Traditional ways are being disrupted. Later this morning we will hear from Swiss Re and Munich Re about the evolving nature of catastrophes – from a world of guarding against NatCats to one that now has to consider security and cyber risks at a catastrophic level.

We can't assume that our industry will be immune from the influences that are transforming the way we live and work. In fact, we are already seeing a number of changes shaped by both external and internal forces and driven in many circumstances by insurers themselves.

Consider data, network security and privacy protection. One of the big issues facing any commercial enterprise regardless of size today is the risk posed by potential threats to cyber security.

This threat is constantly evolving, which makes it difficult to model with accuracy. I've heard one insurance executive put it this way: "Hurricanes don't learn – but cyber criminals do." In other words, they get smarter. They find and exploit new vulnerabilities.

Our challenge is clear: Just like businesses, we need to stay on top of this. We need to make sure we've got the people we need to understand, assess and price the risk involved in cyber-related activities. We need to help our commercial clients better grasp and manage their potential vulnerabilities – and protect themselves in the event of a breach.

The implementation of 5G wireless technology in the coming years is only going to present more targets for cyber criminals. More opportunities. More potential vulnerabilities. And possibly wider and more significant consequences when an attack is successful.

So we've all got our work cut out for us – insurers and their clients alike. Together, we should consider a larger role for the industry – a role that focuses on education, sharing what we know about the risks that all businesses now face and trying to bring together stakeholders to better defend the corporate world from cyber attack.

At IBC, we have made it a priority to establish ourselves among policymakers and decision-makers as a trusted voice on cyber risk. We want to ensure that future policy changes don't work against our industry – or our customers.

Right now, there is a growing focus among governments – to better protect the privacy of individuals and guard against attacks on data. Both the federal and Ontario governments are in the process of developing new strategies on data protection and have been seeking the advice of the public and industries.

As an industry, we appreciate being part of the process and we are confident the end result will be better because of it.

To play this role effectively, we need to understand the lay of the land. Which is why we went into the field to commission a fact-finding survey – so we could see a clear picture of the current state of awareness and readiness among small to medium-sized businesses.

We found that among businesses with fewer than 500 employees, more than 40 per cent have no defences at all against potential cyber intrusions. A full 60 per cent have no insurance to help them recover from an attack.

This is just one of the many evolving concerns in commercial insurance. We'll focus on more over the course of the day.

The good news is that unlike a lot of the issues we deal with, the commercial insurance market is well positioned to act quickly and with greater consumer-focused flexibility in the face of new challenges.

Obviously, government is going to have a role to play when it comes to cyber security and data protection. Our role at IBC is to engage with decision-makers to help inform and shape that response.

At the same time, it's important for the P&C commercial insurance industry to continue to demonstrate both its ability and its willingness to innovate – to stay on top of new and established threats to Canadian businesses and our economy, while taking full advantage of new opportunities.

We all have a role to play in demonstrating to government that the commercial market is responsive and adaptable, and more than capable of handling its own issues without intervention or strict guidelines.

Here's one concern: Right now, there is a growing challenge in the commercial market. Certain businesses, like trucking firms and condominium corporations, are having trouble finding and keeping adequate insurance.

Some may be tempted to say: "It's nothing to worry about. It will sort itself out over time. The market will handle it."

Maybe. But we need to understand all perspectives: A world in which certain Canadian businesses can't find or can't afford the insurance they need is politically untenable. It doesn't work.

Government will not stand by and allow it to happen. Policymakers will quickly conclude: "If the insurance industry can't get its act together on its own, we'll have to step in and fix things for them – with laws, rules, regulations."

This is a point worth dwelling on for a moment – because it has the potential to affect the business lines of every company represented in this room.

As I've said, and as we all know, the world of commercial insurance is a largely unregulated space. But there are a number of emerging risks and challenges that will almost certainly end up on the radar of decision-makers.

Think about connected communities – and the potential liabilities relating to technological vulnerabilities.

Think about the growing frequency and costs of natural disasters in an age of climate change.

As an industry, we need to stay on top of these challenges. We need to show that we can provide insurance to every industry in Canada. That we can respond to the need for commercial insurance that reflects the reality of our changing climate.

None of us wants more regulation or government interference – because none of us believes we need that.

But it's a two-way street. The industry must always demonstrate that it's capable of meeting the needs of those who require its services. We need to keep listening and working toward solutions that work for everyone.

We faced a similar challenge in the early 2000s in Atlantic Canada. Rising prices, availability issues, threats of political interference, and negative media coverage were all contributing to a difficult situation. At that time, IBC struck a task force to examine the issue and to recommend a path forward. Something similar may be appropriate today.

In closing, I want to reinforce what Linda had to say about the Commercial Lines Committee – and the important role that members have played, and continue to play, in forecasting, monitoring and responding to emerging issues.

At IBC, we are focused on working to advance your interests...

... by helping to shape future government policy on cyber security, data protection, flood prevention, earthquake recovery and more.

... by re-thinking both traditional commercial risks and emerging risks that will affect businesses across the country.

... and by bringing you together for days like this – where we can share our collective knowledge about the challenges and opportunities we face now, and in the future.

I hope you find today both informative and illuminating. Let's keep working together.

Thank you.