

# NATIONAL COMMERCIAL INSURANCE TASK FORCE:

# FINAL REPORT

May 2021



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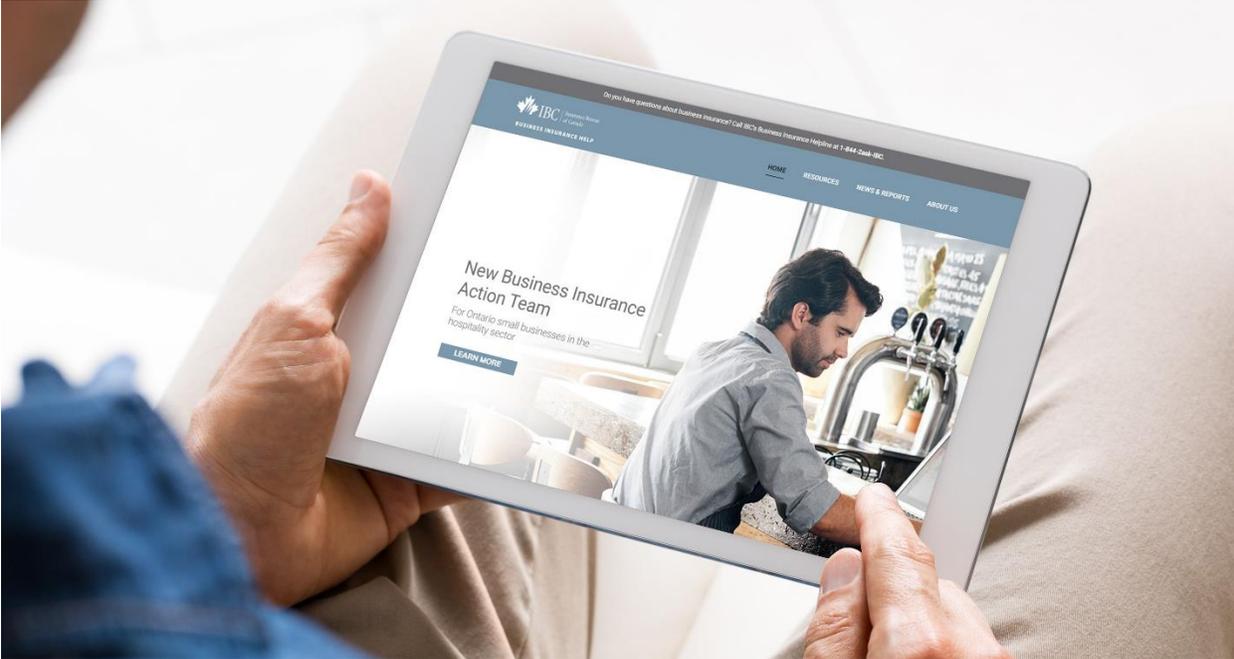
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## Message from the Task Force Chair

When Canada's property and casualty (P&C) insurance industry launched its National Commercial Insurance Task Force (Task Force) in January 2020, its initial focus was to help those businesses and organizations, such as condominium and strata corporations, struggling to find affordable insurance options in a hardening commercial insurance market. Then COVID-19 hit. All at once, many more businesses and organizations – restaurants, trucking carriers, non-profits – were hurting and asking to be heard.

Private insurers across Canada responded swiftly to the COVID-19 crisis with an unprecedented relief package. In 2020, the insurance industry returned more than \$2.4 billion in personal and commercial insurance relief to help Canadians affected by the pandemic. That relief has continued into 2021.

This Task Force also proved to be up to the job of finding support for businesses and organizations. Participants from affected sectors, from governments and from insurance companies and other stakeholders came together in person (once) and virtually (four times) to work carefully through the problems faced by various business sectors. Each roundtable discussion ended with a list of practical, regionalized and sector-specific recommendations that, if implemented, will go a long way to easing the challenges faced by commercial insurance consumers.

Insurance Bureau of Canada (IBC), as the national trade association representing Canada's P&C insurers, organized and hosted the Task Force roundtables. IBC will also play a lead role in advocating for the implementation of the recommendations in this report.

I'd like to thank Task Force members and acknowledge the hard work of so many participants who attended the roundtable discussions and took the time during a challenging year to commit to working with the P&C insurance industry on behalf of businesses and organizations within their sector and, indeed, across the country.

I'd also like to acknowledge the input of Deloitte Canada, which provided the economic perspective that is critical to understanding what drives price and availability in the insurance industry. Deloitte participated as an observer on the Task Force and provided its independent market analysis of the regions and sectors discussed at each roundtable as well as broad national information to inform the discussions.

It is important to acknowledge that the challenges facing Canada's commercial insurance market are part of a global trend influenced by global events. The Task Force recommendations offer both short- and long-term solutions to help protect Canadian business sectors from these global issues.

There is no one silver bullet that will solve the challenges facing the Canadian commercial insurance market. That is why we have taken a comprehensive approach. Included in this report are recommendations for how the insurance industry, governments and consumers can all help businesses and organizations in each of the condominium, transportation, hospitality and non-profit sectors.

As you can imagine, this report is not the final word on commercial insurance issues in Canada. The P&C insurance industry, through IBC, has committed to providing a follow-up report in a year's time. The follow-up report will include an update on engagement with governments and stakeholders on the commercial insurance challenges in specific sectors, progress on the implementation of the Task Force's recommendations, and any impact on availability and affordability of commercial insurance for businesses and organizations. IBC will also continue to engage with Task Force members regularly in an effort to identify emerging issues and collaborate on potential solutions.

As we continue to wrestle with the challenges facing the commercial insurance market in Canada, we will also engage our international colleagues. IBC's counterpart, the Insurance Council of Australia (ICA), recently launched a review of that country's P&C insurance issues and potential reforms, as part of Australia's national economic recovery post-pandemic. IBC and ICA have already committed to sharing the efforts and success stories of the industry in their regions.

Don Forgeron

*Chair, National Commercial Insurance Task Force*

*President & CEO, IBC*



## Part 1: Executive Summary

The National Commercial Insurance Task Force was created to address consumer concerns about the availability and affordability of commercial insurance.

### Challenges and Contributing Factors

According to a [2020 Deloitte report](#) commissioned by IBC, the Canadian commercial insurance market had started to “harden” in 2019, meaning that rates had risen at the same time as the market was experiencing reduced underwriting capacity. Underwriting capacity is the maximum liability an insurance company agrees to assume from writing policies. Underwriting capacity is limited by government regulation as well as inherent business risk. Insurers are required by law to maintain assets to be able to pay out claims to clients as needed to avoid insolvency.

Intense competition in certain segments of the commercial insurance market compounded by rising natural catastrophes and low interest rates over the last few years are some of the factors that have contributed to the current hard commercial market. Premiums have not kept up with rising claims, leading to increasing loss ratios. As a result, some insurers have reduced their capital in particular market segments and/or tightened their underwriting guidelines.

The two main factors that led to this hardening were an increase in weather-related claims and record-low interest rates. As well, Canada’s low interest rate environment strained the industry’s investment incomes, putting upward pressure on premium rates.

Over the last five years, commercial insurance claims have become more frequent and costlier, and this has caused insurers to re-evaluate how much risk they are prepared to support. For example, supply began retrenching in the strata insurance market in British Columbia (BC) and the commercial condominium insurance market in Alberta a few years ago.

### The Devastating Impact of COVID-19

In 2019, the signs of a hardening market began to affect commercial clients in other industries such the trucking, hospitality and non-profit sectors. Then COVID-19 struck in early 2020 and disrupted the commercial insurance market at the same time as it had disrupted financial markets, business sectors and economies around the world. COVID-19 presents such an unprecedented challenge for the P&C

insurance industry that it is difficult to predict how long this situation will last or what other industries may be affected.

## The Industry Response in 2020

To respond to this difficult market, the P&C insurance industry, through IBC, struck this Task Force with representation from the insurance industry and business sectors. The Task Force's mandate includes information gathering, education and full reporting to the insurance industry, governments and commercial stakeholders on solutions to consumer concerns. But the industry didn't wait for the Task Force to complete its work before taking steps to help its commercial insurance clients. Since the start of the pandemic, the insurance industry provided more than \$2.4 billion in personal and commercial insurance relief to help Canadians impacted by the pandemic. These efforts continue.

IBC quickly developed a helpline and websites with information for businesses and organizations to learn more about their commercial insurance, including specific information about condominium or strata commercial insurance.

As well, any business within Canada can connect with a professional risk manager through IBC's toll-free helpline to get answers to insurance questions and discuss options tailored to their business needs. These risk managers work with brokers of record to help businesses develop risk management plans if they are struggling to find insurance. IBC has also put in place a risk management team that is specialized in the condominium/strata market to help commercial insurance consumers in that market find insurance.

In November 2020, the industry came together to create a new Ontario-based Business Insurance Action Team (BIAT) whose aim is to help small business owners find the insurance they need to continue operating. BIAT was developed in response to a number of factors unique to the province's hospitality sector at the time.

The Task Force also released a [Midterm Report](#) focused specifically on the challenges facing the condominium/strata insurance market and providing recommendations to help commercial insurance clients in that sector.

