



IBC Luncheon: The Future of Insurance

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Check against delivery



I feel so fortunate today to be back in one of my favourite places – back once again in my home province. I was here in Halifax over the Christmas holidays – visiting my family, which will soon include a new addition.

And now I get to return for tonight's big event with the Nova Scotia Insurance Women's Association – an event that unites our entire industry in pursuit of two simple goals: wine and cheese.

While we all still have our wits about us, I want to make the most of our time together this afternoon – and share some of the work that we at IBC are doing across the country on your behalf.

But let's start by taking a look at the big-picture financial numbers for our industry for 2018.

It's a good thing you're already sitting down. And maybe a better time for wine is before I share the results...

Comparing the first 9 months of 2018 results to the same period in 2017, we saw deteriorating conditions in the P&C market.

Combined loss ratio increased – from just over 99% in 2017 to 102%.

ROI was lower. ROE fell substantially.

Natural catastrophes were largely responsible for the underwriting loss. That's clearly indicated by the sharply higher loss ratio for property lines. Wind, wildfire, flooding – we saw it all.

In total, we're looking at close to \$2 billion in insured catastrophic losses – almost double what we experienced in 2017 and an increase in an already troubling trend.

I believe it's crucial that IBC's strategic priorities reflect – and respond to – this period of financial challenge. As an organization, we need to focus on the things that keep CEOs up at night.

That's why we've been advocating for a whole-of-society approach to confronting the risk posed by the increasing number of natural disasters. This is not just a government problem – we all have a role to play.

Flood risk, for example, can most effectively be reduced if we bring everyone to the table – industry leaders, Indigenous leaders, and officials from all levels of government.

Together, we need to make the right land-use and permit decisions. We need to stop putting people in harm's way in higher-risk locations across our country.

Spreading that message is important. That's part of the reason why we helped to organize a national roundtable on flood – hosted by Ralph Goodale, Canada's Minister of Public Safety and Emergency Preparedness.

IBC now sits on the National Advisory Council on Flood Risk and chairs the National Working Group on the Financial Risk of Flood. Just two weeks ago we addressed a meeting of federal/provincial and territorial leaders – and proposed a number of options to address the financial risk of overland flooding. Our involvement will continue on this file, as the FPT ministers have asked IBC to define high-risk properties and assess different high-risk insurance pool models.

They also committed to holding a national Flood Symposium in spring 2019 to advance work on the high-risk flood file. The symposium is intended to review best practices related to flood mapping, data and science.

We also recently introduced a report that sets out a framework to measure the return on investment for green infrastructure.

Taken together, these initiatives represent a tangible effort on the part of our industry to encourage better planning, better policy and a greater awareness of the challenges posed by our changing climate.

So that's one of our priorities – because we know it's important to member companies. We see how it affects your bottom lines.

Another priority is auto insurance reform – working to create competitive and sustainable auto insurance markets.

Again, it won't surprise you to hear that this is another challenging issue – one that varies in scope and detail as you travel from coast to coast.

In BC, we have as an organization become increasingly vocal in advocating for competition in the province's auto insurance market. BC drivers pay more for car insurance than anyone else in Canada.

We've done public opinion research that shows overwhelming support among British Columbians for ending the provincial monopoly and allowing new entrants into the marketplace.

We are finding a welcoming atmosphere for our message about the benefits of choice. And that's a message we are going to keep delivering – a message that real competition means lower costs, better service and greater affordability.

In Alberta, the situation is increasingly difficult. In the first 9 months of the year, ninety-nine per cent of private passenger vehicle insurers in Alberta had a combined loss ratio of 100 per cent or more. Some are operating with ratios as high as 129 per cent.

In other words, the crisis continues – and so does our work to try to stabilize the market.

We have engaged with government on a number of fronts. We have made our case with passion and with math. We have stressed the gravity of the situation – and the dire effects of the rate cap not only on insurers, but absolutely on Albertans.

Frankly, we are headed for a cliff in Alberta. And when this happens, no one wins – not government, not industry, certainly not consumers.

We continue to work to pinpoint cost pressures and outline potential reform scenarios – so we are fully prepared to engage with whichever party wins the next election.

In Ontario, we've been meeting representatives of the new government. We've been making our case for real reform – so we can better serve our customers and build a more successful industry.

