Canada Quarterly Market Report

Based on Q4 2021 Data

FEBRUARY 2022

Gallagher

Insurance | Risk Management | Consulting

Canada Quarterly Market Report

The big picture

Where we were: 2020 through Q4 2021

- Like 2019 and 2020, 2021 has been a challenging market overall. Our clients faced significant difficulties trying to find coverage, with capacity issues and significant rate increases—for some clients as much as 50% to 100% increases, often multiple years in a row.
- A confluence of factors challenged the industry, including social inflation—the trend of rising insurance costs as a result of increased litigation, plaintiff-friendly judgements and high jury awards— plus increased storm activity and pandemic losses. The rising frequency and severity of natural catastrophe events, including wildfire, flood, storms and earthquakes continued unabated in 2021.
- The prolonged and significant rate pressures of 2019 and 2020, driven by high operating ratio, increasing claim costs and record-low return on investments, have begun to slow in the second half of 2021. We have started to see some slowing down of rate pressure overall, but few lines are seeing rate reductions at this time.
- COVID-19 has sowed uncertainty in the insurance market. Pandemic covered losses could cost global insurers over $40 billion, particularly for insured losses related to event cancellation in the sport and entertainment industry.[1]

Where we are: What we're seeing now

- There is some light on the horizon, with rate increases stabilizing in some lines, some capacity re-entering into the Canadian market, and foreign and domestic insurers figuring out their pandemic and post-pandemic risk appetites.
- Three years of carriers raising rates, restricting limits and increasing deductibles have generally made the market more attractive to new business. Carriers' combined ratios have improved through the first half of 2021.[2]
- After substantial rate increases through 2020 and 2021, rate increases are beginning to moderate for some lines as we see rate pressure reduce.
- The market is trending slightly flatter than a year ago, though not in every service line. Cyber, for example, has kept up sizable year-over-year rate increases, with median increases of 40%. Rate pressure in Cyber remains high, as insurers have faced an increasing number of Cyber liability incidents. Aggressive ransomware and extortion activity has continually increased. As a result, carriers are lowering limits on this coverage or, in many cases, eliminating it.
- Self-insured retentions or deductibles continue to increase. We are seeing more reinsurance capacity in programs and large risks, with a select few domestic markets being prepared to front this capacity.

[1]Reinsurance News. COVID-19 loss reports and reserves reported by insurance or reinsurance companies. Accessed December 22, 2021.

[2]Canadian Underwriter. Why A.M. Best says the Canadian industry profitability is improving. September 15, 2021.

In this report

Canada Insurance Trends: 2022 Predictions

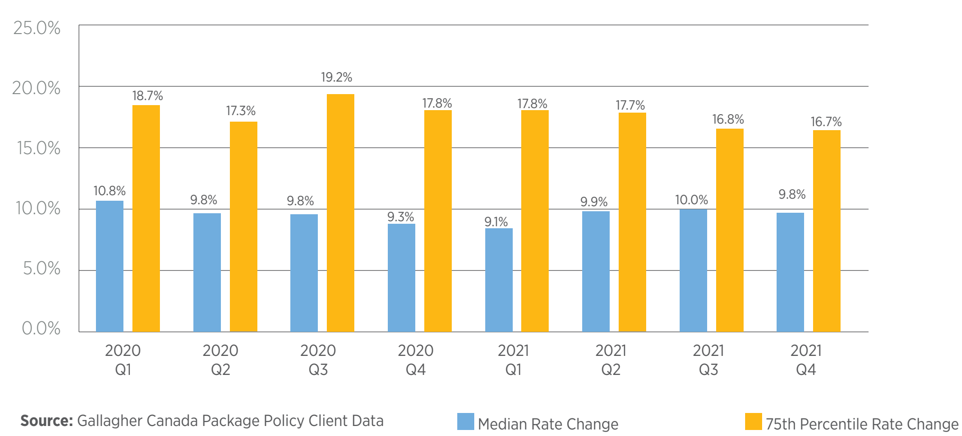
Pressure	Trend
Underwriting Profits	Positive
Reinsurance Rates	Neutral
Competition	Positive
Interest Rates	Neutral
Claims Inflation	Neutral
Catastrophe Outlook	Negative