## Task Force Recommendations at a Glance

Based on the findings of the five roundtable discussions held throughout 2020, the Task Force produced a comprehensive list of sector-specific recommendations for improving the commercial insurance market in the short, medium and long terms.

- Among the recommendations are that the insurance industry, governments, and businesses and organizations in affected sectors continue to share information and work together toward sector-specific solutions for commercial insurance consumers.

- Other recommendations focus on joint advocacy by insurers and specific sectors, such as trucking, to advocate for legislative reforms that would positively impact insurance availability and affordability in those sectors.
- There are also several recommendations focused on how insurers, and businesses and organizations can work together to improve risk management within specific sectors in a way that positively impacts insurance availability and affordability.

## Next Steps

The insurance industry will continue to work with businesses, organizations, consumers, governments and sector leaders to identify sector-specific and regional solutions for commercial insurance consumers. The insurance industry, through IBC, has committed to providing a follow-up report in spring 2022. The follow-up report will include an update on engagement with governments and stakeholders on the commercial insurance challenges in specific sectors, progress on the implementation of the Task Force’s recommendations, and any impact on availability and affordability of commercial insurance for businesses and organizations. IBC will also continue to engage with Task Force members regularly in an effort to identify emerging issues and collaborate on potential solutions.





## Part 2: Background on Commercial Insurance Market

The commercial insurance market includes products that protect businesses and non-profit enterprises operating in Canada. Insurance enables these entities to share the burden of the unexpected losses associated with damage to property or incurred legal liability. For example, typical commercial insurance products cover businesses against losses from damage to property and injury to customers. Insurers dedicate considerable resources and take great care to determine appropriate premiums.

Insurance premiums are determined based on a number of factors, including the type of business, the associated trends of the business, the location of the business, the likelihood of an enterprise (or a group of enterprises with a similar set of circumstances) making a claim, and how much those claims will likely cost. For businesses that are renewing their policies, insurers will also review the policyholder's claims history to evaluate whether there have been more claims or a high payout of claims compared to the industry average. Finally, insurers consider any risk management practices and strategies in place, such as risk mitigation technologies in a commercial building.

To calculate the premiums, an actuary analyzes these factors and forecasts the likelihood of an insured loss occurring. Actuaries must ensure that the premium charged for an insurance product will enable the insurance company to pay for potential claims and other expenses that it is contractually obligated to cover. Insurance prices may fluctuate from year to year, depending on the anticipated cost of losses.

In addition to the above factors that are specific to the commercial insurance industry, several other factors affect the broader P&C insurance market.

## The Insurance Market Cycle

Because insurers must continually predict the cost of future claims and adjust those predictions as new factors become known, the insurance market is, by its very nature, cyclical. In the commercial insurance market, there are periods when excess supply or capital results in more competition in the market. During a time such as this (called a soft market), there is more supply of insurance and it is easier to obtain coverage for most types of risks. There are also periods of low supply or capital, when claims payouts have increased, leading to rising costs for insurers (called a hard market). During these times, insurance is in short supply and more expensive to obtain. Insurers may take a more disciplined approach to underwriting, which may result in stricter requirements for obtaining coverage. The insurance market cycle tends to fluctuate between “hard” and “soft,” and this can vary by line of business and region.

The commercial insurance industry in Canada began experiencing challenging market conditions for some lines of business in 2019.

## Frequency of Extreme Weather Events

The increase in the frequency of extreme weather events, driven in part by climate change, is one of the most complex factors affecting the insurance market. While more severe weather events have led to an increase in demand for certain insurance products, pricing such policies is challenging given the wide fluctuations in weather patterns, which creates risk volatility. In 2016, the Canadian insurance industry experienced a loss of \$5.1 billion from natural catastrophes, the highest-ever such loss for a single year. Subsequently, smaller catastrophic weather events across the country have resulted in annual losses of \$1.23 billion in 2017, \$2.1 billion in 2018 and \$1.4 billion in 2019.

The magnitude of these losses has grown significantly over the last decade. In 2020, two-thirds of the losses were caused by hail events. In contrast, between 2009 and 2019, the average amount of damage caused by this type of event accounted for only 26% of catastrophic losses.

## Interest Rates

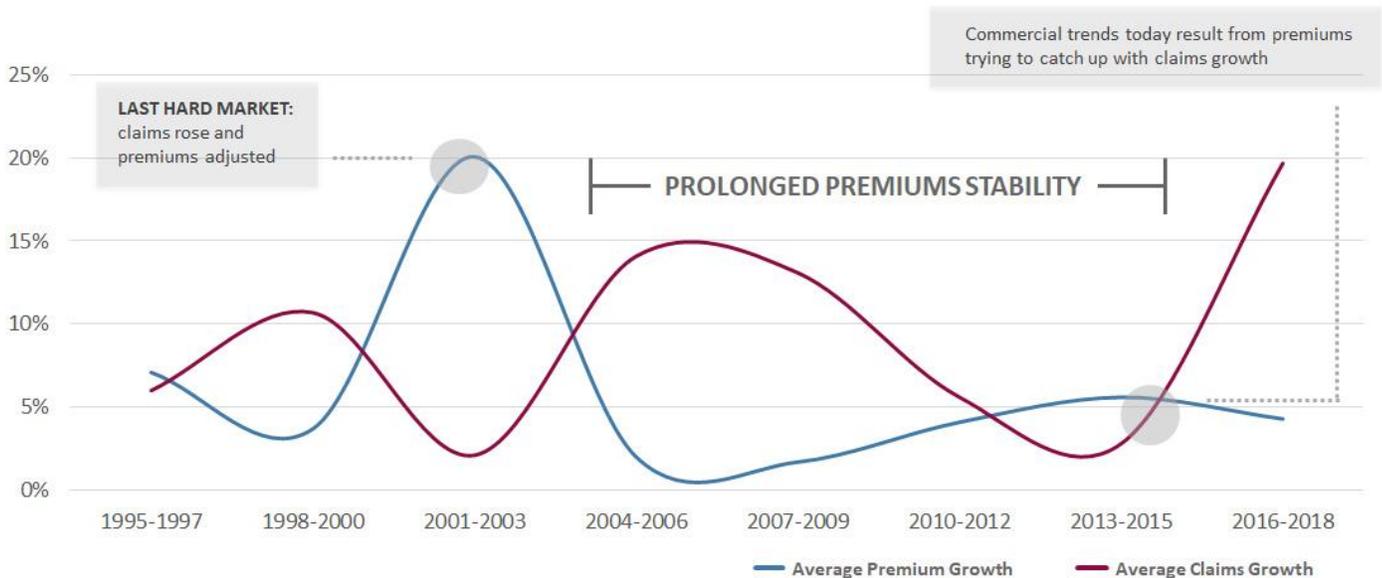
In addition to earnings from premiums or “underwriting income,” insurance companies also earn interest on their investment holdings, which primarily consist of bonds. Since the 2009 financial crisis, interest rates in Canada have fallen to record lows, which has suppressed the investment income of insurers. While low interest rates can benefit businesses by lowering borrowing costs for capital investments, they can also create an environment in which insurers need to hold higher claims reserves and increase their underwriting income. This can potentially lead to a lower capacity to underwrite new and current business. Low interest rates can be expected to persist as the economy gradually recovers over the next few years.

## Impacts on Insurance Industry

The combination of all these factors has created an extremely challenging state for insurance in Canada.

Figures 1 and 2 show the fluctuations in the commercial property insurance market over the last two decades since the previous hard market. Figure 1 shows the relationship between rising claims costs and premium costs in the commercial property insurance market. During the last hard market, of 2001–2003, claims were rising above 10%. As a result, premiums adjusted upwards from 2001–2003 to cover the rising claims costs. Similarly, in the run-up to the current hard market that began in 2019, claims costs rose. This was followed by increasing premiums through 2020. Figure 2 shows the rise in commercial property insurance loss ratios (net claims incurred as a percentage of net premiums earned) in relation to the declining interest rates.

