

FEBRUARY 2020

Insurance Outlook

JANUARY 31, 2020

In the past several years, the insurance industry has experienced record catastrophic losses. 2017 alone resulted in payouts close to \$100 billion in insured losses. In 2018, Canada suffered monumental weather losses in the neighbourhood of \$1.9 billion. As 2019 comes to a close, we reflect back to the abrupt underwriting changes in the marketplace as well as prepare for the year ahead.

2019 marked a year of significant transformation in the insurance industry. As a result of ongoing financial losses due to global catastrophes, insurers began actively reassessing their capacity limits and countered with dramatic rate and deductible increases. In particular, the real estate and strata market was the hardest hit, with the additional burden of industry-high water damage claims. While the first double digit increases were implemented in the beginning of 2019, the industry has continued to harden with rates and deductibles have been increasing exponentially each month.

Based on continued overall poor performance in this market, the year ahead is predicted to be as volatile as 2019. While historically, there have been a large number of insurance companies interested in this class of business, this is simply not the case in today's marketplace. Due to years of poor financial results, some insurers have chosen to cease insuring strata corporations altogether. As a result, a finite number of insurers have remained and these insurers are closely scrutinizing each risk to determine appropriate terms and coverages.

Categorized Review

Risk Review

During this time of actuarial review, there are several risk categories that pose challenges for underwriters and may result in extensive rate and deductible increases.

Value of Buildings

A crucial factor affecting insurance is lack of available capacity. For buildings with high appraised values, there is a concern of finding enough insurance companies to offer property insurance at full replacement value (i.e. to the approved value). It is not uncommon to have 15 or more insurers on one property policy. As capacity is shrinking rapidly, more insurance companies are needed to participate. With numerous insurers participating in a single property, this may require participation from the most reluctant insurers who do not have an appetite for this risk, but will agree to take on risk at considerably higher rates and deductibles. Inversely, smaller properties are also being impacted. While less insurers may be involved on the policy, each insurer also faces a higher risk on their investment. Even one smaller claim can significantly affect insurer's profitability and the strata's loss ratio (a comparison of premium collected vs claims paid).



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**BC Condo
Owners brace for
sticker shock as
insurance rates
surge 50 – 300%**

— Tony Gioventu
CHOA – GLOBAL TV
NOVEMBER, 2019



Construction Type

Fire resistive “high rises” have large values which can be challenging to underwrite. In addition, these properties tend to have high frequency and severity of claims. In particular, large water damage claims are on the rise with this construction type, and deductibles are increasing as a result. Wood frame buildings are also becoming increasingly difficult to insure, especially non-sprinklered wood frame buildings with a statistically high Maximum Possible Loss exposure.

Age of Buildings/Building Upgrades

Insurers are especially interested in information on strata upgrades and improvements for buildings over 20 years old. Risk management is crucial and information on preventative measures needs to be communicated to insurers. Regular updates are valued by insurers.

Catastrophic Exposure: Flood/Earthquake/Fire

British Columbia is a desired location for home owners due to our natural beauty. Our location also poses great challenges for insurers with the increased exposure to flood, earthquake and forest fires. Insurers globally rely on re-insurance for these catastrophic causes of loss. Re-insurance prices globally continue to rise in light of ongoing worldwide claims. Insurers are now relying heavily on statistical and geographic mapping and disaster modelling to safely and responsibly deploy their capacity in high risk areas. This means that properties located in higher risk territories will see greater scrutiny on both premiums and deductibles.

Loss Ratio

Typically, loss ratio has been the driving factor with regard to rate and deductible allocations. This is still the case but insurers are now also closely reviewing any claims frequency and severity. In many cases, insurers will refuse to offer capacity if they feel the loss ratio is not in their desired five-year range. Stratas with claims experience in the past five years will be scrutinized by insurers, and loss prevention actions are considered by insurers when applying rate and deductible increases.

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In 2019, floods, rain, snow and windstorms damaged homes, vehicles and commercial properties. Insured damage for these Canadian severe weather events reached \$1.3 billion last year.

— Insurance Bureau of Canada
JULY, 2019

Until insurer’s profitability returns, there is no relief in sight and hard market conditions will continue through 2020.

— Andrew Kemp, PRESIDENT - CAPRICMW INSURANCE
DECEMBER, 2019

Let us help



It is more important than ever before to demonstrate the value and desirable attributes of each Strata Corporation. Your Risk Advisor will work with you to understand your property and ensure that it is described in its best light with the insurers. Our commitment to you is to achieve the best available coverages, rates and conditions in this challenging marketplace.



CapriCMW Recommendations and Partnership Strategy

One of our commonly asked questions is “how will I budget for 2020?”

It is very difficult to provide blanket budgets, as premium increases vary dramatically starting at 30% and escalating above 100% based on the properties construction, age, location and individual risk profile. **We recommend you work with your CapriCMW Risk Advisor on an individual Strata Corporation basis for accurate and regular budget information.**

We recognize that this market has been becoming more volatile from month to month and thus capacity and rate have hit a critical state. We have seen circumstances where Strata Corporations have not been offered renewal through their existing brokers or have only been offered property insurance at less than full replacement value (“loss limit” policy). Fortunately, so far, **CapriCMW Insurance has been able to secure capacity and place full replacement cost coverage for all but one risk.** Our main strategy is to ensure you have full replacement cost and you are in compliance with the requirements under the BC Strata Property Act. If capacity and rates within the traditional marketplace are simply not available, we will present a Loss Limit proposal to you for consideration and will recommend Council obtain independent legal advice.

CapriCMW Insurance is a Broker, meaning we work for you - we act as your representative, negotiating and advocating with the Insurers on your behalf. During this tumultuous time, our team involvement on your risk ranges from our President to our Executive Team to your trusted Strata Risk Advisors. We are working for you to ensure you have the insurance that you need. Our proprietary process allows us to retain committed, loyal insurers on your policy which in turn provides stability to you.

While these rate and deductible increases may prompt discussions of alternate quotes, today’s marketplace conditions makes it virtually impossible for a second broker to provide a proposal. In fact, we are now seeing circumstances where two brokers enter the marketplace, and due to limited capacity and split market access, neither are able to finalize a full replacement cost option for the Strata. **As your Trusted Advisor, we will continue to provide you with regular updates on our process, the state of the marketplace and status of renewal discussions.**

Our Promise



CapriCMW is your advocate and business partner. We are committed to achieving the best possible results in this challenging marketplace.