It's all about supporting and encouraging meaningful, pro-consumer change to a system that's in dire need of it. And we think the new government's stated desire to cut red tape could be an opening to encourage a modernized regulatory system. And just last month, the government announced a public consultation. They are asking for feedback from consumers and businesses on how auto insurance rates could be reduced.

And now to Atlantic Canada.

In Newfoundland and Labrador, we're playing an active role in the province's review of its auto insurance system. Our efforts have been bolstered by a recent report by the province's Public Utilities Board – which found what it described as “significant shortfalls” in the current system.

The report confirms what the people of Newfoundland and Labrador already know: that rates have skyrocketed in recent years.

It also confirms what insurers in the province know; that as high as premiums are in the province, they are not covering the costs that insurers are incurring. In order to bring real change, a \$5,000 cap on minor injuries is needed, in addition to other improvements to the insurance system.

There are, of course, things in the report that we don't agree with. But the need for change to the auto insurance system, and the fact that a \$5,000 cap will produce the biggest relief to the system, is consistent with our assessment and the PUB report. Now it's up to government to make the change.

At IBC, we have launched a consumer campaign to take our message directly to the people – and we're engaging with government to ensure our industry's perspective is well understood, especially when it comes to accident benefits, repair and replacement of vehicles, and rate regulation reform. We have fought this battle before in Newfoundland – 15 years ago I spent more time in St. John's than I did in Fall River! Ask my wife...

In New Brunswick, we're working to get to know the new government and engage in talks on potential reform. We know that claims pressures are rising. And we are hopeful that progress can ultimately be made.

In Prince Edward Island, the market is stable and things are in relatively good shape – but we know it's important to remain vigilant.

As an aside, the island is shaping up to have a rather unique dynamic when it comes to auto insurance in the years ahead.

On one hand, like most jurisdictions, PEI will see a growing number of semi-autonomous vehicles as technology develops.

On the other, the island is also experiencing a rise in the number of horse and buggies on its roads – thanks to three growing Mennonite communities.

It feels like a Back to the Future movie – with yesterday and tomorrow literally sharing the same road.

And finally, here in Nova Scotia, we're focused on working to change the system in two key areas: rate regulation and the cost of injury tort claims, which have been rising steadily since 2010 – a scenario we predicted when changes were made to the product back then. Here and elsewhere, we know that brokers are feeling the pinch as well.

Most recently, IBC submitted to the government a proposed methodology for a closed claims study. The goal would be to pinpoint where the pressures are coming from – and use that information to chart a better way forward.

The government has stated its intention to review the auto insurance system. And we intend to play a role in working to influence the outcome of that review so that our industry's consumers are well served.

At IBC, we have other priorities for 2019 and beyond. Combating insurance fraud. Encouraging a greater focus on innovation policy among governments. And urging balanced market conduct regulation. All of these are important initiatives – and I'd be happy to discuss any and all of them during the Q&A session.

But it's clear to us – as it's clear to most in our industry – that auto insurance stands apart and stands above as an urgent priority.

My message to you today is: You are not alone. There are challenges across our country. Change is needed from coast to coast. And we have every intention of staying active and vocal in advocating for our industry and for the people it serves.

Okay, let's recap. So far, I've talked about our financial results, which weren't great. Then I lightened the mood by talking about the state of the auto insurance market, which isn't great.

But every day I am heartened by the resilience of the people I meet in our industry. Every day I am encouraged by your dedication and your creativity. And every day I feel a growing confidence in what the future holds.

With that in mind, there is one other priority I'd like to discuss with you today.

At IBC, we are squarely focused on the future. In our discussions with decision makers, we talk about the challenges that lie ahead – but also the opportunities that await, if we're able to get the regulatory balance right. We are all witness to a world that is changing rapidly. The pace of technological advancements is breathtaking.

Since the start of the century, the iPod has come – and gone.

We live very different lives than we did 20 years ago. We communicate differently. We receive and pay our bills differently. We buy things differently.

Think about it: We all grew up watching our TV shows... on TV. And we watched them when television executives told us to watch them. The whole arrangement must sound crazy to a teenager.

But here's the thing: Despite all this progress, the regulations that govern our industry haven't changed much. In some cases, they haven't changed at all.

But consumers want change.