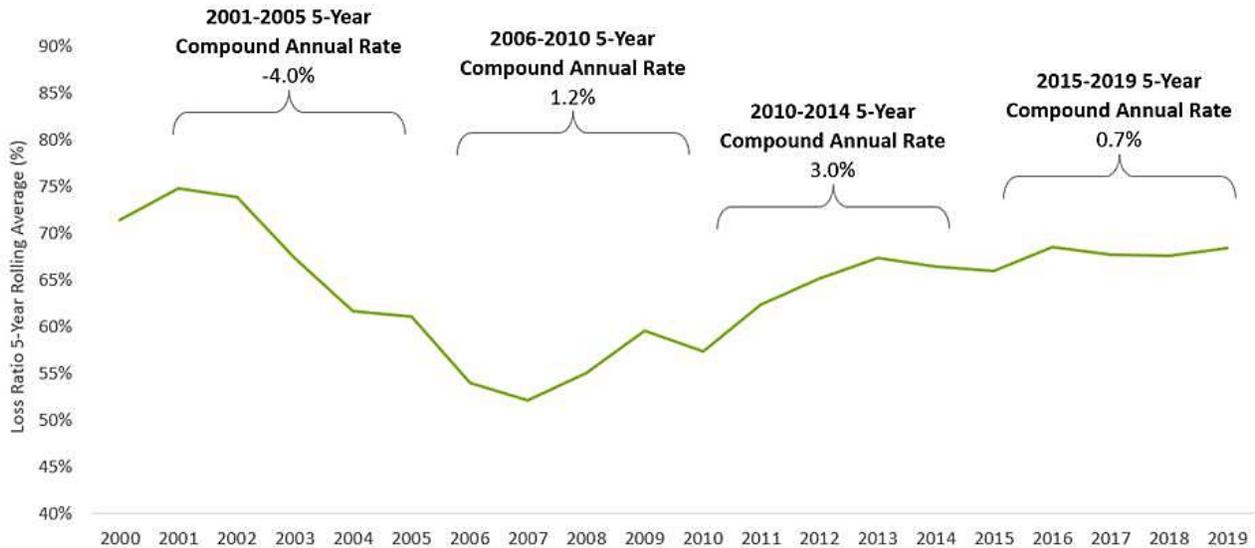
**Figure 1:**  
Canada Commercial Property 3-Year Average Annual Growth



Source: IBC with data from MSA

**Figure 2:**

**Canadian Commercial Property Net Loss Ratio (5-Year Rolling Average); 2000–2019**



Sources: IBC, MSA

According to Deloitte, insurers and their clients must prepare themselves for a continuation of the current hard market. Canada’s economy is forecast to recover by 2022 at the earliest, at which point the economic impacts on the insurance market will ease. This will likely lead to a rise in underwriting capacity and lower annual increases in clients’ insurance rates.

## Regional/Sectoral Issues

While the commercial insurance market as a whole is going through a period of upheaval, some sectors are experiencing more difficulty than others. When hard markets occur, sectors with high claims frequency, such as the strata/condominium sector, are hardest hit. The Task Force chose to delve deeply into four key sectors of concern: the strata/condominium sector, the trucking sector, the hospitality sector and the non-profit sector.

In the case of the strata and condominium sectors, issues of commercial insurance availability and affordability arose a couple of years ago as weather-related claims increased in a hardening market. For the trucking, hospitality and non-profit sectors, government-mandated lockdowns and border closures to protect Canadians and reduce the spread of COVID-19 were the major factors affecting commercial insurance availability and affordability.



## Part 3: Deloitte Market Analysis

(Content for this section provided by Deloitte Canada)

The Canadian economy is emerging from the deepest recession in recent memory. In 2020, the real GDP fell by an annualized 7.3% in the first quarter of 2020 and by 38.1% in the second quarter. Notably, the speed of the rebound has also been unprecedented, with growth surging by 40.5% in the third quarter.<sup>1</sup>

The Canadian economy is showing signs of recovery from the trough of the recession. Deloitte forecasts the Canadian economy will grow 6.2% this year, the strongest pace of annual growth since the early 1970s.<sup>2</sup> With growth set to accelerate in the second half of 2021, next year also appears to be a banner year for the economy, with real GDP gaining another 4%. However, our forecast is contingent upon an effective containment of COVID-19 and vaccination rollouts.

In many provinces, businesses continue to operate at a limited capacity and under various restrictions. Taken together, for insurers and clients alike, today's business climate is shaped by several factors such as:

- **An uncertain environment:** As businesses contend with evolving public health measures alongside changes to consumer preferences, their ability to plan and strategize for the future can be significantly impaired. This can challenge cash flow management and human resources planning.
  - For sectors more directly exposed to lockdown measures (e.g., tourism, travel, hospitality) this challenge can be particularly acute – as returning to pre-pandemic levels of activity is unlikely to occur for several years.
- **Declining business investment:** Importantly, almost all industries have limited or reduced their investment in machinery, equipment and personnel. Businesses simply may be unable or unwilling to make capital upgrades in an environment of uncertainty regarding future demand for their goods and services.

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<sup>1</sup> Note all economic analysis presented herein is Deloitte Analysis prepared in 2021.

<sup>2</sup> Deloitte forecasts are prepared on a quarterly basis. Forecasted analyses presented herein are from its January 2021 forecast entitled "There's Light at the End of the Tunnel: Economic Outlook."

- For the insurance industry, this can limit uptake on risk mitigation strategies relevant to insurers, creating a challenging context for insurers that recommend specific measures be put in place to offset risk (e.g., enhanced safety and security measures).
- **Unemployment:** For businesses, the pandemic has led to difficult decisions to temporarily or permanently lay off workers, representing a significant loss of knowledge and skills for firms. In April 2020, 2.8 million fewer Canadians were employed compared to the year before.
  - For industries reliant on household spending, elevated unemployment can depress demand for goods and services.
- **Fiscal pressures:** While government support has been critical for businesses (e.g., Canadian Emergency Wage Subsidy), rising deficits could constrain the level of long-term support and investment in the economy and trigger changes to tax regimes or other costs to businesses and households.
  - For businesses, a constrained fiscal context could limit the scale of future public investment.<sup>3</sup>

## Sectoral Perspective

Most industries experienced a decline in output in 2020. Most sectors began recovering in the third quarter, but the rebound was not enough to bring them back to pre-COVID-19 levels.

Below we present a snapshot of the peak decline in real GDP across different industries and how far they have recovered relative to their pre-pandemic levels of output. The selection of industry groupings represented at the Task Force meetings<sup>4</sup> tend to be amongst the hardest hit and have experienced one of the slower recoveries to date.

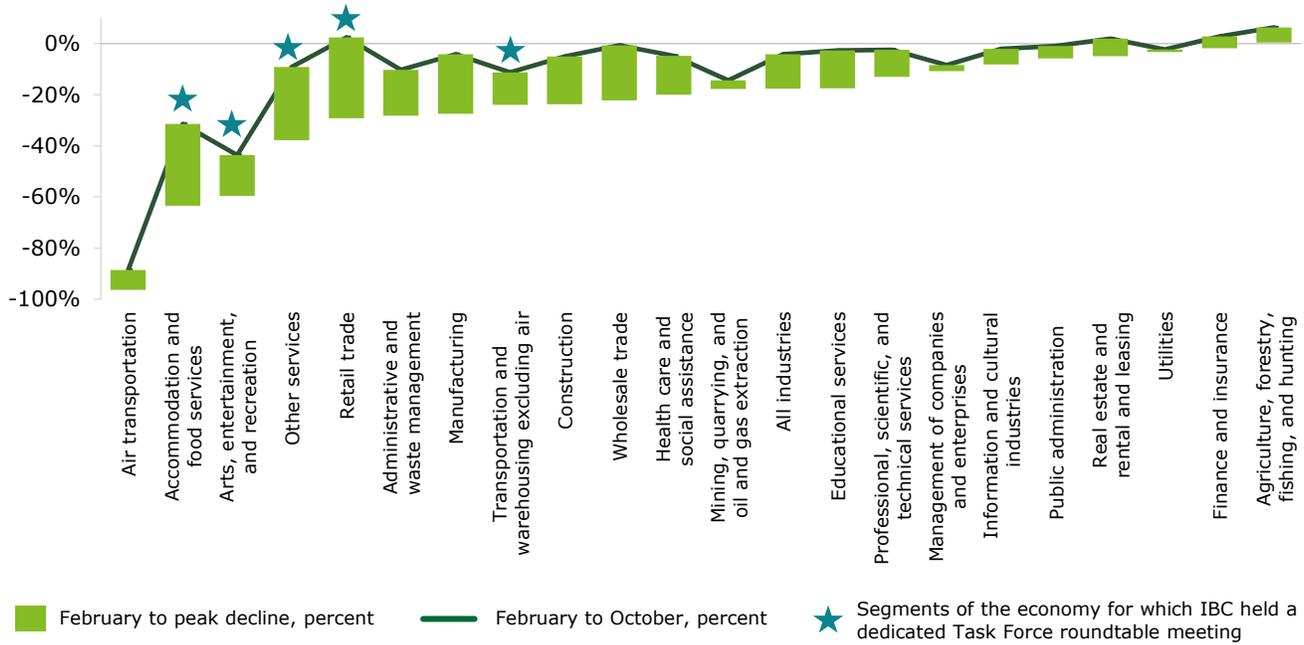
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<sup>3</sup> For further information on the impacts of low interest rates, please see the Key Pressures to the Insurance Industry section.

<sup>4</sup> IBC conducted individual Task Force meetings for the Tourism, Hospitality, Transportation and Not-for-Profit sectors. Other sectors presented herein reflect key industries relevant to the Canadian economy and were discussed at a high level in roundtable discussions.