Where we're going: Trends we are watching

- With improving rate adequacy comes increased carrier competition. We are seeing carriers re-tool their appetite and evaluate entering new industries as underwriters look to write new business. We expect this increased competition to eventually help stabilize rate increases further into 2022. Exceptions are challenged placements, those with elevated risk profiles, and accounts that have experienced losses.
- Capacity will likely remain a challenge into 2022. Most carriers continue to be careful with where they allocate their capacity, but capacity reductions are not as widespread going into 2022. In fact, there is some increased capacity, particularly on well-performing accounts.
- Rate pressure will continue to be challenging in 2022, with significantly higher increases in premiums and self-insured retentions. There are even coinsurance scenarios where the client becomes a coinsurer because of the lack of availability of full coverage.
- Pandemic concerns about how COVID-19 will impact the industry both from a loss and exposure standpoint are starting to ebb, but some uncertainty remains. In most cases, a communicable disease exclusion has been included into policy wordings to clarify insurer intention on any future losses of this nature. Questions relating to various class actions surrounding COVID-19 disputed losses could take years to determine.
- Social inflation remains a concern, with a particular impact on Commercial Auto, General Liability, Directors and Officers (D&O), and Umbrella/Excess insurance. This trend continues to drive rates up, albeit more moderately than in prior years.
- Modest rate reductions may be attainable for clients with an attractive risk profile that have not been out to market in years.
- With carrier mergers of larger Canadian insurers taking place in the past 18 months, we are monitoring potential impacts to capacity across the different lines and industries where merged carriers overlapped in appetite.

Read on for our analysis of the market conditions for each major line of coverage and guidance that will help ensure a successful renewal outcome.

Overall Rate Trends 2020-2021



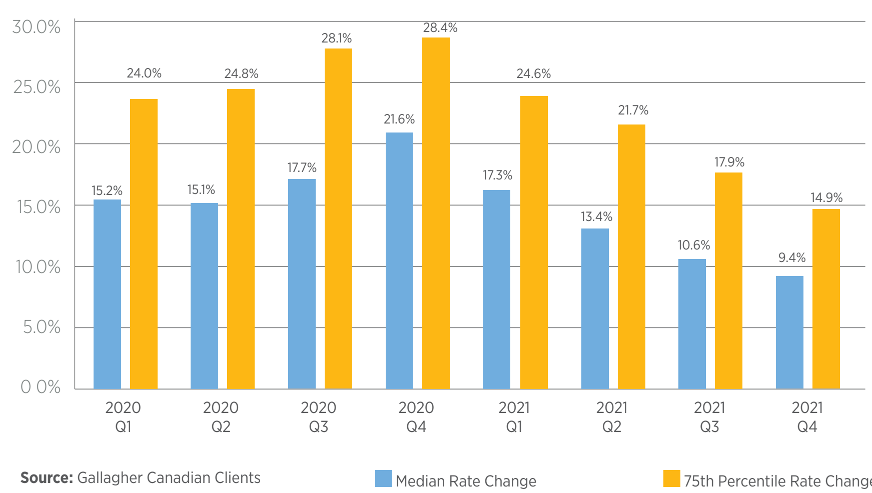
Source: Gallagher Canada Package Policy Client Data

Property

Where we were: Q1 2020 through Q4 2021

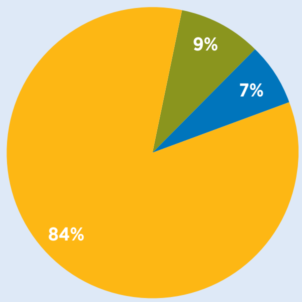
- Between wildfires, civil commotion, flooding, and major weather events, carriers responded to 2020 and 2021 events with increased deductibles, reduced capacity, and changes in coverage. For the third straight year, carriers obtained significant rate increases across their Property portfolios.
- Less-modelled and unmodelled risks continued to plague the Property marketplace, such as wildfires, flood and convective storms.
- Carriers scrutinized their clients' statements of value and business income worksheets, demanding in many cases that values be raised.
- Carriers also required clients to address existing engineering recommendations, and, particularly for clients going to market, strongly recommended third-party engineering.
- Policy forms were restructured to restrict Business Income and/or Profits for pandemic-type losses, with some carriers no longer offering the broader Profits form for clients meeting a certain revenue threshold.
- Property rate increases varied by sector. Residential realty saw 30% to 50% and greater increases, depending on various underwriting factors including construction, loss record, location, and the quality of management of the Property.

