



# How a Hard Market Affects Your Insurance Premiums

Like all industries, insurance undergoes cycles of expansion and contraction. Natural catastrophes and economic downturns around the world have a direct impact on fluctuations of the market.

Floods, wildfires, and other severe weather events all result in dramatic increases of claims paid by insurers. In just the past few years, we've seen some of the costliest for insured losses in history:

- California wildfires: **\$12 billion USD**
- Flooding and Typhoon Jebi in Japan: **\$11.12 billion USD**
- Hurricane Michael: **\$10 billion USD**
- Hurricane Florence: **\$5.3 billion USD**
- Fort McMurray wildfires: **\$3.8 billion**
- Calgary floods: **\$2 billion**

In 2018, severe weather in Canada (ice storms, floods, windstorms and tornados) caused \$1.9 billion in insured damage. Due in large part to the increasing frequency, severity and financial impact of these environmental disasters, we are entering a period of contraction in the industry, otherwise known as a **hard market**.

## Hard Market

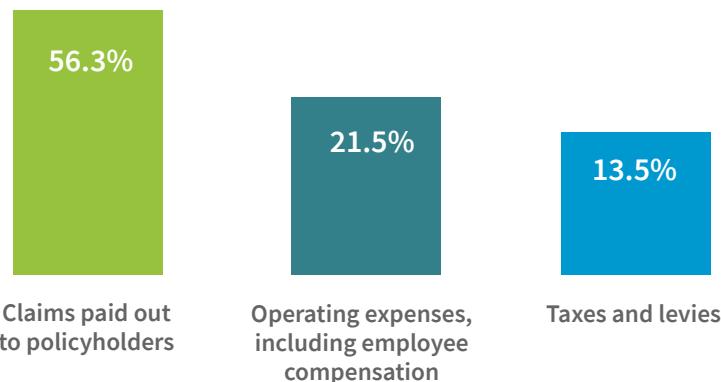
- Higher insurance premiums
- More stringent underwriting
- Less competition
- Reduced capacity

## Soft Market

- Lower insurance premiums
- Relaxed underwriting criteria
- Increased competition
- Increased capacity



**More than half of every dollar received is paid out in claims.**



*Source: Insurance Bureau of Canada 2018 Facts of the Property and Casualty Insurance Industry in Canada*

For insurers, a key measure of profitability is what is known as the Combined Ratio. The Combined Ratio is the portion of annual premiums that are being paid out in claims and expenses.

**Insurers are usually comfortable at a ratio of 90. According to a recent Market Security Report commissioned by the Canadian Broker Network, which analyzes the financial strength of 35 major insurers in Canada, current Combined Ratios for many are between 100-120.**

These insurers are operating at a loss. In response, they are being more selective in what they are willing to insure, and premiums are increasing to meet the demands made by the increasing number of claims made.

### **Deductibles**

Water has now surpassed fire as the number one cause of home insurance claims in Canada, accounting for nearly 50 per cent. Water damage is also the number one reason strata unit owners file an insurance claim. In recent years, insurers have been hit with a substantial increase in water damage claims among aging apartment buildings and condominiums. As is the nature with multi-story buildings, water damage stemming from one unit can easily spread cross floors to several units, resulting in a significant claim on the building's insurance.

In response to ongoing financial losses resulting from paying out these types of claims, insurers are not only being more selective on what they will insure and increasing rates, they are also increasing deductibles. Previously, deductibles in the \$10,000 range were common. In today's market, buildings located in areas prone to flood and water damage could see deductibles of \$100,000 or higher.



## How CapriCMW Supports You in a Changing Market

Through our longstanding relationships with Canada's leading insurers, we bring you access to the latest products, pricing and solutions. We leverage these partnerships and our decades of experience and specialized expertise to deliver custom solutions for your unique service requirements and financial needs.

As a local, independent company, we are committed to providing unfiltered, unbiased advice in the best interest of our clients, helping you make informed decisions when it comes to protecting your properties.

Contact your **CapriCMW Risk Advisor** for more information and resources.