National Insurance Conference of Canada

"Insurance 2020: Setting Our Sights on Success"

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Good afternoon, everyone.

Forecasting the future is a tricky business. In trying to seem far-sighted, we risk looking foolish.

Take a look.

Even though we know we will never outguess the future. And, even though we may embarrass ourselves trying to. That rarely seems to stop us.

History has shown that humans love to make predictions about the course of events – and the shape of tomorrow.

We write books about what the future may hold.

We make movies about it.

We make terrible movies about it.

Sometimes, we're right on the money with our forecasting. "I have seen rock and roll's future, and its name is Bruce Springsteen." That's a line we'd all have been proud to write.

More often, we miss the mark.

The economist Irving Fisher once declared: "Stocks have reached a permanently high plateau." Not the only person ever to claim that. But probably the only one who did it three days before the market crashed in 1929.

Sometimes, we get it wrong because we don't fully understand the facts.

Other times, we get caught up in denial or hubris – like the famed movie producer who predicted of television: People will get tired of staring at that plywood box.

The safe play is to keep our guesses about tomorrow to ourselves.

But forecasting the future can also be useful.

It compels us to consider and assess the past and present. It prompts us to explore and examine the factors that may influence the months and years ahead.

And it allows us to work toward specific goals – even if we wind up falling short.

I'm here today to look forward – and, yes, to make a few predictions.

But I'm going to learn from those who face-planted before me. I'm going to rein in the ambition.

I'm not going to be like the Popular Mechanics writer who long ago predicted that within a century, all roads would be replaced with a series of pneumatic tubes.

I'm not going to be like Arthur C. Clarke, who forecast that by 2020 even the biggest houses would no longer be anchored to the ground – and could be relocated on a whim.

Instead, I'm going to look ahead only to next year – to the end of 2020. And I'm going to do so with an endgame in mind.

The companies represented here today: You compete with one another every day. You strive to serve customers better. You work to innovate – new products, new services, new ways of doing business.

But you also have common ground on some issues – and can work in common purpose. That's where IBC comes in.

We are the voice of our industry. We work to advance the interests of our members and everyone who works in this business.

Today, I'm going to take a look at five of the most pressing issues facing our industry.

I'll sketch out an ideal outcome – a best-case scenario for how these challenges may be resolved.

And then – because we live in the real world – I'll take a shot at predicting what will actually happen over the next 16 months and how it will affect our industry as a whole.

Come the first of January, 2021, I'm sure you'll be eager to remind me where I went wrong.

But first you'll have to find me and my unanchored, movable house.

Before I get started, it's worth remembering – as I discussed last year on this stage – that neither government nor regulators have any obligation to make life easy for us. They will do what they perceive to be in the public interest.

And so, as an industry, we must put ourselves on the side of consumers – and be seen to be their advocates.

We must put forward proposals that meet the needs of the customers we serve. Our asks must be framed as the demands not only of the insurance industry – but of the broader public.

Predicting the future grows even trickier when we reflect on the role of politics in the shaping of public policy. Look at Alberta – a year ago, we were under the thumb of a government that was essentially forcing the industry to operate at a loss. Now, the province has new leadership – and a new perspective.

A regulated industry like ours will always be forced to respond and react to the prevailing political winds. These efforts will be aided if we can at all times declare with confidence that we are proposing reforms that are in the public interest – changes that will make life better for consumers.

Okay, let's get to it. Let's start with auto insurance. For many years, auto insurance systems worked well in Canada – until they didn't. Today, we find ourselves with a number of challenges in need of solutions.

In Ontario, we've got high claim costs and the second highest premiums in the country.

We’re seeing similar pressures in Atlantic Canada.

Drivers in British Columbia still live in a world where most insurance is delivered by a government-run monopoly – one that charges the highest rates in Canada and yet has still lost over $3 billion – that’s billion with a “b” – in recent years.

In Alberta, we’re in crisis, plain and simple. There’s too much litigation – and insufficient competition. Innovation is suffering. And costs have been rising. Insurers in Alberta are paying out an average of $1.12 for every $1 they collect in premiums.

For our industry, auto insurance has become like a “Choose Your Own Adventure” story, where – no matter what we do, no matter what decision we make, no matter which page we turn to – we can’t escape the quicksand.

So, what’s our ideal outcome? What would we all like to see by the end of 2020?

In British Columbia, we’d like to see the end of the ICBC monopoly – and the introduction of choice and competition into the marketplace. In Ontario, Alberta and the Atlantic region?

We want real and meaningful reforms to stabilize claim costs in the short term – and reduce them over the long term.

That sounds wonderful, doesn’t it? I’d love to be able to predict these exact outcomes.

Here’s what I think we will see:

Where the opportunity presents itself – especially in provinces like Ontario and Alberta – we are going to continue making our case to governments. We are going to put ourselves on the side of consumers. And we are going to press for more comprehensive reforms that help create a fair and competitive marketplace. I have a degree of optimism with both provinces.

In Atlantic Canada, governments will remain somewhat hesitant. In Newfoundland and Labrador, special interests will remain vocal. Our conversations in Nova Scotia and New Brunswick are encouraging.