**Figure 3:**

Real GDP peak decline in output (bottom point) and change from February 2020 to October 2020 (top point)



Sources: Statistics Canada, Deloitte Analysis

**Figure 4:**

**Key observations in selected industry groupings for which IBC had dedicated Task Force Meetings**

<b>Transportation</b>	<ul style="list-style-type: none"><li>• Air transportation in particular has been heavily affected by the pandemic. Output in air transportation remains hardest hit, down nearly 90% from February 2020.</li><li>• Other segments of the transportation industry (pipelines, rail, water and truck transport) also continue to operate below pre-pandemic levels of output as foreign and domestic demand have yet to fully recover.</li></ul>
<b>Tourism</b>	<ul style="list-style-type: none"><li>• The tourism industry has been significantly challenged by travel restrictions, with many businesses unable to operate at all, and those that are able to operate having to reduce their capacity to allow for social distancing.</li><li>• The number of international tourists entering Canada from abroad by month are at record lows – limiting market opportunities.</li></ul>
<b>Arts and entertainment and recreation</b>	<ul style="list-style-type: none"><li>• At a broad industry level, the arts, entertainment and recreation sector was significantly impacted, dropping 37.7% in 2020 as a result of public health measures that restrict large gatherings of people, an integral aspect of this industry.</li></ul>
<b>Accommodation and food services</b>	<ul style="list-style-type: none"><li>• Accommodation and food services experienced a rebound later in 2020 but has a long road to recovery ahead.</li><li>• Nearly 10,000 fewer businesses in the industry were actively operating in August 2020 compared to February 2020, a decline of 15%.</li></ul>
<b>Not-for-profit organizations<sup>5</sup></b>	<ul style="list-style-type: none"><li>• While not-for-profit organizations span across several industries, those reliant on individual or corporate donations are encountering a challenging context.</li><li>• Charitable donations have declined in recent years – and are expected to remain depressed as households recover.</li></ul>

<sup>5</sup> As defined in the North American Industrial Code code number 81 “Other Services” (Except Public Administration)

## Condominiums/ strata<sup>6</sup>

- Some condominiums/stratas have challenges that can shape insurance premium and coverage levels, such as inconsistent risk management and maintenance practices (including training for board members), poor building material quality and/or extreme weather events.
- Broader coordinated action among owners, governments and brokers is required to help reduce claims and improve condominium/strata risk profiles.
- The type of building material used is one of the main underwriting considerations in assessing risk and ultimately in pricing condominium/strata insurance. It directly affects building quality, which has been a concern troubling the BC strata insurance market over the past few years.

Source: Deloitte Analysis

## Key Pressures for the Insurance Industry

The aforementioned sectoral impacts paint a picture of the operating environment for clients of the commercial insurance industry. While the insurance industry was not directly exposed to decline in consumer demand or the effects of lockdown measures like other parts of the economy, the commercial insurance industry in particular is contending with a challenging context exacerbated by the effects of COVID-19, such as the following.

### A hardening pre-pandemic environment

The overall Canadian commercial property insurance market is in a challenging position and can be expected to continue to grapple with several pressures. Market conditions began to shift in early 2019, as Canada entered a period of higher premium rates and reduced underwriting capacity, also known as a “hard market.”

- This was a response to heavy financial pressures experienced by the Canadian commercial property insurance market when loss ratios significantly increased. For example, average commercial property loss ratios in Canada rose from 57.4% from the period of 2006 to 2010 up to a high of 68.4% from 2015 to 2019.<sup>7</sup>
- Many insurers had to reduce the risk they took on and in some cases exited product lines altogether. As markets adjusted to these new conditions, there was a decline in the availability of commercial property insurance and a corresponding rise in clients’ rates.

<sup>6</sup> While condominiums/stratas are not sectors or industries similar to the others profiled in the table, they have been included as IBC had a dedicated Task Force meeting with condo/strata stakeholders.

<sup>7</sup> Deloitte Analysis

## **Low interest rates challenge investment income**

Insurers have faced multiple years of low investment returns, driven by declining bond yields. Recently, rates have gone even lower as the Bank of Canada acted quickly at the beginning of the pandemic to slash interest rates, implement a quantitative easing (QE) program and provide forward guidance to markets. While the decline in the Bank of Canada policy rate typically has more of an impact on shorter-term interest rates, the QE program works to suppress rates further out the yield curve.

Today's low interest rate environment can be expected to persist longer than the QE program. While low interest rates can help support business and household investment and stimulate economic growth, they also limit the level of bond investment income that the insurance industry can expect.

## **Climate change**

Canada has experienced an increase in the severity and frequency of extreme weather events due to climate change. Canadian insurers now routinely pay out over \$1 billion a year in losses relating to extreme weather events. Recently, the volume of catastrophic losses has increased. According to data provided by IBC, in 2020 alone insurers paid out \$2.4 billion in catastrophic losses related to climate change, in contrast to \$1.4 billion for all of 2019.<sup>8</sup>

These factors and their associated effects on commercial insurers can be expected to persist in 2021, thereby placing commercial insurers in a challenging market context.

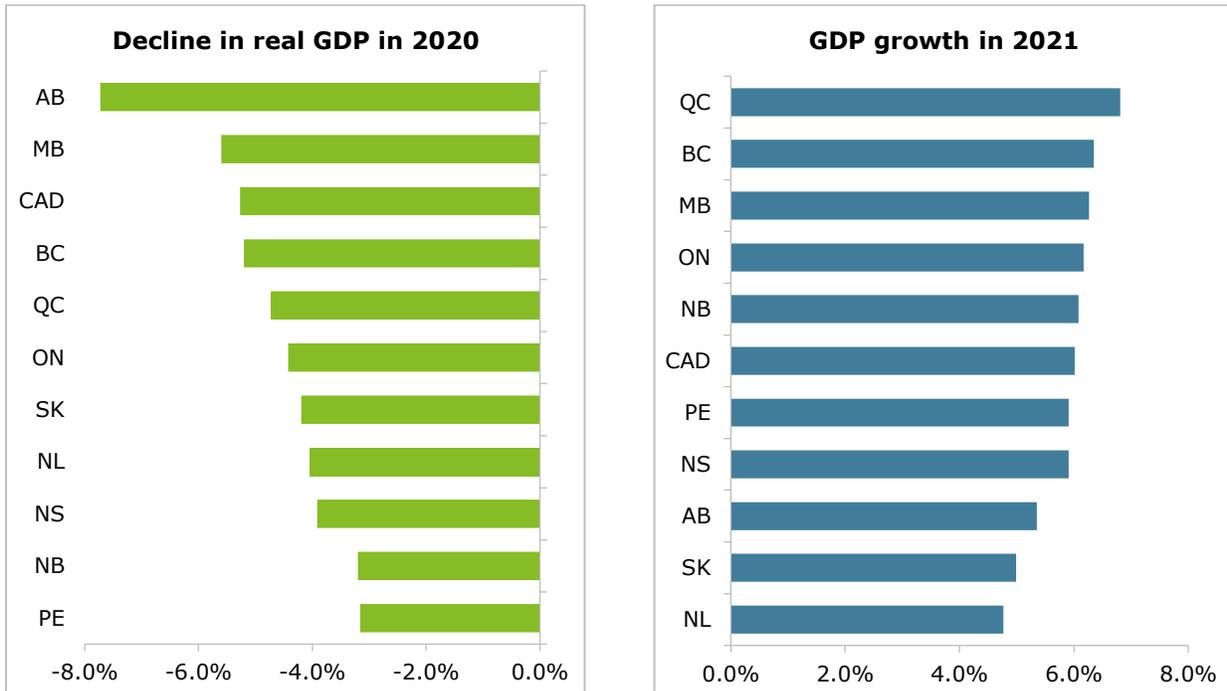
## **Future Economic Considerations**

Notably, the pace of recovery can be expected to vary by province – which could necessitate considering region-specific approaches to supporting insurance providers and clients to work together to develop solutions and ensure coverage.

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<sup>8</sup> Deloitte Analysis

**Figure 5:**  
Provincial GDP Overview



Sources: Statistics Canada, forecast analysis provided by Deloitte

**Provincial growth rates expected to vary:** More populous provinces like Ontario, Quebec and BC are expected to see economic growth in 2021 that outperforms the pace of recovery in Canada, but will continue to be challenged by the effects of lockdown measures.

**The Atlantic region will remain challenged:** Newfoundland and Labrador, and New Brunswick will see relatively soft growth, with Newfoundland and Labrador in particular contending with weak demand conditions in the energy market.

**The Prairie provinces will recover but face several challenges:** Saskatchewan, Manitoba and Alberta are each forecasted to see GDP growth in 2021. However, oil shocks can be expected to affect supply chains across the region.

## Sectoral Forecast Snapshot<sup>9</sup>

While the breadth of the impact from the COVID-19 recession is unparalleled, what is familiar is the composition of the growth emerging from the recession. As was the case after the 2008-09 global financial crisis, this recovery has been led so far by household spending, investments in residential real estate, and government stimulus. Relying on these growth catalysts is a risky proposition and unlikely to be sustainable, given the high levels of public-sector and household debt.<sup>10</sup> As with the negative effects of the crisis, we expect the recovery to be uneven across industries.

### Key Sectoral Observations

**Sharp increases expected in accommodations and food services, arts and entertainment:** These sectors will post the strongest growth this year as activity has started to increase again after the sharp declines in the first half of 2020. Despite the gain this year, the level of activity will remain well below what occurred in 2019.

**Delayed rebound of tourism:** It will take many years for the sector to fully recover, as international and domestic tourism levels can be expected to remain uncertain in the short to medium term. Indeed, we do not foresee output in this industry returning to its pre-pandemic levels until the end of 2024.

**Retail and wholesale trade will continue to build:** This sector will build on the quick rebound seen in 2020, although growth is forecasted to slow early in the year as public health measures continue to keep people at home. With households sitting on significant savings, activity should increase as the year progresses and confidence improves with the gradual reopening of businesses.

