International Machinery Insurers Association
Analysis Report for Canada 2017

While continuing to suffer from the weak global economy and continued low interest rates, the Canadian insurance market benefited from a substantial reduction in CAT losses. Total catastrophe losses were $1.3 Billion as opposed to the $5.2 Billion in 2016. Underwriting income declined slightly.

The industry had an improved annual combined ratio of 96.5%, down from 99% in 2016. Net income increased from $2.4 billion in 2016 to $4.2 billion in 2017. The continuing downturn in oil prices resulted in postponements and cancellations of energy projects, which impacted the industry further with reduced premiums, rates and income, and caused additional underwriters to back out of the energy business.

The total value of building permits issued by Canadian municipalities increased to $94 billion, up from $86 billion in 2016. Municipalities issued residential building permits worth $64.8 billion, while the industrial component declined to $4.94 billion. The balance was commercial.

The Canadian economy posted a GDP growth of 2.9% in 2016 after growing 1.3% in 2016. The annual average unemployment rate declined to 5.8% in 2017, compared to 7.0% in 2016. The consumer price index (inflation) rose by 2.2%

Premium Development

P&C company growth rate as measured by direct written premium has been one of steady but limited increases over the past several years. However, in 2017, direct written premium increased slightly from $51.6 billion to $53.72 billion, a modest growth of only 0.72%, compared to 5.99% in 2016.

The engineering insurance business lines (excluding EAR/CAR) increased slightly in 2017 from the previous year. Net written premium increased to $478 million from $470 million in 2016 and the loss ratio declined to 35% compared to 45.68% posted in 2016.

Engineering-related inspection activity is estimated to have been $35.0 million, up from $30.5 million for 2016 despite increased competition for inspection work, as there is also increased demand.

Commercial property premium rose 3.0% to $7.832 billion in 2017 in net earned premiums. Growth continued to be limited by the slowdown in the Alberta economy. CAR and EAR premiums are not listed as separate lines of business in Canada and are typically included as part of Property (Personal and Commercial). It is estimated the premium associated with such contracts for 2017 was $330 million, an increase of 9.6% from $301 million in 2016, mainly driven by a growth in residential construction and by infrastructure projects.

For Machinery Breakdown business, which includes Boiler Explosion and Loss of Profits, the net earned premiums had a 4.65% increase to $450 million from $430 million in 2016.

The Machinery Breakdown market continues to be affected by many larger risks going into combined All Risk policies. There was little overall change in rates and a significant decline in loss ratio, but there was continued competition on larger accounts which enjoy good loss ratios.

For 2018, the result is likely to be similar. Machinery Breakdown premiums equate to approximately 6% of the premium spent on Commercial Property insurance, and around 1% of the total P&C industry writings.

Claims Development

2017 saw a large improvement over 2016 which had the costliest wildfire event in Canadian history, the Fort McMurray fire in May, which developed over $4 billion in loss costs. In addition, there were 12 other catastrophes in Canada in 2016. 2017 saw a significant decline in catastrophes, which amounted to $1.3 billion. The overall loss ratio for commercial property insurers decreased from 83% in 2016 as compared to 69.12% in 2017. It should be noted, however, that the 2017 results were artificially helped by unpaid claims run off from the previous year.

For all lines combined the overall market produced a combined ratio of 96.33%, down from 99.2% the previous year. The industry as a whole produced a return on equity of only 7.8%

Machinery Breakdown losses showed a slight decrease, from net claims incurred of $203 million in 2016 to $156 million in 2017. Together with increased net earned premiums, this resulted in a decline in loss ratio from 46% to 35%.

Underwriting Profitability

The Canadian insurance industry suffered almost $1.3 billion in catastrophe losses in 2017 and this, together with weak but improving investment income, led to the unsatisfactory ROE of 7.8% for the industry as a whole.

The combined ratio for 2017 was 96.33%.

Machinery Breakdown (not including EAR/CAR) premium for 2017 was up 6.7%, from $441 million in 2016 to $470 million in 2017. The claims ratio decreased to 35% from 45.68% in 2016.

Business Outlook 2018

The Canadian insurance marketplace continues to be affected by the slumping global economy.

Canada's real gross domestic product (GDP) grew by a steady 1.7% in 2017. This was in line with the 1.3% increase in 2016, but still a better performance than the 1% growth that had been forecast.
In the first quarter of 2018 GDP grew by an annualized 3.7%. This pace of growth is expected to slow to 2% for the remainder of the year following several raises in interest rates by the Bank of Canada, which is trying to slow inflation. Further increases seem likely.

It is expected that the Canadian dollar will stabilize in the US 77 cents range. Oil prices are also predicted to stabilize. The western provinces will continue to be negatively impacted by the lower price of oil, while Ontario and Quebec are expected to benefit from the low Canadian dollar with increased exports of manufactured goods. Nevertheless, ongoing trade disputes with the US may cause some slowdown in the economy.

Canada continues to be hit by natural catastrophes, and their frequency and severity are difficult to predict. These severe weather events will continue to impact the P&C industry. The summer of 2018 has seen numerous (650) wildfires in British Columbia, and Northern Ontario has also been badly hit.

SUPPLEMENTARY INFORMATION TO NATIONAL REPORT

Country: CANADA

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Report on the current year to date

Market summary

Wildfires continue to dominate the insurance landscape as more than 600 fires rage. Climate change is having a severe effect. This is BC's worst fire season in history, for the second year in a row. Thousands of people have been evacuated. The fires have affected numerous structures, infrastructure and several industries, although forestry spacing requirements for industrial sites have proved their value.

Despite a slow growing economy, the Canadian insurance industry remains very competitive. Factors such as low interest rates, low gross domestic product (GDP) growth, unpredictable investment returns, the fall of crude oil prices, and the low value of the Canadian dollar will likely continue over the next few years. This will negatively affect the insurance industry's profit margins and premium growth.

Mergers and acquisitions in the industry continue to be a strategy for some larger insurers and we can anticipate further activity in the next few years.

In the Machinery Breakdown segment, we see a continuing trend towards combined Property/Equipment Breakdown All Risk policies in more complex risks. This will result in future challenges as specific engineering insurance expertise is diluted.

As in 2017, with the economy on a downturn, there are concerns that maintenance levels and sparing of equipment will be reduced, resulting in an increasing loss ratio. Other challenges that may impact results will come from new technology, aging infrastructure and changing demographics, including the retirement of experienced engineers and underwriters.