Our challenge is to work toward reforms that provide something more than some short-term relief to escalating costs and increasing premiums. These are markets that were stable for 14 years – we need a longer-term solution. And I'm sure PEI won't be far behind.

In B.C., I suspect the government will let its recent reforms play out before making any decisions about the future of the ICBC monopoly.

But make no mistake: we have spoken out in B.C.

We've done public opinion research there. The people of British Columbia are coming to understand the cost of a monopoly – in terms of higher rates and reduced innovation. The desire for competition is growing.

And just because things are tough there – and in provinces across the country – doesn't mean we should stop pushing for the reforms we want to see.

In fact, our critics like to point to the problems in other provinces and use that as a rationale for sticking with a monopoly. But we know better. We know it's regulation that is weighing us down, not competition.

We need to keep raising public awareness about the literal and figurative costs of our current systems. We are gaining public support and must continue to rally it.

As you can see, I'm not predicting success across the board. Each province has a distinct set of challenges. And we are facing them head on. What I can guarantee, is a consistent and persistent campaign to make our case.

Now, let's talk about fraud – another issue of growing concern across our industry.

I’ll focus on auto insurance fraud in particular – because the impact is so vast. If you drive and have personal auto insurance, you’re one of the victims.

We all are. We are paying more for our policies than we ought to.

With IBC’s help, insurers are working together and mobilizing to combat fraud like never before. We’re seeing examples of collaborative success.

In fact, if you’ll indulge me a self-serving pat on the back, IBC has been showing leadership on this file for some time now – dating back to the establishment of the Insurance Crime Prevention Bureau in 1923. Recently, we have helped to develop a renewed industry-wide strategy going forward.

And now governments are starting to show a greater appetite for confronting fraudsters.

In Ontario, we now have a Serious Fraud Office – with fighting insurance fraud as part of its mandate.

The newly created regulator in Ontario, the Financial Services Regulatory Authority, or FSRA, has also been tasked with focusing on fraud.

What would we like to see in a perfect world?

Greater buy-in from law enforcement to pursue the perpetrators of insurance fraud. More meaningful penalties against those who commit it. And greater freedom for insurers to share data in an effort to both prevent and uncover fraudulent activity.

Realistically, I think we have to accept that governments and regulators are going to be sensitive to privacy concerns – and legitimately so.

We will need to establish a framework for data sharing that protects the privacy rights of consumers – while providing our industry with the tools it needs to better identify trends in fraudulent activity.

My prediction is that we will make some very real progress on this file in the next 16 months. In Ontario especially, and in other parts of the country, there is an urgency within government to take action to reduce fraud. And there is a willingness within our industry to work in closer collaboration to find new ways of identifying and stopping fraudulent activity.

The third area I'll focus on today is actually a pair of issues that are regulatory in nature – digital insurance and the Office of the Superintendent of Financial Institutions, or OSFI – so I'll speak to them both at once.

I'll start with digital insurance.

We live in a time where every single person in this room can pick up their phone, log in to their financial institution and transfer cash, pay bills, invest in pneumatic tube networks, etc.

Yet we still have to send out most insurance documents by snail mail. At the same time, many consumers are prevented from having their rates determined by usage-based devices.

There has been some progress. In 2018, Nova Scotia became the first province to move forward with digital proof of auto insurance. Since then, Ontario, Alberta, and Newfoundland and Labrador have followed.

But overall, it's a bad look for our industry. We must seem like dinosaurs.

In an ideal world, governments and regulators across the country would collectively come to their senses, and give insurers greater freedom to communicate with their customers.

Realistically, I'm willing to predict that perhaps one provincial government will see the light during the next 16 months. And my money is on Ontario… or Alberta… or both.

FSRA has been given a clear mandate to encourage competition and innovation – and one of the easiest and most efficient ways to do that is to get rid of obsolete regulations. And Premier Kenney's focus on innovation and reducing red tape is also promising.

And perhaps once they take the leap, and the world doesn't end, other provinces will follow suit.

Now, let's get even more bureaucratic. Most of you will be acquainted with the OSFI reinsurance review. Essentially, OSFI wants to reform the framework of reinsurance in this country, severely affecting the industry at large and most significantly commercial consumers.

The outcome of OSFI's proposed policy limit rule would be to increase the capital level of the impacted companies by $21–30 billion, thereby asking them to, on average, more than triple their capital base. This additional capital requirement is out of reach for most, if not all, of the impacted companies.

This risks isolating Canadian companies – setting us apart from our global competitors. It will make this country a less appealing marketplace and force Canadians to pay more in an industry with fewer players.

For our part, we at IBC are encouraging OSFI to slow things down – to take the time to understand and more clearly define the problem they are trying to solve. And to conduct a thorough review of the potential business and economic impacts of their proposed changes and get a better understanding of what drives global insurers.

Let's remember: We live in a time of globalization. Large financial companies have many choices for where they invest their capital – and where they base their operations.

With Canada's approach to regulation, we are basically encouraging these companies to rethink their presence here.

To put it mildly, we are frustrated with OSFI's reinsurance proposal.