It is important to note that our recovery forecast is contingent upon an assumption that by the second quarter of the year, COVID-19 vaccinations will become more widely available. Combined with the ability to resume more outdoor activities as the weather warms – a necessary condition to ease lockdown measures.

## About Deloitte's Role in the IBC Commercial Insurance Task Force Meetings

Deloitte LLP was retained by IBC to provide economic analysis to support each Task Force meeting. Deloitte held an observer status during Task Force meetings and prepared a high-level presentation for each meeting on Canada's macroeconomic context and issues specific to each sector and region. Deloitte also presented observations related to the insurance industry, leveraging internal subject matter expertise as well as Deloitte's macroeconomic modelling and analysis capabilities.

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<sup>9</sup> "The Light at the End of the Tunnel." Deloitte Economic Outlook.

<sup>10</sup> "The Light at the End of the Tunnel." Deloitte Economic Outlook.



## Part 4: Background on the National Commercial Insurance Task Force

In January 2020, IBC formed the National Commercial Insurance Task Force to address consumer concerns about the lack of availability and affordability of commercial insurance. The Task Force followed a consensus model and was chaired by IBC. It included representatives from the P&C insurance industry and from industries facing commercial insurance challenges, such as the condominium and trucking sectors. The small business market operating in these sectors as well as the hospitality sector were also represented.

Deloitte Canada participated as an observer on the Task Force and provided its independent market analysis of regions and sectors discussed at each roundtable as well as broad national information to inform the discussions.

The Task Force held one in-person roundtable prior to the start of the pandemic and four virtual roundtables throughout 2020.

### The mandate of the Task Force was to

- Educate and inform consumers, governments and stakeholders on the factors contributing to the current availability and affordability challenges with commercial insurance
- Learn from industry partners, consumers, governments and other stakeholders about their challenges with insurance availability and affordability and their ability to implement risk management practices
- Produce a report for industry partners, consumers and stakeholders with recommendations on how to improve commercial insurance availability and affordability.

## Task Force members

- 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

Along with this final report, the Task Force produced a [midterm report](#) on the condominium/strata market based on the discussion and recommendations from the first two roundtables held in 2020.

It also published a [white paper](#) authored by Deloitte on the financial conditions affecting the insurance industry, including the impact of COVID-19.



## Part 5: Summaries of Task Force Roundtable Discussions and Sector-Specific Recommendations

The first Task Force roundtable in early 2020 was an in-person discussion about commercial insurance challenges in the Alberta condominium sector. With the onset of COVID-19, the subsequent roundtables were transformed into virtual discussions that focused on commercial insurance challenges within a broad sector such as trucking. Participants for each roundtable included members of associations or organizations related to the sector being discussed, insurance and government representatives, and representatives of consumer groups.

Each roundtable opened with a Deloitte representative presenting an overview of the Canadian economy and the factors driving affordability and availability in the commercial insurance market. The Deloitte presentation also touched on the effect of COVID-19 on the insurance market, as well as the particular challenges of the region or sector to be discussed. Following the Deloitte presentations, participants took part in a guided discussion during which they answered questions about the insurance challenges and risk management efforts of their clients or members. Participants also offered solutions, including how the insurance industry could educate commercial clients on risk management within their region or sector.

### Roundtables on Commercial Insurance Issues Affecting the Condominium and Strata Sectors in Alberta and BC

The first two roundtables focused on the commercial insurance challenges facing the condominium and strata sectors in Canada's two westernmost provinces. The first roundtable, held in person on February 19, 2020, in Edmonton focused mainly on Alberta-specific issues, and the second, held virtually on March 17, 2020, focused mainly on BC-specific issues. Given the urgency of the situation in the condominium/strata sectors in Alberta and BC, the Task Force released the results of these two roundtables, including participants' recommendations, in a [Midterm Report](#) published in June 2020.

The Task Force documented similar challenges in the two provinces, including the fact that annual commercial property direct claims had risen significantly in both provinces in the previous five years. Alberta and BC also face challenges unique to their provinces. Alberta is the hardest-hit province in terms of the increased frequency of extreme weather events. BC's strata commercial insurance market has struggled as a result of lax – or non-existent – regulations governing the risk management practices of strata corporations. As well, the risk of a major earthquake in BC is an ongoing concern. In both provinces, provincial governments and commercial insurance clients are well aware of the challenges that were being faced in the strata/condominium commercial insurance markets. In fact, the BC Financial Services Authority opened the second roundtable with a presentation on the factors contributing to increasing insurance prices for strata corporations in the province.

Participants included representatives from the Condominium Owners' Council of Alberta, Alberta Chamber of Commerce, Canadian Condominium Institute, Association of Condominium Managers of Alberta, Alberta Urban Municipalities Association, Alberta Real Estate Association, Insurance Brokers Association of Alberta, BC Real Estate Association, Canadian Mortgage Brokers Association, Condominium Homeowners Association of BC and Insurance Brokers Association of BC.

At both roundtables, participants discussed the link between insurance rates and risk mitigation, the effect of recent provincial catastrophic losses on the condominium sector, and the need for better education of condominium board members including increasing their expertise and qualifications.

## Condominium/Strata Sector Recommendations

**Participants recommended solutions that require the government to implement reforms. These include:**

- Defining a standard unit in legislation
- Amending building codes to reduce risk
- Amending land-use planning to reduce risk
- Making risk management education for condominium/strata board members mandatory
- Mandating the licensing of condominium/strata managers
- Mandating depreciation reports and enhancing regulations governing the use of reserve funds
- Capping loss assessments for strata lot owners
- Speeding up municipal permitting processes.

**Participants also identified solutions that insurers can undertake. These include:**

- Educating insurance representatives and condominium/strata associations about risk management best practices
- Sharing information and research with governments on risk and regulatory reform
- Providing risk management support where possible
- Educating condominium boards/strata councils, unit owners and prospective owners about risk management and insurance pricing.

Finally, the Task Force highlighted solutions for condominium/strata corporations that include working with their insurance representative through effective maintenance programs, board member education, adequate depreciation reports and reserve fund studies, and other best practices to reduce risk and potential claims.

For a full discussion of insurance challenges facing the condominium and strata sector and recommendations for the sector, see IBC's [National Commercial Insurance Task Force's Midterm Report](#).

Many of the recommendations made at the two roundtables echoed recommendations that IBC continues to advocate for with both of these provincial governments. Since the Alberta and BC roundtables held more than a year ago, some stabilization of the condominium and strata commercial insurance markets has occurred. According to the February 2021 Deloitte white paper, "[State of the British Columbia Strata Insurance Market](#)," commissioned by IBC, rate increases are expected to stabilize moving forward.

As well, the BC provincial government has signalled that it is keen to build on its earlier legislative changes to provide stronger support and greater structure for all stakeholders in the strata market. The government is currently consulting with the insurance industry, including IBC, on new regulations focused on the strata market.



## Roundtable on Commercial Insurance for the Canadian Trucking Sector

This roundtable, held virtually on October 20, 2020, focused on the commercial insurance challenges facing the Canadian trucking sector. The roundtable was part of an ongoing discussion that began several years ago among insurers, brokers and the trucking industry about issues of insurance availability and affordability in the sector. IBC, in partnership with the Canadian Trucking Alliance (CTA), spearheaded this engagement. Continuing this dialogue is vital, especially now that the commercial trucking sector faces huge challenges as a result of COVID-19.

Participants included representatives of the CTA and their member associations. Participants from the sector shared their broad concerns about increasing insurance costs. They also focused specifically on the challenges that young or new drivers face in obtaining insurance, particularly before they have acquired a sufficient amount of training and experience to demonstrate a good driving record. This problem is occurring at the same time as the trucking sector is experiencing a shortage of drivers, with remaining drivers left overworked and stressed, putting them at greater risk of collisions.

Participants also expressed concerns about the lack of availability of insurance in the excess liability or “umbrella” market. In this market, some insurers provide additional coverage at higher limits, thereby offering a trucking client further layers of liability protection. For instance, one insurer might provide coverage to a maximum of \$2 million, a second insurer provides coverage from \$2 million to \$10 million and a third insurer provides coverage from \$10 million to the final maximum. Recent large liability settlements in the U.S. have driven insurers’ claims costs higher and incidents like the Humboldt tragedy in Canada have led some private insurers to re-evaluate their underwriting decisions in this sector.

Finally, participants from the trucking sector raised the issue of insurers offering discounts or incentives to trucking companies that install vehicle safety technology, such as collision avoidance technology.

Participants from the commercial insurance industry explained how increasing claims costs have affected the price of insurance. Over the last five years, insurers have paid out more in claims, expenses and premium taxes for trucks insured than they have earned in premiums on a per vehicle basis (e.g. owner-operated trucks).

Insurers analyze sector trends using rate of losses compared to premiums earned. This can be done by examining how much insurers paid out on average in claims, operating expenses and premium taxes for every dollar earned in premium. Between 2015 and 2019, in the trucking sector, commercial insurers

paid out \$1.04, \$1.12 and \$1.06 in Ontario, Alberta and Atlantic Canada, respectively, for every \$1.00 earned in premiums on a per vehicle basis<sup>11</sup>.

In some years, the losses were much higher, with insurers paying more than \$1.25. Losses exceeding premiums for a consecutive number of years is unsustainable. These unsustainable losses have led to necessary premium increases.