Property Rate Trends 2020–2021



Source: Gallagher Canadian Clients

Property
Rate Change Distribution—Q4 2021
Gallagher—Canadian Clients



9.4%

median rate increase in Q4 2021*

*Source: Gallagher Canadian clients

Where we are: What we're seeing now

- There is rising carrier competition in the marketplace, with carriers looking to write new business now that rates have risen for three consecutive years.
- There are still difficult renewals out there, especially those with challenging occupancies, lack of third-party engineering reports and catastrophe-exposed businesses.
- Vacancy continues to be a concern. Where carriers were in some cases flexible on vacant properties during pandemic shutdowns, most are now expecting that buildings return to higher occupancy and may issue non-renewals if occupancy level requirements aren't met.
- 2021 has been very active in climate-driven claims: British Columbia was hard hit by extreme heat, then wildfires, then torrential rains that quickly caused floods, mudslides and landslides. These followed severe weather events of 2020, including the Fort McMurray flooding and Calgary hailstorms.
- The United States saw several unmodelled events, including winter storm Uri in February, which many meteorologists claim was a one-in-1,000-year event. Hurricane Ida, which made landfall in August, caused significant damage in the Southeast and Northeastern United States. Carriers are now looking at $25 billion to $35 billion in insured losses in Louisiana and other affected areas.[3] The magnitude of these events have a ripple effect across the industry on a global scale.
- The median increase in Q4 2021 for Property policies was 9.4% in Q4 2021, with 84% taking an increase. This is a significant drop since Q4 2020, when the median rate increase was 21.6%.
- The rate increases for the top 25% of companies dropped from 28.1% in Q4 2020 to 14.9% as of Q4 2021.

Where we're going: Trends we are watching

- While Property rates rise across the board, we are starting to see some slowing of increases.
- Companies with challenging occupancies, loss activity and/or CAT-exposed can expect to see rate increases in the higher quartile.
- We expect continued changes globally in the frequency and severity of perils such as tropical storms, wildfires and floods. In addition, we continue to watch some of the less well-modelled and non-modelled causes of loss, such as COVID-19.
- Third-party valuations are increasingly important, especially given rapid construction costs increases in recent years. Huge discrepancies between current insured values and the actual replacement cost at time of loss may exist for companies that have not had a third-party valuation of their buildings and contents, such as machinery, equipment or stock in a number of years.

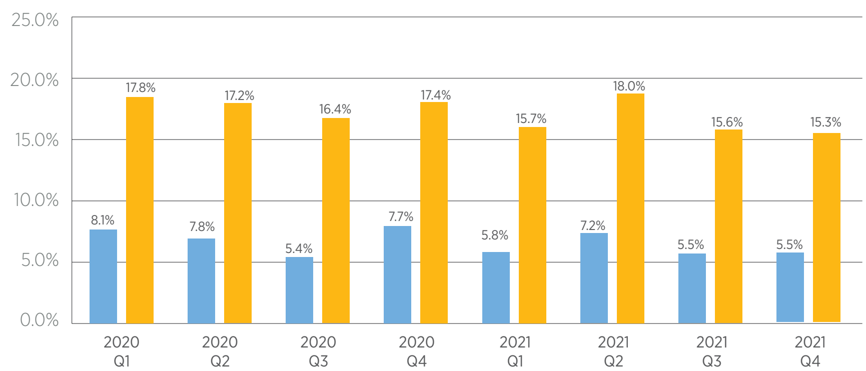
[3]RMS, "RMS Estimates US$25–$35 billion in Onshore and Offshore Insured Losses in the Gulf of Mexico from Hurricane Ida," Accessed December 15, 2021.

Commercial Auto

Where we were: Q1 2020 through Q4 2021

- Frequency of claims were down in 2020, which is attributed to the decrease in the volume of vehicles on the road during the economic shutdown. Claims, however, did not decrease as much as driving did. According to Intact, Auto claims incurred in 2020 were down roughly 10%, while driving was down around 20%.[4]
- While the reduction was primarily driven by employees no longer commuting to their workplace/office, it was partially offset by an uptick in home delivery transportation during the pandemic.

Commercial Auto Rate Trends 2020–2021



Source: Gallagher Canadian Clients

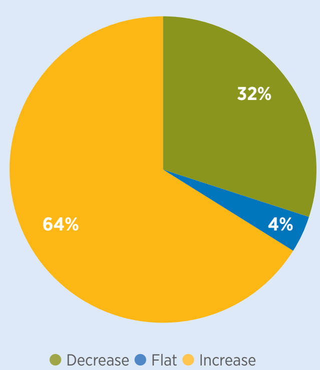
Where we are: What we're seeing now

- Commercial Auto claim frequency is almost back to pre-pandemic levels.
- Large jury awards in Commercial Auto insurance, with penalties in excess of $10 million, are becoming increasingly prevalent.
- Social inflation is leading to larger and catastrophic claims, particularly affecting companies with large fleets.
- Rates dropped for nearly one-third (32%) of policyholders during Q4 2021. Median rate increases in Auto was 5.5% in Q4 2021.

