

HUB 2024

Outlook

Mid-Year Rate Report

Business

In perilous times, insurance and risk management offer the opportunity for better results



Risk & Insurance | Employee Benefits | Retirement & Private Wealth



Climate change has accelerated the frequency and intensity of natural disasters. Around the world, insurers were on the hook for CAD\$147 billion in damages from catastrophes in 2023, down from CAD\$170 billion in 2022 but above the 10-year average of CAD\$121 billion. The long-term trend of increased catastrophes from climate change will show up in rising insurance rates.¹

The “new normal” of recurrent and severe weather events represents an unpleasant reality for insurance companies and their policyholders. Climate change-driven catastrophes will continue to plague Canada in 2024 and beyond, and will have an outsized effect on insurance rates and availability. While there are signs of some relief for insureds, those acknowledging a new reality will have an edge on controlling risk and obtaining rate relief.

¹ Swiss Re Institute, “Natural disasters in 2023,” March 26, 2024.



Will catastrophic weather be the new normal?

The numbers are concerning: Worldwide losses from natural catastrophes amounted to CAD\$382 billion during 2023. That figure doesn't help Canadian business owners and managers trying to get their insurance costs under control.

Globally, there were 143 insured natural disasters in 2023, the highest number ever recorded. That included 30 disasters with losses between CAD\$1.3 billion and CAD\$6.8 billion, compared to an average of 17 such catastrophes of similar proportions in the 10 previous years.²

In Canada, the insured loss total surpassed CAD\$3 billion for the second year running, one of the largest loss years in history. Even more shocking, there were more catastrophes in Canada during the summer of 2023 than there are in an average year.³ In total, an unprecedented 24 catastrophes hit Canada in 2023.⁴

Climate change has been identified as the culprit for more frequent and destructive storms and wildfires. Severe convective storms accounted for CAD\$87 billion in losses worldwide in 2023. In fact, insured losses from severe convective storms have risen an average of 8% each year since 2008 worldwide.⁵

These disasters have contributed to the challenges of the commercial insurance market, which continued to see quarter-over-quarter commercial rate increases through the first half of 2024, albeit at a slower pace than in prior years.⁷ However, higher investment returns have increased insurers' profitability, softening premium rates in commercial property.⁸

But there is hope on the horizon. Reinsurers, often seen as a predictive measure for primary insurance carriers, reported strong profits in 2023 due to higher rate hikes and tight terms. Those margins are expected to peak in 2024, leading to an influx of capital and a more competitive market in 2025.⁹

Catastrophic Floods in the Desert

An April 2024 downpour dropped as much as 254 millimeters of rain in the desert climate of the United Arab Emirates and Oman, causing widespread flooding. Experts identified climate change as the reason for the intensity of the storm.⁶

²Swiss Re, "New record of 142 natural catastrophes accumulates to USD 108 billion insured losses in 2023," March 26, 2024.

³CatIQ, "Canadian Insured Losses from Catastrophic Events Exceed CAN \$3 Billion in 2023," January 8, 2024.

⁴Insurance Institute, "How winter storms tally this year compared to last," accessed May 15, 2024.

⁵Swiss Re Institute, "Natural disasters in 2023," March 26, 2024.

⁶Reuters, "What caused Dubai floods? Experts cite climate change, not cloud seeding," April 18, 2024.

⁷Canadian Underwriter, "Where we're at with commercial rates with Canada," August 14, 2023.

⁸Canadian Underwriter, "How P&C investment returns will impact carriers in 2024," December 5, 2023.

⁹Fitch Ratings, "Reinsurers' Underwriting Margins to Peak in 2024," January 23, 2024

Simply put, rate increases in 2023 reflected a terrible 2022. Today, new carriers are entering the market, which is expected to tamp down rate increases and increase availability in 2024. But a nasty storm season this year could mean goodbye to rate stabilization.

Strong risk management continues to be an essential component for organizations to keep rates in check and keep themselves adequately insured.

How the changing nature of catastrophic weather events affects businesses

In the past few decades, in addition to hurricanes, Canada has faced tennis ball-sized hail, unprecedented flooding and devastating wildfires. While these events are not uncommon, climate change has increased their frequency and severity.

While the U.S. boasted a mild hurricane season in 2023, Canada did not have such luck — more hurricanes hit Eastern Canada than Florida during that period. A combination of hurricanes and wildfires proved devastating for some businesses and their insurers.