Trucking consumers and sector representatives were encouraged to work closely with their insurance representative to improve driver safety to mitigate and reduce risk. On the issue of vehicle safety technology, insurers observed that it was not yet widely used in Canada and insurers may not yet have enough claims data to justify offering premium discounts for such technology.

The insurer Task Force participants also encouraged these consumers to inform their insurance representative whether and how their business operations had changed as a result of COVID-19. For example, an increased need for the transport of certain materials across the country to help in the protection against COVID-19 (i.e., personal protective equipment) and decreased need for the transport of other materials has led to some operational changes within this sector. The transport of different cargo, the number of hours a vehicle was on the road and in use, and changes regarding the distance these trucks were travelling could all have a bearing on the type and cost of their insurance coverage.

All participants agreed that the insurance needs of the trucking sector are complex and specialized, requiring more education for both insurers and trucking carriers to close a knowledge gap.

Issues continue to emerge related to trucking. IBC and its members have struck a trucking working group to explore these issues and are committed to working with the sector on potential recommendations.

## Trucking Sector Recommendations

**The insurance industry should consider the following reforms:**

- The insurance industry should consider further incentives for Canadian fleets that deploy safety technology; it should also share more information with commercial trucking stakeholders on the factors considered in determining their insurance coverage.
- IBC and CTA should continue discussing how to reduce fraud in the trucking sector. The Facility Association (FA), which is a non-profit insurance association that makes auto insurance available to those turned down by the private sector, carried out a study of recent closed claims in its commercial trucking book of business. It found that a number of those claims included fraud, particularly trucking firms declaring that they operated in one province but were actually based in another. FA also saw a large decrease in its Ontario market share and a large increase in market share elsewhere. FA determined that some trucking insurance consumers were

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<sup>11</sup> IBC analysis based on industry data from the General Insurance Statistical Agency (GISA).

fraudulently declaring head offices in Atlantic Canada to achieve lower premiums. As a result, FA has tightened up its documentation requirements across Canada to be in line with private insurers. IBC and CTA should support FA as it implements its new standardized documentation requirements for the trucking sector across all provinces.

- Insurers should share information on their current insurance rating systems with individual trucking carriers, including information on how the carrier's performance contributes to its premium costs.
- IBC and CTA should host a focus group of CTA carriers and IBC representatives to review the challenges of insuring young drivers, and look for training programs and any minimal training standards that could help increase the insurability of these drivers.

**Provincial governments should consider the following reforms:**

- It has been noted that at the time of policy renewals, insurers may be provided with fraudulent or unverified information regarding insurance policies. Provincial governments should implement a database to verify the validity of a carrier's insurance when issuing or renewing plates, and advocate for all jurisdictions to carry out this validity check at renewal and in real time. IBC members have advocated for a government database to verify trucking insurance information. IBC and CTA will determine which jurisdictions do not check the validity of a carrier's insurance when issuing or renewing plates to help support government advocacy efforts and promote the value of a government database.

**Consumers should consider the following to help manage their risk profile and insurance costs:**

- IBC and CTA should create educational materials to inform CTA members on insurance issues, including risk management and factors that affect insurance policy pricing.



## Roundtable on Commercial Insurance for Small Businesses in the Canadian Hospitality Sector

This roundtable, held virtually on November 9, 2020, focused on the commercial insurance challenges facing small businesses in the hospitality sector. The hospitality sector is among the hardest hit by COVID-19. The impact has been especially dire for small to medium-sized businesses within the sector that are contending with closures due to government lockdowns, new risks associated with operating virtually and exposure to liability for viral spread.

Participants, including representatives from tourism associations as well as individual owners of hotels, motels, restaurants and tourist operations, shared their concerns about the affordability of commercial insurance for this sector. Participants were also looking for guidance in navigating liability insurance issues related to providing essential services and products during the pandemic. Many small businesses in the hospitality sector expressed concerns about being protected from civil liability as they adapt their usual business operations to comply with government rules for providing essential services during the pandemic.

Participants from the commercial insurance industry acknowledged owners' frustrations and highlighted public policy measures that, if enacted by provincial governments, could help ease cost pressures in the commercial insurance market; these included governments putting in place civil liability protection for businesses. Since the roundtable was held, some Canadian provinces, including BC, New Brunswick and Ontario, have implemented temporary civil liability protection reforms for a variety of commercial groups including businesses and health care operations. In December 2020, Saskatchewan introduced similar reforms. Different provinces have applied their reforms to different commercial groups. In the U.S., 26 states have enacted liability immunity reforms for businesses, with legislation pending 13 more states as of April 2021. Reforms similarly apply to businesses and the health care sector with some extending to schools.

Liability immunity reforms support businesses in the midst of undertaking the substantial challenge of attempting to recover from the impacts of the pandemic while ensuring sufficient consumer protection. The end result would be that businesses following protocols may be protected against the costs associated with frivolous lawsuits while businesses work to maintain a level of consumer protection as they would still be required to follow government protocols.

During the roundtable, insurers raised the issue of another liability reform that, if enacted by provincial governments, could help ease cost pressures in the commercial insurance market. This is a reform to rules around joint and several liability. Joint and several liability means that, in a case in which there are

several defendants each found to be partially liable for an injury or loss, each defendant can be held liable to pay the full amount of the loss regardless of their respective degree of fault. The result is that the defendant with the deepest pockets often pays a disproportionate amount of the award.

Provincial rules around joint and several liability affect the frequency and severity of claims that are brought against large organizations, municipalities and hospitality establishments that have commercial liquor host liability exposure. These rules also affect the insurance premiums for these businesses as insurers have seen an increase in both the frequency of claims and size of claims over the past several years.

Insurers are advocating for an approach that would look to apportion liability and the award in a way that matches the level of negligence of the party and not have a business pay for more than its fair share. This could help manage claims over time against a business and mitigate insurance affordability challenges.

In particular, changing rules around commercial host liability would be beneficial to the hospitality sector. Commercial host liability applies to any establishment licensed to sell alcohol and has been applied in cases in which an intoxicated person who was served by the establishment causes personal injury or death to another person in a motor vehicle accident. Given the challenges to these businesses from the pandemic, reforms to the joint and several liability principles would allow small businesses and commercial hospitality establishments to recover and avoid unnecessary, unanticipated and inequitable financial obligations.

IBC shared information about its new resources developed specifically for this challenging market. Any Canadian business or non-profit can be connected with a risk manager through IBC's toll-free helpline at 1-844-2ask-IBC (1-844-227-5422). IBC's business insurance web site [businessinsurancehelp.ca](https://businessinsurancehelp.ca) also contains advice.

## Hospitality Sector Recommendations

### **The insurance industry should consider the following reforms:**

- The insurance industry should continue looking for ways to help businesses unable to obtain insurance coverage.
- The insurance industry and hospitality stakeholders should advocate together for liability immunity protections for businesses that follow government protocols related to COVID-19.
- The insurance industry should continue to educate hospitality stakeholders on how to manage their risks and improve their risk profile. This effort should include providing sector-specific tools to help them manage their insurance costs.

### **Provincial governments should consider the following reforms:**

- Provincial governments should work with the insurance industry with the goal of implementing reforms to the principle of joint and several liability to help manage the claims against commercial consumers and insurance costs.
- Provincial governments should implement temporary tort reforms to provide liability immunity protections for businesses that follow government protocols related to COVID-19.

### **Consumers should consider the following to help manage their risk profile and insurance costs:**

- Consumers should consider implementing a comprehensive risk management strategy to help reduce or mitigate the potential for loss or damage.
- Consumers should create and/or maintain a relationship with their insurance representative and regularly engage especially when there are changes to their usual business activities.
- Consumers should understand their insurance policy and ask questions for clarification.



## Roundtable on Commercial Insurance for the Canadian Non-Profit Sector

This roundtable, held virtually on December 9, 2020, focused on the commercial insurance challenges facing Canadian non-profits. Participants, including representatives from Volunteer Alberta, Ontario Non-Profit Network, Ontario Community Support Association, Canadian Red Cross and YMCA, shared concerns about the affordability of commercial insurance for their sector and how changes to their organizations have affected policy pricing. As a result of COVID-19, the non-profit sector saw its revenue drop at the same time it experienced a significant increase in demands for its service. The sector is also dealing with challenges around securing directors' and officers' liability coverage. Participants also raised concerns about COVID-19 exclusions in renewal policies.

Non-profits reported they are facing a challenging commercial insurance market at the same time as the COVID-19 pandemic has put them in a financially vulnerable position. A recent [report](#) from Imagine Canada noted that more than half of charities have reported decreased revenues, even though many are seeing an increased demand for their services because of financial hardship during the pandemic. Some non-profits are being priced out of the insurance market while others cannot secure certain coverages, most commonly on the liability side.

These added financial and operational challenges faced by non-profits also increase the risk of bankruptcy and of a rise in insurance claims, including for alleged mismanagement of business operations, improper or misleading disclosure, or breaches of fiduciary duty. Imagine Canada's report found that charities are "fairly pessimistic for the future" with almost half of respondents expecting their financial condition will worsen over the next three to six months.