Where we're going: Trends we are watching

- Companies with large fleets or poor loss history may experience more significant rate increases.
- Expect to see more and more Umbrella/Excess carriers require clients to put up a $2/$5 million primary Auto third-party liability limits. In very rare cases, we have seen clients put up $10 million in liability limits.
- If a carrier will not increase their primary limit, clients may have to find an additional carrier to put up a buffer layer, adding frictional costs.

Commercial Auto
Rate Change Distribution—Q4 2021
Gallagher—Canadian Clients



5.5%

median rate increase in Q4 2021*

*Source: Gallagher Canadian clients

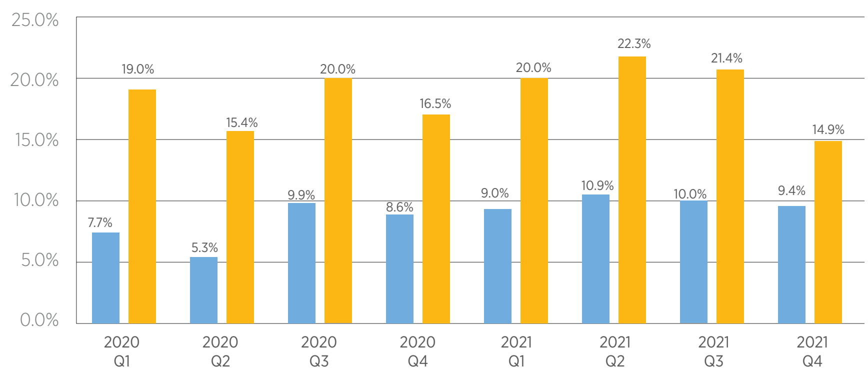
[4]Canadian Underwriter, "What's driving auto claims costs during pandemic", May 21, 2021.

General Liability

Where we were: Q1 2020 through Q4 2021

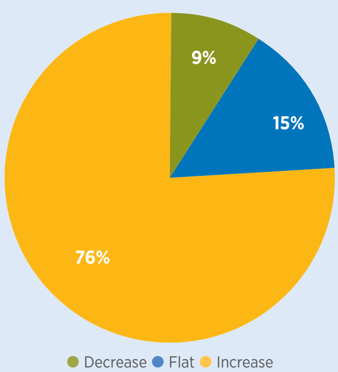
- The economic shutdown was responsible for a decline in claim frequency during 2020 that continued to a lesser extent through Q4 2021.
- Because the primary General Liability's policy limits have not changed in 25+ years, carriers remained largely insulated from the severity trends, particularly social inflation, associated with some of the other lines of insurance, such as D&O, Auto and Umbrella/Excess.

General Liability Rate Trends 2020–2021



Source: Gallagher Canadian Clients

General Liability
Rate Change Distribution—Q4 2021
Gallagher — Canadian Clients



9.4%

median rate increase in Q4 2021*

*__Source__: Gallagher Canadian clients

Where we are: What we're seeing now

- Umbrella/Excess carriers are asking for higher retentions and limits in General Liability. On policies that still carried a $1 million General Liability limit, carriers are now asking to increase to the industry standard of $2 million. The Umbrella/Excess market is driving this trend.
- The median rate increase in Q4 2021 was 9.4%, similar to Q4 2020 (8.6%).