Back in 2008, one of the keys to Canada's resilience during the global financial crisis was having the right regulation. But today, we too often act as though the answer is more restrictive regulation. Regulation that impedes companies from taking reasonable risks.

Ideally, we'd see the regulator realize that these changes are too drastic and disruptive and do not achieve the desired outcomes to protect policyholders.

OSFI's large policy limit would be dropped – and its concerns would instead be addressed through principles-based guidance.

I'm going to make my prediction here. But first, I want to tell you about a famous line from a Newsweek article from the 1960s. It said: "Wall Street economists have predicted nine out of the last five recessions."

In other words, nobody's perfect. Even the experts get it wrong. And I hope I'm wrong on this one.

But realistically, I can only predict that some version of the proposed OSFI changes will likely go ahead, at least in part – even with their potentially negative impact on the Canadian economy and the competitive strength of our industry.

Now to the fourth of the five issues – one that holds the potential to be a game changer for our business.

The nature of driving is being transformed – and with it, the nature of risk. We are moving toward an era of autonomous vehicles.

But for the next 20 years or so, we are going to be living in a strange middle ground – with quasi-self-driving vehicles sharing the road with traditional cars and trucks.

It's going to be a messy transition – with ever-changing questions of liability and responsibility.

Right now, auto insurance liability laws and coverage are based on human error. They're not meant to address technology malfunctions. That means people injured in collisions involving automated vehicles will have to proceed through protracted product liability litigation to be compensated.

In a perfect world, we'd see governments get to work on examining the implications of the coming changes – and beginning to update insurance laws to ensure quick and fair compensation in the aftermath of collisions involving automated vehicles.

We know that provincial insurance regulators, through the Canadian Council of Insurance Regulators, have begun to look at the limitations of our insurance laws.

Here's my prediction – and it may be the safest one I'll make today – governments will be slow to act. This feels very much like an issue that will be studied, studied some more – and then studied again.

Now, this next sentence may sound biased coming from a Cape Bretoner. But the one exception is Nova Scotia, which has already passed legislation that will ultimately lead to new regulations to govern automated vehicles.

Now the final issue – a huge challenge for our industry and for our country – the challenge of climate change and the growing number of natural disasters.

Let's start with the good news, such as it is. We live in a time when people are more attuned than ever to the impact of our changing climate.

We know that climate change is real.

We understand that it is leading to more severe weather events – and contributing to a growing number of floods and wildfires. Our awareness level is higher than it's ever been.

And yet, the national debate seems almost entirely focused on the merits of a carbon tax.

Addressing climate change over the long term is, of course, both a national and a global priority. Action is essential.

But that same urgency must be brought to the challenge of adaptation. We need to take decisive and meaningful steps to immediately deal with the changes and the damage we are witnessing across the country.

As an industry, we need to encourage governments to address the emerging climate-related risks that threaten our country and its people.

We need to advance an agenda for adaptation – one that helps to prevent natural disasters or diminish their scope and scale.

We need to attach ourselves to the climate file in a purposeful and proactive way – for the greater good of the planet over the long term, but also in pursuit of immediate improvements that reduce Canada's vulnerability.

To this end, we've worked closely with the Minister of Public Safety and Emergency Preparedness, Ralph Goodale, and his officials – first, on a national flood roundtable, and now chairing a national working group on flood risk.

He and his provincial colleagues have asked us to continue the work we have been doing through the Advisory Council on Flooding – and to model the costs for different high-risk insurance pools.

We have made clear to government our view that Canada needs a national action plan on flooding. And we've made our case for what it should include:

Better flood mapping – so people understand the flood risk where they live.

More consumer education – so people better understand the threat of overland flooding – and the measures they can take to protect themselves and their homes.

More sensible land-use planning – to prohibit development on flood plains.

And a plan to improve financial outcomes for Canadians at high risk of flooding – using tools like relocation, insurance and upgraded sewer and stormwater systems.

Ideally, we'd see government move forward with an action plan based on these priorities.

Am I willing to forecast that we'll see major progress overnight? No. However, I am willing to express a degree of optimism.

Over the last couple of years, we have seen governments take a greater interest in the effects of climate change – especially when it comes to flooding and its human and financial costs.

But this is a big transformation – one that may take a generation or more to fully achieve.

For the short term, I predict an ongoing dialogue – and intensified efforts within government to come up with a plan that makes a tangible difference in confronting the increased threat of flooding across our country. That plan may not be in place by the end of 2020 – but I believe we'll get there.

Ladies and gentlemen, there is an old saying about trying to forecast the future:

The best qualification of a prophet is a good memory.

In other words, we can best predict what's to come by understanding the past – how governments have reacted, how regulators have evolved, how consumer preferences have changed.

But at the same time, we should always remember our own role in shaping the future – the impact we can have by exerting our influence, educating our customers, raising our voice and making our case to decision-makers and citizens alike, on our own behalf and on behalf of the Canadian public.

We have had some challenging financial results the past couple of years.

At IBC, we will continue working to deliver positive outcomes on the issues that matter most to your companies and your customers.

I predict, that together, we can create a future in which we overcome our challenges and make progress for our industry, for consumers and for our country.

Thank you.