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# Do you like your market hard, soft or over-easy?

**What's a hard market?**
An insurance market is generally described as being hard when the capital used to fund insurance transactions begins to dry up or not be as readily available as normal. Reducing capital availability can occur at different levels of the insurance supply chain and when significant insurance or economical events occur around the world impacting us here in Canada.

**What's causing this hard market?**
From our discussions, research and monitoring of trade press, one of the driving factors of our current hard market is the lack of capital of primary insurers (retail insurance companies). Even though there's some withdrawal occurring within reinsurance markets, that's not the primary contributor to the market conditions we're experiencing today. So why is this happening? Retail insurers currently aren't making as much money as they need to. Profits ensure that their product availability, supply and price can be held stable.

There are two main reasons for this, but each company's specific experience may vary.

The auto product is causing concern across the country, but concern is heightened in Ontario and Alberta. Companies that are exposed to these provinces are finding it difficult to reach a level of profitability where they can stabilize their auto product offerings. One factor in Ontario's auto market is that the inflationary costs associated with physical damage claims have far exceeded the increase in rates approved by the regulator. The cost of repairing vehicles has increased significantly with the amount of technology being installed in vehicles, but this cost has outstripped the anticipated inflation cost built in to pricing (i.e. the future estimated costs of settling PD claims is greater that the premiums collected to settle those claims).

"Kittens" not Cats – one major insurance company has indicated that due to the change in weather patterns they're experiencing growth in significant weather events which just fall under the reinsurance threshold (the threshold where a reinsurance company will pay a claim to the insurance company). These events have a compounded effect on the insurance companies in that their profitability is falling short of their expectations – again, the products that are paying these claims haven't been priced to account for this increase in kittens.

**Is it just a matter of time until pricing is corrected?**
In some respect, yes. But in auto there are many factors to consider, especially the regulator's influence on the rate setting process. Many of these factors will be addressed over time, but only once the trends become predictable enough for product pricing to get ahead of claims and become responsive.

**What will the impact on my brokerage be?**
As you will have seen, those companies that aren't making adequate returns and don't feel that they're getting adequate rates are changing their underwriting practices to (a) ensure the policies they do write

are priced as accurately as they can be and (b) for those areas where adequate rates are unavailable they're slowing production in those areas. You will have seen restrictions on new business rates, specific classes of business and changes in renewal practices being issued by multiple companies.

We'll also begin to see knock-on effects from product lines that are under the most financial strain. In certain regions today, we're seeing insurance companies begin to raise prices in other areas of their business to compensate for the unprofitability. Company executives will be measured on their performance of the company as a whole, and not necessarily individual lines of business. Just ask any shareholder of a public insurance company!

**What happens if this continues too long?**
Worst case scenario, insurance markets withdraw from writing unprofitable lines of business, but this is only likely in prolonged periods of financial strain. It should be noted that RBC sold to Aviva, State Farm sold to Desjardins and both RBC and State Farm have exited the Canadian insurance market. There's also evidence of the odd company pulling out of specific markets or lines of business (i.e. AIG). We should acknowledge that we have around 90 insurance companies selling products through brokers and around 60 of those sell auto products – our market here in Ontario is still very healthy.

**How long will this hard market last?**
Best case scenario: we're likely to experience the hardening of the market for the remainder of 2019. One large insurance company has indicated that they're expecting to take 3 years to get on top of the physical damage inflation/pricing issues.

**Now what?**
At the IBAO we're keeping a close eye on market activity and keeping in touch with our insurance company partners, regulators and the Ontario Government. We keep all stakeholders abreast of developments and raise concerns with the necessary individuals when market practices seem to cross a line. We can only do this with your help as you're the ones who experience the realities of the market day in and day out.

**The role of the broker**
As front line underwriters you'll experience the brunt of the impact felt by consumers. Prices are continuing to rise and harder to place risks (or those of the insurance company re-underwrite lists) will become more and more challenging to place. The government and regulators are very aware of the pent up frustration building within the market, but as long as brokers continue to do their jobs well, consumers are less likely to create a wave of complaint large enough for politicians to hear. We're keeping a close eye on this and managing our advocacy efforts accordingly. There is hope that the Ontario Government will begin addressing some of the known issues, and Ontario's new regulator (the FSRA) seems very aware of their challenges in this respect. We'll continue to support our members as the market evolves and hopefully some of the solutions will begin to pay dividends without more restrictions of how you can go about your business of servicing consumers. Hunker down and keep consumer interests first and forefront – we'll get through this together as an industry.