Where we're going: Trends we are watching

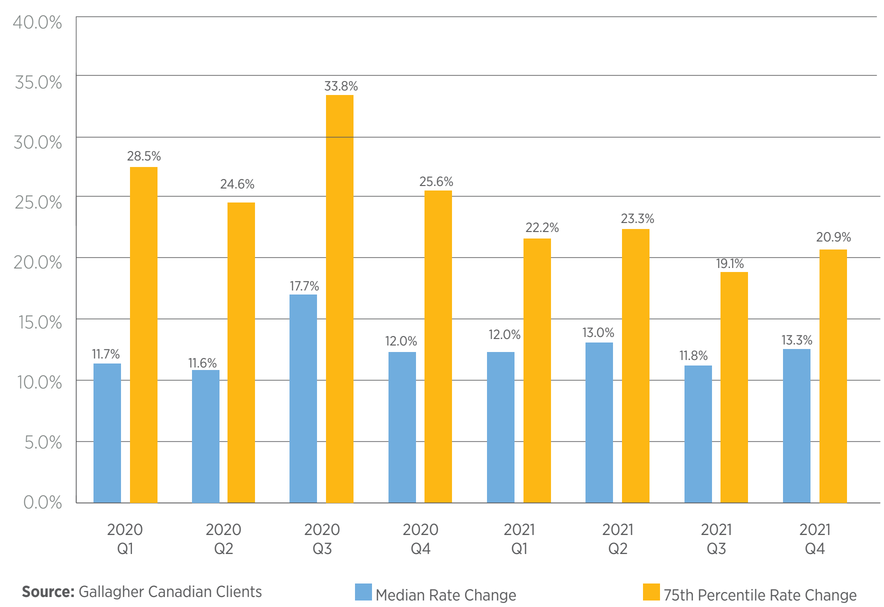
- Most policyholders will encounter rate increases but because the primary General Liability limits have by and large remained stagnant, the rate increases will likely remain in the single-digits
- Expect to see more and more Umbrella/Excess carriers require clients to put up $2 million or $4 million in primary limits.
- If a carrier will not increase their primary limit, clients may have to find an additional carrier to put up a buffer layer, adding frictional costs.

Umbrella/Excess

Where we were: Q1 2020 through Q4 2021

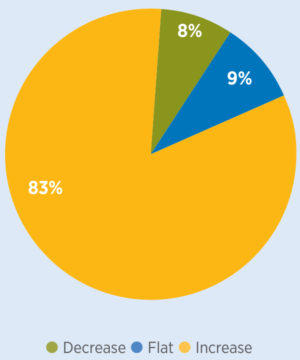
- Umbrella/Excess has been a challenging market for the last few years.
- COVID-19 paused some of the impact of social inflation in 2020 and 2021, but social inflation remains a factor in rate changes.
- In recent years, underwriters have cited an increase in plaintiff activity, with the rate of attorney involvement increasing to justify rate increases and limit reductions.
- Similar to plaintiff activity, underwriters contemplated the recent trend of increased litigation funding into pricing and limit deployment.
- Large judgments and settlements targeted the deep pockets of large corporations, leading to a hefty swing in rate increases for Fortune 500 companies.
- Insurers remained cautious when bringing new clients into their portfolio. Where carriers were cutting down on capacity and clients had to look elsewhere for excess limits, most encountered an extensive underwriting process even at the higher attachment points of liability towers.

Umbrella Rate Trends 2020–2021



Source: Gallagher Canadian Clients

Umbrella
Rate Change Distribution—Q4 2021
Gallagher — Canadian Clients



13.3%

median rate increase in Q4 2021*

*__Source__: Gallagher Canadian clients

Where we are: What we're seeing now

- The knee-jerk reaction of rate corrections has ended. Rates will still go up but for most clients, they won't be the substantial increases like we saw in the past.
- We're seeing new entrants and additional capacity coming into the market.
- Underwriters continue to be selective, but insureds are encountering less barriers for higher limits than in previous quarters.
- Whereas the top quartile of companies saw rate increases of 25.6% in Q4 2020, this rate has dropped to 20.9%—still sizable but more moderate than a year ago. Median rate increase was 13.3% in Q4 2021, up from 12.0% in Q4 2020.

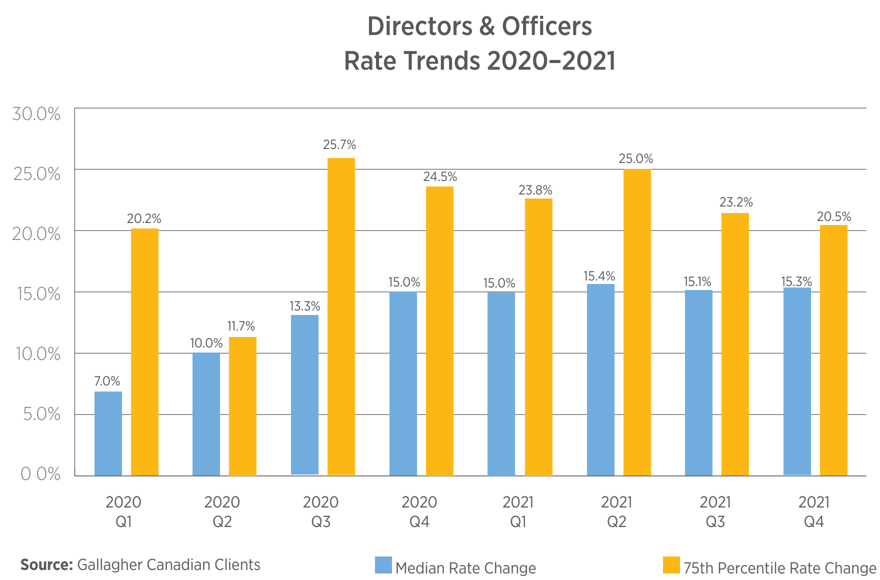
Where we're going: Trends we are watching