Participants from the commercial insurance industry emphasized the importance of risk management within the sector and highlighted public policy measures such as civil liability protection that, if enacted by provincial governments, could help mitigate the additional costs for organizations having to defend against frivolous lawsuits. (See the section "[Commercial insurance for small businesses in the Canadian hospitality sector](#)," earlier in this report for further explanation.) They also discussed the value of shopping around to explore all available insurance options.

IBC shared information about its new resources developed specifically for this challenging market.

## Non-Profit Sector Recommendations

### **The insurance industry should consider the following reforms:**

- The insurance industry and non-profit stakeholders should advocate together for liability immunity protections for businesses and organizations that follow government protocols related to COVID-19.
- The insurance industry should continue to educate non-profit stakeholders on how to manage their risks and improve their risk profile, particularly those risks related to directors' and officers' liability. This effort should include providing sector-specific tools to help manage their insurance costs.

### **Provincial governments should consider the following reforms:**

- Provincial governments should reform the principle of joint and several liability to help manage the claims against commercial consumers and insurance costs.
- Provincial governments should implement temporary tort reforms to provide liability immunity protections for businesses and organizations that follow government protocols related to COVID-19.

### **Consumers should consider the following to help manage their risk profile and insurance costs:**

- Consumers should consider implementing a comprehensive risk management strategy to help reduce or mitigate the potential for loss or damage.
- Consumers should create and/or maintain a relationship with their insurance representative and regularly engage, especially when there are changes to their usual business activities.
- Consumers should understand their insurance policy and ask questions for clarification.



## Part 6: General Recommendations for Change

Along with sector-specific recommendations, the Task Force roundtables generated wide-ranging and broad recommendations to help improve the commercial insurance market in Canada.

These recommendations were gathered during the roundtable discussions as well as from follow-up discussions with participants and further research on other jurisdictions' public policy solutions to commercial insurance challenges that are similar to those being faced in Canada.

This list of recommendations includes changes to be undertaken by the insurance industry, changes to be considered by governments and steps to be taken by consumers. The recommendations include regulatory reforms and opportunities for better communication, engagement and education in the short, medium and long terms. Given the challenges of COVID-19 to many businesses, some recommendations were implemented even before the Task Force completed its work.

### **The insurance industry should consider the following reforms:**

- The insurance industry, through IBC, should continue to hold forums for insurers, insurance agents, brokers, governments and consumers to learn about the challenges that commercial consumers face and to find innovative solutions to mitigate these challenges.
- In spring 2022, the insurance industry, through IBC, should provide a follow-up report. The follow-up report should include an update on engagement with governments and stakeholders on the commercial insurance challenges, the implementation of the Task Force's recommendations and any impact they may have had on availability and affordability for consumers.
- The insurance industry should continue to develop and promote consumer-friendly information to help commercial consumers better manage their risks and improve their risk profile.
- IBC should invite stakeholders to participate in regular reviews of the content and effectiveness of commercial insurance information on the IBC website.
- The insurance industry should continue to provide resources to brokers to help them communicate with their commercial insurance clients about insurance policies and finding insurance coverage.

- IBC should continue to facilitate meetings between insurers and representatives of sectors facing commercial insurance challenges.
- Insurers, insurance agents and brokers should continue building their knowledge about the insurance needs of their commercial clients, particularly those in specialized lines.
- Brokers and insurance agents should communicate insurance policy changes, particularly before renewals, in a more timely manner to give clients time to understand their insurance options and explore next steps.

**Provincial governments should consider the following reforms:**

- Provincial governments should work with the insurance industry to identify factors that drive insurance costs and explore legislative reforms to manage these costs over the long term.

**Consumers should consider the following to help manage their risk profile and insurance costs:**

- Consumers should consider implementing a comprehensive risk management strategy to help reduce or mitigate the potential for loss or damage.
- Consumers should create and/or maintain a relationship with their insurance representative and regularly engage especially when there are changes to their usual business activities.
- Consumers should understand their insurance policy and ask questions for clarification.



## Part 7: Next Steps

The Canadian P&C insurance industry is committed to continuing the work begun by the National Commercial Insurance Task Force. As next steps, the industry will:

- Continue to share key commercial insurance information, including commercial insurance intelligence reports, with stakeholders in various sectors.
- Through IBC, the industry will continue to assist commercial clients by providing new resources developed specifically for this challenging market. IBC will continue to enhance its helpline and websites with information for businesses and organizations to help them learn more about their commercial insurance, including specific information about condominium or strata commercial insurance.

**Additionally, IBC has and will continue to provide support to businesses through the following initiatives:**

- Any Canadian business can be connected with a risk manager through IBC's toll-free helpline at 1-844-2ask-IBC (1-844-227-5422). The line is staffed by trained professionals who can answer pressing questions and discuss options that are tailored to a client's specific needs and situation. [IBC's business insurance web page](#) also contains tips and advice. Those looking for specific information about condominium or strata commercial insurance can visit [condoactionplan.ca](http://condoactionplan.ca) or [strataactionplan.ca](http://strataactionplan.ca).
- IBC has retained risk managers who specialize in identifying risks to businesses and recommending preventive measures to minimize these risks. They also explain the insurance placement system in Canada and the best ways to find an insurance broker or agent who meets the needs of a business, which is often extremely helpful given the complexity of commercial insurance. When appropriate, risk managers will outline the types of coverage that should be considered for a business in today's environment.
- The insurance industry's new Ontario-based Business Insurance Action Team (BIAT) will continue to help small business owners find the insurance they need to continue operating.

While the Task Force engaged in many good discussions covering a variety of different sectors, IBC continues to hear of emerging issues in some of these sectors as well as in others. The insurance industry is committed to continuing the dialogue and finding ways to support commercial consumers over the coming months and to report back on these continued efforts in its follow-up report in spring 2022.



## CASE STUDIES

The industry has helped many businesses find insurance coverage through the Business Insurance Helpline, the Business Insurance Help website, IBC's risk manager and industry partnerships. Here are some examples:

- **An organization in Moonbeam, Ontario**, that runs a seasonal, not-for-profit social club catering to families and operated by volunteers. The organization was declined coverage from its previous insurer due to a change in market appetite. The risk manager retained by IBC worked closely with the broker of record and was able to find coverage in the regular market.

- **A neighbourhood pub in Belleville, Ontario**. Its current insurer declined the pub's renewal due to a change in market appetite for providing commercial hospitality coverage. After approaching multiple insurers, the broker of record was unable to find a company to underwrite the coverage the pub required. After the risk manager worked closely with the business and offered advice on operational issues related to host liquor liability, the business made the appropriate changes and participating BIAT insurers provided coverage.

- **A condo corporation in Nova Scotia**. It includes 18 detached homes and was having difficulty obtaining insurance because the units all have wood-burning stoves. After extensive conversations between IBC's risk manager and the condo corporation chair, it was concluded that the best path forward to secure insurance was to change the "special unit" definition to bare land. This allowed the condo corporation to transfer the insurance policy to the detached homes (cheaper and available for homes with wood burning stoves) and the common property was insured under a separate policy (which was also cheaper and fewer limits were needed).

- **A riding arena business in Saskatchewan.** It came to IBC's risk manager through its broker, after the managing general agent (MGA) providing the policy advised it was reducing its risk capacity from 100% to 50%. The business shopped the market for the remaining 50%, only to be quoted a rate three times higher than the rate for the current policy. The risk manager reviewed the risk and plot plan that showed where all the values are situated on the acreage. It was concluded that the total risks covered by the policy were well spread out and not susceptible to a total fire loss, which had been a concern of the MGA. With this information in hand, the original MGA came back and said it would take the 100% with only a small increase in the premium.

- **A strata corporation in Coldstream, BC.** It saw its insurance renewal lowered from \$130,000 in 2020 to \$67,000 in 2021 after IBC's risk manager worked directly with the strata corporation board on an insurance procurement strategy and improved its submission.

## Disclaimer related to Deloitte involvement in the IBC Commercial Insurance Task Force Final Report:

- Deloitte LLP ("Deloitte") has provided this part of IBC's final report as a part of its engagement with Insurance Bureau of Canada. Deloitte does not assume any responsibility or liability for losses incurred by any party as a result of the circulation, publication, reproduction or use of this analysis contrary to its intended purpose. This analysis has been made only for the purpose stated and shall not be used for any other purpose. Neither shall this analysis (including references to it) nor any portions thereof (including without limitation the identity of Deloitte or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) be disseminated to third parties by any means or included in any document without the prior written consent and approval of Deloitte. Our report and work product cannot be included, or referred to, in any public or investment document without the prior consent of Deloitte.
- The analysis is provided as of April 13, 2021, and we disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting this analysis, which may come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the analyses after the date hereof, we reserve the right to change, modify or withdraw the analysis. No opinion, counsel, or interpretation is intended in matters that require legal or other appropriate professional advice. It is assumed that such opinion, counsel, or interpretations have been, or will be, obtained from the appropriate professional sources. To the extent that there are legal issues relating to compliance with applicable laws, regulations, and policies, we assume no responsibility therefore.
- The COVID-19 pandemic is constantly evolving, with information on economic conditions and public policies changing daily. Observations are made on the basis of economic, industrial, competitive and general business conditions prevailing as at the date hereof. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting this analysis, which may come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the analyses after the date hereof, we reserve the right to change, modify or withdraw the analysis.
- We believe that our analysis must be considered as a whole and that selecting portions of the analysis or the factors considered by it, without considering all factors and analyses together, could provide inaccurate or incomplete results. Amendment of any of the assumptions identified throughout this report could have a material impact on our analysis contained herein. Should any of the major assumptions not be accurate or should any of the information provided to us not be factual or correct, our analysis, as expressed in this report, could be significantly different.
- Deloitte did not participate in developing recommendations proposed herein.

