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Bureau d'assurance du Canada

Discussion Guide

National Commercial Insurance Task Force: A Discussion on the Hospitality Sector

The Issue

The commercial insurance market

Insurance plays a vital role in the economy and quality of life of people across Canada by assuming part of the financial risk inherent in running a business, operating a non-profit or voluntary organization, owning a home or driving a car. Recently, commercial insurance consumers across Canada have expressed concern about the availability and affordability of commercial insurance. Insurance Bureau of Canada (IBC) is aware specific commercial lines of business are affected and is taking action to address underlying issues.

The commercial insurance market is composed of many different lines of business with distinct factors contributing to market performance. In recent years, the commercial insurance industry in Canada has been shifting toward a challenging market environment for particular lines of business and in specific regions.

Insurance premiums are determined based on risk. Insurers consider the likelihood of a consumer (or a group of consumers with a similar set of circumstances) making a claim, and how much that claim will likely cost. The price for premiums is based, in part, on an insurer's best estimate of the amount that it will be required to pay out in claims on the policies it issued in any given year. Insurers pool the premiums of their many policyholders to cover the losses claimed by the few in that year.

Several factors are affecting the overall performance of the insurance market, including:

Market fluctuations and the economic climate

In the commercial insurance market, there are periods where excess supply or capital results in more competition in the market. During these times, premiums are generally lower and it is easier to obtain coverage for most types of risks (called a soft market). There are also periods of low supply or capital, when claims payouts have increased, leading to rising costs for insurers. During these times, insurers may take a more disciplined approach to underwriting, which may result in stricter requirements for obtaining coverage and generally higher prices (called a hard market).

Low interest rates

Interest rates in Canada have fallen to record lows, which has suppressed the investment income used by insurers to meet obligations to policyholders as claims arise. This means that insurers need to look for alternative means to raise income to cover potential losses. As a result, insurers may need to hold higher claims reserves and increase their underwriting income, which may lead to higher prices and lower capacity available for underwriting new business.

Insurers earn revenue through premiums as well as on investments (primarily bonds). Canada's low interest rate environment continues to strain the industry's investment incomes, which has an impact on premium rates.

Frequency of extreme weather events

A significant factor affecting the insurance market is more frequent weather-related disasters, which are having a detrimental impact on insurers' claims experience. In 2016, the insurance industry experienced the highest-ever loss from weather-related events for a single year: \$5.1 billion. Subsequently, smaller catastrophic weather events across the country have resulted in insured losses of \$1.26 billion in 2017, \$2 billion in 2018 and \$1.3 billion in 2019. In 2020, insured losses from catastrophic weather events already total more than \$2 billion.

The frequency of extreme weather has significantly increased in recent years. Between 2001 and 2010, there were 47 catastrophes (events where insured losses exceed \$25 million) across Canada, with average annual losses totalling \$400 million. Between 2011 and 2019, there were 91 catastrophes, raising the annual average insured loss to \$1.9 billion.

COVID-19

COVID-19 is altering the social and economic landscapes of our country and our world, and, like many businesses, Canada's insurers have been confronted with increased costs as they continue to support and protect Canadians through this difficult period.

The pandemic compounded existing insurance industry challenges and created serious challenges related to both the affordability and availability of insurance in some sectors.

While several of these factors, including interest rates, the frequency of extreme weather and COVID-19, are beyond the control of insurers, regulatory reforms and policy solutions can be implemented to mitigate the impact this combination of factors is having on the commercial insurance market.

The National Commercial Insurance Task Force

IBC is aware of concerns across Canada related to rising insurance costs for certain lines of business, including in the hospitality sector in Ontario. Consumers in other sectors may also experience similar challenges. To better understand these issues and recommend potential solutions, IBC created a National Commercial Insurance Task Force (Task Force).

The Task Force is examining the current commercial insurance availability and affordability concerns developing across the country.

The mandate of the Task Force is to:

- Educate and inform consumers, governments and stakeholders on the factors contributing to the current availability and affordability challenges with commercial insurance

- Learn from different industry partners, consumers and stakeholders with respect to their experiences related to challenges around insurance availability and affordability, as well as their current risk management practices or ability to implement sufficient risk management practices
- Based on the feedback, develop a report with recommendations that aim to improve insurance availability and affordability for industry partners, consumers and stakeholders.

The Task Force is leading discussions to educate stakeholders on the insurance market challenges and factors contributing to unavailable or unaffordable insurance, and is hearing from stakeholders on their sector-specific challenges.

This multi-sector initiative will be based on a consensus model and incorporate feedback from the discussions.

The report developed by the Task Force will also contain a market analysis prepared by Deloitte that examines different commercial sectors. Representatives from Deloitte are attending the roundtable discussions and set the economic and financial context for the discussions.

Task Force Participants

Canadian Condominium Institute
Canadian Construction Association
Canadian Federation of Independent Business
Canadian Insurance Claims Managers Association
Canadian Real Estate Association
Canadian Trucking Alliance
Economical Insurance
Insurance Brokers Association of Canada
Intact Financial Corporation
Northbridge Insurance
Risk and Insurance Management Society
Wawanesa Insurance

The Process

The purpose of the roundtable discussions is to draw on the Task Force members' experience. The sessions will help the Task Force fulfil its mandate to learn about the challenges confronting business owners and operators, and to recommend solutions that consumers, insurers and insurance brokers, and governments can implement. These discussions will ultimately feed into the Task Force's recommendations and final report, which will be released in the coming months. Additionally, Task Force members and roundtable participants can submit written comments for consideration via email at commercialtaskforce@ibc.ca.

The objectives of the discussions are to:

- Create a forum for collaboration, clarity and candor

- Provide facts about the challenges around availability and affordability of commercial insurance
- Understand and respect the diversity of views across the representative organizations
- Generate options for solutions
- Provide input on the impacts and implementation considerations of the various options.

Commercial Insurance Concerns in the Hospitality Sector

The hospitality sector across Canada has experienced challenges related to commercial insurance over the last several months. The cost of insurance was increasing across this sector prior to the outbreak of the COVID-19 pandemic, specifically for restaurants, bars and taverns. By virtue of their business, restaurants, bars and taverns have high-risk exposure to property damage related to fire and water losses. And these businesses face an added liability exposure related to the sale of alcohol.

The COVID-19 pandemic has had an unprecedented impact on the hospitality sector and has significantly altered businesses' operations, revenue and financial volatility. While insurance challenges may have been more acute in certain areas within the sector before the pandemic, they have now expanded to other businesses, including hotels, motels, resorts and nightclubs. Like other sectors in the Canadian and global markets, the pandemic has compounded existing insurance industry challenges and put further strain on the affordability of insurance.

Discussion Questions

In an effort to help mitigate concerns associated with the hospitality sector, we encourage you to think about the following questions:

Insurance challenges

1. What are the insurance issues facing your members or business?
2. Have these issues emerged recently with the onset of the COVID-19 pandemic or were your members/business experiencing this in the months prior?

Risk management and planning

3. What steps, if any, have you or your members taken to address these concerns? Do you or your members have risk management strategies in place? If yes, what do those strategies include? Do you have access to robust risk management tools and strategies?
4. Do you work with an insurance representative to develop an insurance strategy?

Education

5. What can the insurance industry – insurers and brokers – do to help business owners and commercial clients understand how their premiums are calculated and how their insurer views risk?
6. How can the insurance industry help business owners manage their risks?

Potential solutions

7. Are there solutions that could be implemented immediately and/or in the longer term to mitigate these issues in the future?