- Carriers have been able to get their portfolios into a more profitable position as a result of significant rate increases for the past few years.
- There is more competition coming into the market because it is now higher priced and hence more attractive.
- We expect rate increases to continue into 2022, yet with more moderate increases than we saw in 2021.

Directors & Officers

Where we were: Q1 2020 through Q4 2021

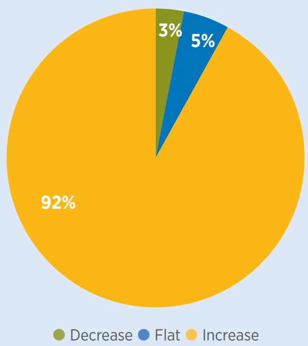
- After a challenging 2020, carriers are reporting improved global financial results through 2021.
- A record number of companies went public in 2020. D&O pricing for IPOs increased dramatically, with many fearing that fewer litigation cases would be dismissed; discovery costs would not be stayed in state court; and companies could face litigation in multiple states.
- Most carriers cut capacity in 2019 and 2020, especially for IPOs, and client segments with higher risks.
- Retentions went up in 2020, as did premium pricing, particularly for public companies.
- Carriers tightened D&O terms and conditions to limit spiraling claims.
- Frequency of securities class actions increased, and core filings have been on the rise since 2015.[5]
- Emerging plaintiff attorneys have entered the securities litigation arena, bringing what some have suggested are lower-quality cases and targeting smaller companies, including smaller market cap drops.
- The shift from state court to federal court for merger objection cases has also contributed to the increase.
- Event-driven securities claims have increased, such as cyber breaches, COVID-19 and others.



Source: Gallagher Canadian Clients

[5]Nera Economic Consulting, "Recent Trends in Securities Class Action Litigation: 2020 Full-Year Review," January 25, 2021.

Directors & Officers
Rate Change Distribution—Q4 2021
Gallagher — Canadian Clients



15.3%

median rate increase in Q4 2021*

*Source: Gallagher Canadian clients

Where we are: What we're seeing now

- Strong top line premium growth due to rate increases have resulted in improved loss ratios, strong profits and significant returns in investments, which have improved shareholder returns throughout the year.
- Premium price increases continue to take effect across the board and remain in the low double-digits for most accounts but a few companies will do even better. Carriers are displaying cautious optimism, and slowly embracing flatter prices.
- The market for privately held companies is as challenging as the publicly traded D&O market. Larger private companies are continuing to see double-digit increases.
- After large rate increases in 2019 and 2020, as well as in the first four quarters of 2021, most carriers have repaired their books and are looking to write new business. Moreover, there's new competition in the marketplace.
- Median rate increases for D&O policies have stayed similar to last year. The median rate increase in Q4 2021 was 15.3%, almost identical to Q4 2020 at 15.0%.
- The most highly exposed risks will continue to face headwinds in terms of when it comes to market appetite and placement. This will include companies that are financially stressed as well as companies in sectors that are deemed to be higher risk.

Where we're going: Trends we are watching

- We expect to see renewed competition for better (and well-priced) risks. Throughout 2022 budget planning, expect carriers' underwriting management to return to a growth mandate when it comes to new business, rather than sacrificing growth for the sake of profitability, which has been improving.
- We expect to see Canadian D&O rates continue to rise for public and privately held companies alike, and we expect those figures to stabilize somewhat into 2022.
- Markets are still waiting for the full impact of COVID-19 claims to flow through their books, as companies continue to fail with the expiration of government programs. In addition, with the hope that the backlog in the court system works itself out. Carriers are also expecting to see claims for failure to implement reasonable back to work policies, or managing requests for reasonable accommodations.
- D&O claims related to COVID-19 did not turn out to be particularly significant, and bankruptcies related to COVID-19 leading to D&O claims, likewise, largely did not result in significant claims.
- We expect pricing to decline slightly in this space, moving from 10% to 25% a year ago, to single-digit rate increases this year.
- We expect fewer increases in retentions in 2022, absent large growth in exposures, which may continue to drive some rate increases.