# Appendix A – National Commercial Insurance Task Force Recommendations

## Task Force Recommendations at a Glance

Based on the findings of the five roundtable discussions held throughout 2020, the Task Force produced a comprehensive list of sector-specific recommendations for improving the commercial insurance market in the short, medium and long terms.

- Among the recommendations are that the insurance industry, governments, businesses and organizations in affected sectors continue to share information and work together toward sector-specific solutions for commercial insurance consumers.
- Other recommendations focus on joint advocacy by insurers and specific sectors, such as trucking, to advocate for legislative reforms that would positively impact insurance availability and affordability in certain sectors.
- There are also several recommendations focused on how insurers, businesses and organizations can work together to improve risk management within specific sectors in a way that positively impacts insurance availability and affordability.

## Condominium/Strata Sector Recommendations

For a full discussion of insurance challenges facing the condominium and strata sector and recommendations for the sector, see IBC's National Commercial Insurance Task Force Midterm Report.

### **The insurance industry should consider the following reforms:**

- Educating insurance representatives and condominium/strata associations about risk management best practices
- Sharing information and research with governments on risk and regulatory reform
- Providing risk management support where possible
- Educating condominium boards/strata councils, unit owners and prospective owners about risk management and insurance pricing.

### **Provincial governments should consider the following reforms:**

- Defining a standard unit in legislation
- Amending building codes to reduce risk
- Amending land-use planning to reduce risk
- Making risk management education for condominium/strata board members mandatory
- Mandating the licensing of condominium/strata managers
- Mandating depreciation reports and enhancing regulations governing the use of reserve funds
- Capping loss assessments for strata lot owners
- Speeding up municipal permitting processes.

### **Consumers and condominium/strata corporations should consider the following to help manage their risk profile and insurance costs:**

- Working with their insurance representative
- Undertaking effective maintenance programs
- Educating board members
- Ensuring there are adequate depreciation reports and reserve fund studies and implementing other best practices to reduce risk and potential claims.

## Trucking Sector Recommendations

### The insurance industry should consider the following reforms:

- The insurance industry should consider further incentives for Canadian fleets that deploy safety technology; it should also share more information with commercial trucking stakeholders on the factors considered in determining their insurance coverage.
- IBC and CTA should continue discussing how to reduce fraud in the trucking sector. The Facility Association (FA), which is a non-profit insurance association that makes auto insurance available to those turned down by the private sector, carried out a study of recent closed claims in its commercial trucking book of business. It found that a number of those claims included fraud, particularly trucking firms declaring that they operated in one province but were actually based in another. FA also saw a large decrease in its Ontario market share and a large increase in market share elsewhere. FA determined that some trucking insurance consumers were fraudulently declaring head offices in Atlantic Canada to achieve lower premiums. As a result, FA has tightened up its documentation requirements across Canada to be in line with private insurers. IBC and CTA should support FA as it implements its new standardized documentation requirements for the trucking sector across all provinces.
- Insurers should share information on their current insurance rating system with individual trucking carriers, including information on how the carrier's performance contributes to its premium costs.
- IBC and CTA should host a focus group of CTA carriers and IBC representatives to review the challenges of insuring young drivers, and look for training programs and any minimal training standards that could help increase the insurability of these drivers.

### Provincial governments should consider the following reforms:

- It has been noted that at the time of policy renewals, insurers may be provided with fraudulent or unverified information regarding insurance policies. Provincial governments should implement a database to verify the validity of a carrier's insurance when issuing or renewing plates, and advocate for all jurisdictions to carry out this validity check at renewal and in real time. IBC members have advocated for a government database to verify trucking insurance information. IBC and CTA will determine which jurisdictions do not check the validity of a carrier's insurance when issuing or renewing plates to help support government advocacy efforts and promote the value of a government database.

### Consumers should consider the following to help manage their risk profile and insurance costs:

- IBC and CTA should create educational materials to inform CTA members on insurance issues, including risk management and factors that affect insurance policy pricing.

## Hospitality Sector Recommendations

### **The insurance industry should consider the following reforms:**

- The insurance industry should continue looking for ways to help businesses unable to obtain insurance coverage.
- The insurance industry and hospitality stakeholders should advocate together for liability immunity protections for businesses that follow government protocols related to COVID-19.
- The insurance industry should continue to educate hospitality stakeholders on how to manage their risks and improve their risk profile. This effort should include providing sector-specific tools to help them manage their insurance costs.

### **Provincial governments should consider the following reforms:**

- Provincial governments should work with the insurance industry with the goal of implementing reforms to the principle of joint and several liability to help manage the claims against commercial consumers and insurance costs.
- Provincial governments should implement temporary tort reforms to provide liability immunity protections for businesses that follow government protocols related to COVID-19.

### **Consumers should consider the following to help manage their risk profile and insurance costs:**

- Consumers should consider implementing a comprehensive risk management strategy to help reduce or mitigate the potential for loss or damage.
- Consumers should create and/or maintain a relationship with their insurance representative and regularly engage, especially when there are changes to their usual business activities.
- Consumers should understand their insurance policy and ask questions for clarification.

## Non-Profit Sector Recommendations

### The insurance industry should consider the following reforms:

- The insurance industry and non-profit stakeholders should advocate together for liability immunity protections for businesses and organizations that follow government protocols related to COVID-19.
- The insurance industry should continue to educate non-profit stakeholders on how to manage their risks and improve their risk profiles, particularly those risks related to directors' and officers' liability. This effort should include providing sector-specific tools to help manage their insurance costs.

### Provincial governments should consider the following reforms:

- Provincial governments should reform the principle of joint and several liability to help manage the claims against commercial consumers and insurance costs.
- Provincial governments should implement temporary tort reforms to provide liability immunity protections for businesses and organizations that follow government protocols related to COVID-19.

### Consumers should consider the following to help manage their risk profile and insurance costs:

- Consumers should consider implementing a comprehensive risk management strategy to help reduce or mitigate the potential for loss or damage.
- Consumers should create and/or maintain a relationship with their insurance representative and regularly engage, especially when there are changes to their usual business activities.
- Consumers should understand their insurance policy and ask questions for clarification.

## General Recommendations for Change

Along with sector-specific recommendations, the Task Force roundtables generated wide-ranging and broad recommendations to help improve the commercial insurance market in Canada.

These recommendations were gathered during the roundtable discussions as well as from follow-up discussions with participants and further research on other jurisdictions' public policy solutions to commercial insurance challenges that are similar to those being faced in Canada.

This list of recommendations includes changes to be undertaken by the insurance industry, changes to be considered by governments and steps to be taken by consumers. The recommendations include regulatory reforms and opportunities for better communication, engagement and education in the short, medium and long terms. Given the challenges of COVID-19 to many businesses, some recommendations were implemented even before the Task Force completed its work.

### **The insurance industry should consider the following reforms:**

- The insurance industry, through IBC, should continue to hold forums for insurers, brokers, governments and consumers to learn about the challenges that commercial consumers face and to find innovative solutions to mitigate these challenges.
- In spring 2022, the insurance industry, through IBC, should provide a follow-up report. The follow-up report should include an update on engagement with governments and stakeholders on the commercial insurance challenges, the implementation of the Task Force's recommendations and any impact they may have had on availability and affordability for consumers.
- The insurance industry should continue to develop and promote consumer-friendly information to help commercial consumers better manage their risks and improve their risk profile.
- IBC should invite stakeholders to participate in regular reviews of the content and effectiveness of commercial insurance information on the IBC website.
- The insurance industry should continue to provide resources to brokers to help them communicate with their commercial insurance clients about insurance policies and finding insurance coverage.
- IBC should continue to facilitate meetings between insurers and representatives of sectors facing commercial insurance challenges.
- Insurers, insurance agents and brokers should continue building their knowledge about the insurance needs of their commercial clients, particularly those in specialized lines.

- Brokers and insurance agents should communicate insurance policy changes, particularly before renewals, in a more timely manner to give clients time to understand their insurance options and explore next steps.

**Provincial governments should consider the following reforms:**

- Provincial governments should work with the insurance industry to identify factors that drive insurance costs and explore legislative reforms to manage these costs over the long term.

**Consumers should consider the following to help manage their risk profile and insurance costs:**

- Consumers should consider implementing a comprehensive risk management strategy to help reduce or mitigate the potential for loss or damage.
- Consumers should create and/or maintain a relationship with their insurance representative and regularly engage, especially when there are changes to their usual business activities.
- Consumers should understand their insurance policy and ask questions for clarification.



## About Us

Insurance Bureau of Canada (IBC) is the national industry association representing Canada's private home, business and auto insurers. Its member companies make up 90% of the property and casualty (P&C) insurance market in Canada and employ 128,000 Canadians.

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