And regulation should be flexible enough to allow it. Maybe even to encourage it. Because innovation is an essential part of a truly competitive environment – and a prosperous society.

That's the positive message that we are taking to regulators and policy makers – in every province and territory.

We tell them: Ours is an industry filled with innovative thinkers – people with good ideas. Give us the freedom to adapt to the world as it is, and as it's becoming.

We live in an era of ride-sharing services, which are certain to have an effect on car ownership, especially among younger people.

We live at the dawn of autonomous cars, which are certain to alter both our traditional business model and our traditional definition of risk.

We know what our customers want from us. We've done the research. We've had the conversations.

They want more choice and customization – just like they get from other companies and in other aspects of their lives.

They want the way in which we communicate with them to evolve with the times.

They want fresh thinking from all parties – from our industry, but also from government and regulators.

Above all else, they want to be protected from risk – but not from change.

As we stand here in Canada, we are falling behind other countries.

In the U.S., there's Metromile offering a pay-as-you-drive insurance policy that is popular among young people living in urban areas.

There's E-surance offering a full online insurance experience.

There's Lemonade offering a full online insurance experience with the artificial intelligence capacity to resolve a claim in three seconds.

Meanwhile, our insurers still have to send out certain documents in the mail, regardless of the customer's preference.

The whole experience is a bit like driving in a car that has an old GPS system. There are new roads, better roads, a quicker way to your destination. But your car can't lead you there because it's working with old information.

To give credit where credit is due, Nova Scotia is the first province in Canada to approve the use of Electronic Proof of Insurance. It's also the first province to acknowledge, in the new Traffic Safety Act, the need to properly insure vehicles having automated features. Those are two innovative and forward-looking changes – but our industry as a whole is still working in a regulatory system that is cumbersome.

I'm not saying that regulation alone is putting us at risk of falling behind.

In a number of areas, our industry needs to step up its game – and take better advantage of the opportunities that do allow for innovation and new ways of doing things.

But the U.S. experience shows us that there are consumer benefits associated with more principles-based and technology-neutral regulations.

Today's consumers see new ideas and new solutions all around them – but here in Canada at least, they don't see enough of them from us.

They want new and better services. More customization. An overall experience that's closer to the ones they get every day from the apps on their phone.

They want things like:

The ability to arrange all their insurance matters online – and hold all relevant proof documents on their mobile device if that’s their choice.

The ability to turn on and off their insurance coverage based on when they drive – and when they choose instead to bike, walk or take a trip.

The ability to pick and choose the insurance benefits they want to buy – the kind of customization I was talking about earlier.

The ability to influence their insurance rates by sharing data from their vehicle to demonstrate their good driving habits.

These are just a few examples.

But here’s the common thread – and one of the biggest challenges we face in Canada:

We can’t provide many of these products and services due to regulatory restrictions.

We simply can’t deliver everything that our customers want from us.

It can feel as though we’re in a fight for our lives – and we’ve got one hand tied behind our back.

And so our positive message to decision makers is clear:

We are a regulated industry, we always will be – and frankly we always should be.

But regulators need to adapt to the world as it is – not cling to the world as it was.

Stale regulation supports the status quo. It acts as a disincentive to progress and better ways of doing business and serving customers.

As an industry, we need to put ourselves in our clients' corner – and emphasize that we are acting on their behalf, in their interests. Because, to be candid, we have a long way to go in Canada.

We're not asking for protection from competition. We don't want preferential treatment.

We seek only the freedom to adapt and innovate – to use the ingenuity of our people to create a better way of doing business.

We seek the opportunity to lead the way in creating change and a new way forward.

In essence, we are trying to create a win-win-win scenario. Government gets credit for creating a more consumer-friendly marketplace. Consumers get better insurance solutions. And we get the opportunity to innovate.

Ladies and gentlemen:

There will be changes to our industry in the years ahead. We will continue to bear witness to the impact of familiar challenges and new technologies.

The responsibility for creating a modern insurance regulatory environment falls to others – but no matter where we operate, we have responsibilities of our own.

We must be ready to change and adapt.

We must be eager to meet today's consumers – and tomorrow's – on their terms.

We must be willing to invest in the kind of new ideas that fulfill expectations and make lives better.

If we focus on this kind of innovation, if we are allowed the freedom to exercise our ingenuity... then we can define the future of our business and shape its future success.

Thank you.