The top 25% of companies saw

Cyber rate increases of 64.3%

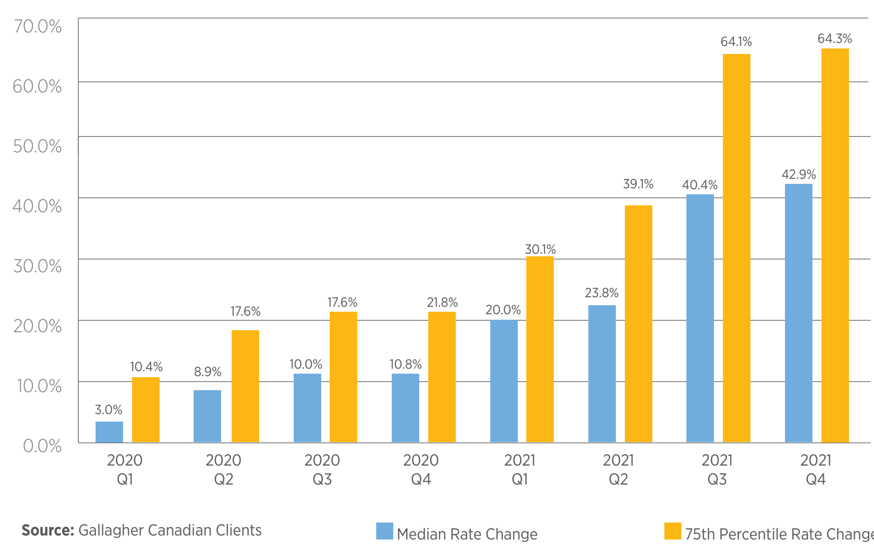
in Q4 2021.

Cyber

Where we were: Q1 2020 through Q4 2021

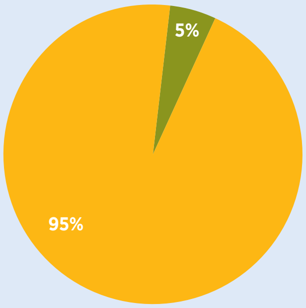
- Ransomware attacks are a significant contributing factor to the hardening of the Cyber market.
- With the rise in ransomware attacks across Canada and increases in carriers' reported losses, the Cyber insurance market hit an inflection point in 2020 and hasn't let up. Loss ratios for Canadian Cyber underwriters continue to be very high, though the actual numbers are not well disclosed.
- Carriers have responded with higher rates, higher retentions and coinsurance requirements.
- Insurers are looking to make sure that proper loss control measures are in place as the perpetrators of ransomware and extortion get more creative. For example, many insurers will not even consider coverage if multifactor authentication is not in place.
- Carriers became pressured due to the increasing frequency and severity of cyber claims and a more stringent regulatory environment at the provincial/state, federal and international levels.
- In 2021, even those clients with optimal data security controls were seeing rate increases in the 25%-50% range. Less attractive risks saw 75% and greater increases, if they were offered terms at all.
- Social engineering losses also continued to mount. According to FBI's IC3 2020 Internet Crime Report, 2020 saw a record of 69% increase in cybercrime from the prior year's report, with business email compromise losses accounting for half of all losses.
- The ransomware and cybersecurity risk trends we saw in 2020 continued to plague the Cyber insurance market throughout 2021.

Cyber Rate Trends 2020–2021



Source: Gallagher Canadian Clients

Cyber
Rate Change Distribution—Q4 2021
Gallagher — Canadian Clients



42.9%

median rate increase in Q4 2021*

*Source: Gallagher Canadian clients

Where we are: What we're seeing now

- Cyber claim frequency and severity continued spiraling upward, which led to a swift response from the Cyber insurance market. Carriers imposed significant limitations of capacity, narrowed the scope of coverage terms, heightened underwriting scrutiny and significantly increased rates.
- Capacity has tightened, with most blocks capped at $5 million.
- Nearly all carriers now require attestation of at least some preventive controls, which likely include multifactor authentication, remote desktop protocol, data backup practices, segregation of networks, encryption, patch management, privileged account management, employee training and a host of others.
- Rate increases were experienced across most industry sectors, with larger companies subject to greater increases and higher underwriting scrutiny.
- Companies without best-in-class data security are likely to see rate increases in the 100% to 200% range, and in some cases as high as 300%. Even those that comply with all underwriting required security controls are seeing increases in the excess of 75%.
- Most Cyber insurance buyers are feeling the impact through time consuming and complex renewals, with many obtaining less coverage at a higher cost.
- The median increase in Q4 2021 for Cyber companies in Canada was 42.9%, with 95% of companies taking an increase. Companies in the top quartile saw rates spike as much to 64.3% in Q4 2021. A year ago, by contrast, the top quartile of companies saw Cyber rates grow at 21.8%.

