



2011 Canadian Insurance Market Overview

A presentation to the Wood Pellet Association of Canada

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Canadian Insurance Market—Overview

Financial Results—Historical

- The insurance industry is cyclical and cycles between hard and soft markets
- The industry has been in a soft-market phase for the past seven years with policyholders benefiting from year over year declines in price, increased capacity and improved coverage terms
- The financial crisis which hit Q3 2008 created uncertainty about how the industry would be impacted—many expected that the insurance marketplace would harden
- This would have translated into rate (price) increases and reduced capacity (limits) being available



Canadian Insurance Market—Overview

Financial Results—Historical (cont'd.)

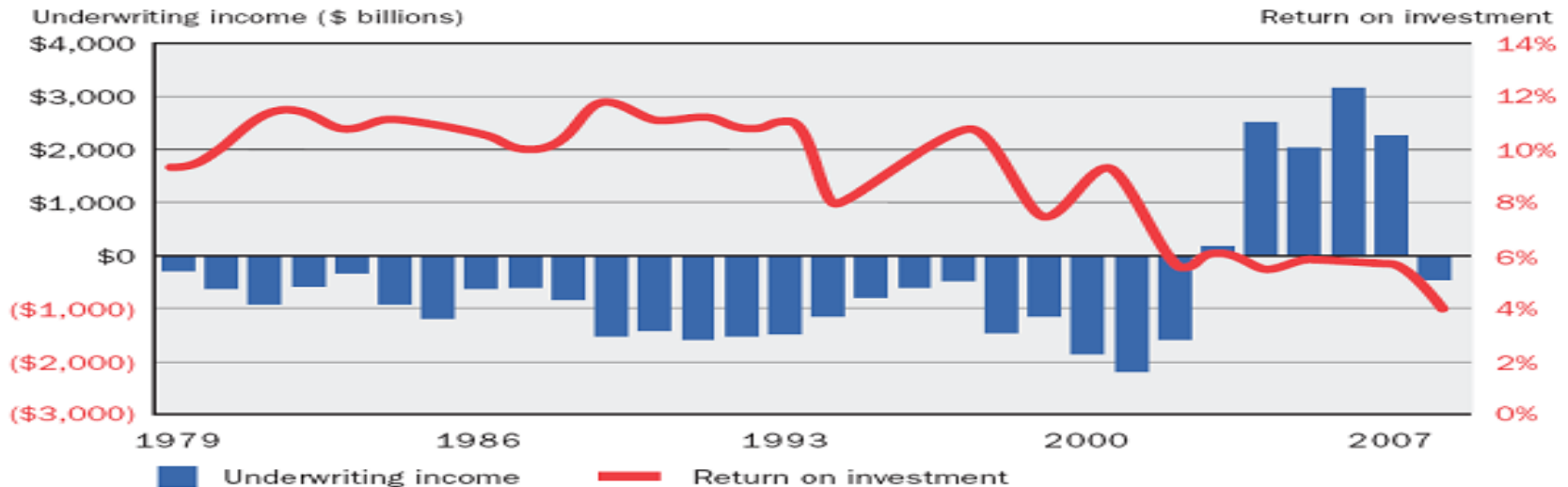
- No news was good news for the industry for most of 2010:
 - ✓ No major catastrophes occurred
 - ✓ Few insurers experienced rating downgrades (which would have made capital more expensive and harder to secure)
 - ✓ Investors were attracted to the industry because returns on Catastrophe Bonds (a type of Insurance Linked Security) are not tied to the overall financial market
- Significant excess capacity in the industry continued to drive competition amongst insurers who wanted to increase their market share
- During 2010 property and liability rates for most classes continued to decline or stay “flat”



Canadian Insurance Market—Overview

Financial Results—Current

- Insurers are not profitable with their insurance operations alone as is demonstrated by the combined ratio



Source: PACICC, with data from IBC

- Put simply, for every dollar of premium written (risk insured), insurers are spending more than a dollar on paying claims and operating expenses



Canadian Insurance Market—Overview

Financial Results—Current (cont'd.)

- Property and Liability rates continued to fall or stay flat in Q1 2011
- Not all policyholders are benefiting equally from competitive market:
 - ✓ for policyholders operating in some industries with a potential for significant losses, insurers are not as willing to compete on rate, even for policyholders with a good loss ratio
 - ✓ for policyholders who have had significant losses, insurers are pushing hard for increases in rate.
- Capacity for Catastrophe (CAT) cover decreasing after earthquake in Japan. Japan's insured property loss estimates range from \$18 to \$26 billion



Canadian Insurance Market—Overview

Q2 Update

- Forestry and Wood Products segments have experienced significant claim activity in recent years
- In 2010, one of the most reliable primary insurers for this industry segment, Lumberman's Underwriting Alliance (LUA), reduced their underwriting capacity
- LUA's net written premium had reduced by a factor of 50% over the past five years while their loss ratio at the end of 2009 had increased to 122.58%*. (**Canadian Insurance Statistical Issue*)
- LUA's decision to restrict capacity in light of poor underwriting results is not only understandable, but also indicative of the potential decision many other underwriters could make



Canadian Insurance Market—Overview

Q2 Update (cont'd.)

- In early 2010, ACE-INA Canada announced they would no longer offer primary cover on Forestry/Wood Products segments
- After continuing losses in 2010 and Q1 2011, ACE-INA has recently announced they will be withdrawing entirely from this industry segment in 2011
- Lack of capacity from historical leaders in the industry mean more insurers need to be attracted to underwrite this class
- Many insurers have been unwilling to compete on this class in past



Canadian Insurance Market—Overview

Market—Expectations

- The most challenging insurance placements are for risks that are classified as unprotected (from fire loss) and for those who have had both a frequency and severity of claims
- During a hardening market:
 - ✓ insurance companies can and have come off risk for select policy holders and, in some cases, ceased writing certain lines or classes of business entirely
 - ✓ other insurers will not have sufficient capacity to write additional or new business
- Many policyholders will see increases in premiums



Canadian Insurance Market—Overview

Market—Expectations (cont'd.)

- It is important for policyholders to build relationships with insurers already well positioned to continue to provide capacity when the market hardens
- There will be an increased focus on assessing the quality of individual policyholder's risk, relative to the risk characteristics of the policyholder's industry segment
- This is an opportune time to invest in loss control and risk reduction strategies
- Overall cost savings from this investment can be significant as these strategies can make any policyholder's risk more desirable



Canadian Insurance Market—Overview

Market—Expectations (cont'd.)

- An improved risk profile enables underwriters, regardless of the market cycle, to take active steps to attract or retain a certain policyholder
- Better risk profile can result in lower premiums
- Risk reduction strategies also help to reduce a policyholder's retained losses
- Reducing your Total Cost of Risk (TCOR) contributes directly to improvement of your bottom line



Summary

- A Best Practices program incorporating a Risk Management policy and implementing Risk Control practices is imperative to reducing your overall Total Cost of Risk
- You need to be the “Best of the Best”. Collectively you are a stronger voice and more attractive to Insurers.

Risk Control must be an integral part of an overall Risk Management strategy

Questions?



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