Where we're going: Trends we are watching

- The Cyber underwriting community has responded to 2020 and 2021 loss data and Cyber claim trends with a laser focus on data security controls when evaluating risks.
- We expect even greater underwriting scrutiny of cybersecurity controls in the Cyber insurance market throughout 2022, with capacity continuing to shrink.
- We expect changes to several reinsurance treaties in 2022, adding pressure to available capacity, given that most global Cyber capacity is heavily reinsured. Managing General Agents (MGA) could feel the impact more than others.
- Insurance products will reflect decreasing carrier appetites to fully cover ransomware costs, as they push for cost-sharing in the form of ransomware coinsurance and sublimits.
- Rate hikes show no real signs of levelling off in the near term.
- This will likely force insureds to offset these costs by assuming greater self-insured retentions and taking an even greater role in actively managing Cyber risk.

Maximizing Renewal Success

We recommend the following actions and considerations in preparing for a successful renewal. These tips and best practices apply to all lines of coverage:

- Start early; build in time for delays in the quoting process. We recommend four to six months ahead of your renewal date to begin gathering data.
- Communicate early and often with your internal and external stakeholders.
- Create a thorough underwriting submission that is accurate and up-to-date, including narrative regarding lessons learned from losses and steps you are taking to prevent future losses. Risk managers need to be willing to change and evolve with the times or will face an uphill battle with regard to renewal.
- Have a narrative prepared on how COVID-19 impacted your business (financially or otherwise) including whether and how you have implemented or modified your Business Continuity Plan during the pandemic.
- Take the opportunity to strengthen your risk readiness by identifying and remediating vulnerabilities. Showcase positive risk factors. Be proactive with providing information such as third-party valuation reports, third-party engineering reports, information on assets, lists of tenants in a warehouse, outstanding recommendations from their incumbent carrier, operations, loss mitigation and loss prevention plans, etc.
- Be ready for supplemental applications that may involve highly specific questions around specialized areas. For example, a Cyber renewal may have dozens of questions around controls specifically designed to prevent or mitigate the effects of ransomware attacks. We are seeing applications become a prevalent requirement, however, in several different coverage lines.
- If a carrier offers free or discounted risk management services such as employee training; incident response planning; and technology scans to flag known vulnerabilities, identify intrusions and address security flaws, take advantage of the opportunity. Many Cyber insurance carriers offer these types of services.
- Develop relationships with underwriters, including your incumbent and alternatives.
- Align primary and excess marketing strategies to maximize options. If appropriate, consider leveraging ancillary lines or alternative structures, such as captives and other layered and shared solutions.

While market conditions have begun to stabilize, make no mistake: this remains a challenging marketplace overall. We expect to see rate increases continue to moderate in many lines throughout 2022 with the exception of Cyber insurance, which remains the most troubled line we have seen in recent memory. Gallagher has expert leaders in all industries and coverage lines to provide solutions for our clients in this marketplace.

About Our Data

Gallagher Drive® is our premier data and analytics platform that combines market condition, claims history and industry benchmark information to give our clients and carriers the real-time data they need to optimize risk management programs. When used as part of **CORE**360®, our unique comprehensive approach to evaluating our client's risk management program, Gallagher Drive® creates meaningful insights to help them make more informed risk management decisions, find efficient use of capital, and identify the top markets with the best solutions for their risks.

Rate changes in this report were calculated by using the changes in premium and exposure of Gallagher in Canada clients renewing in Q4 2021.

***Source:** Gallagher Drive® Canadian Client Data, January 2020–December 2021. The median is the value separating the higher half from the lower half data sample (or the middle value). Due to the variability that we're seeing in this market and specific account characteristics, individual rates may vary.

About the contributors

As Chief Markets Officer, Kevin Neiles fosters our many long-standing carrier partnerships to leverage and negotiate competitive, tailored insurance solutions for our clients.

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For more information, contact your local Gallagher representative.

For up-to-date information regarding COVID-19, please visit **ajg.com/canada-pandemic**.

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