In addition to these enormous challenges, the costs of rebuilding have risen. Non-residential construction costs increased more than 7% in 2023, after a record increase of 12.5% in 2022. Although increases may not be as high in 2024, they are likely to rise somewhat.¹⁰

Fortunately, there may be some relief for catastrophe-prone regions in terms of insurance pricing and availability. Despite the record number of catastrophic events in 2023, the first half of 2024 represented one of the mildest winters in recent memory, and with two catastrophes.¹¹

The light after the storm

As noted above, new carriers entering the insurance market will result in insureds across most of Canada seeing minimal rate increases and greater availability of coverage options — which could change with a worse-than-average hurricane season.

Insurance for properties with exposure to catastrophic perils, however, is likely to remain elevated. Rates will depend on factors including a property's placement in a catastrophe zone, the type of construction, the year in which it was built and the type of business involved.

Underwriters will continue to pay close attention to insureds' loss experience, valuation methodology, risk control and geographic footprint in determining premiums. Organizations with strong risk management programs that make the effort to mitigate their exposures will be the most likely to reap rate rewards.

¹⁰Statistics Canada, "Building construction price indexes, fourth quarter 2023," February 1, 2024.

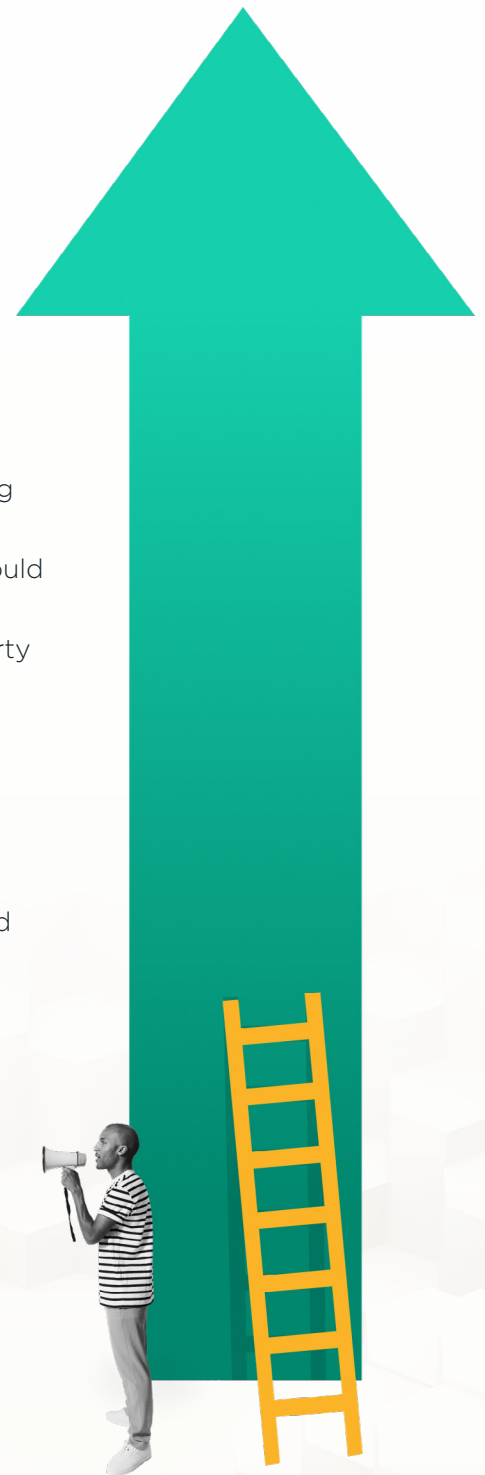
¹¹Insurance Institute, "How winter storms tally this year compared to last," accessed May 15, 2024.

Keep insurance costs in check through risk management

While finding adequate insurance for commercial properties will remain difficult, we expect market instability will level off throughout the rest of 2024.

To improve insurability and reduce risk in the short-term, business owners and managers should consider the following:

- ✔ **Build resiliency against disasters.**
Short of moving a business out of a catastrophe-prone area, it's impossible to remove all exposure to disasters. However, upgrading roofs, plumbing, electrical systems and other at-risk elements will reduce the risk of a claim. In areas prone to wildfires, buildings should be in "defensible" positions with non-combustible landscaping; in geographies with severe convective storms and hurricanes, property must be secure and stored when possible.
- ✔ **Implement emergency response plans for catastrophes.**
With catastrophes more common than ever, underwriters will look favourably on insureds that have an emergency response plan for a catastrophic event. Plans for evacuation, protecting property and business continuation in the event of a ruinous weather event will help secure appropriate coverage at an affordable rate.
- ✔ **Seek insurance coverage from nontraditional sources.**
Consider using captive insurance options, layering property coverage and shouldering additional risk. With climate change leading to less insurance availability, remember that a single insurer will be unlikely to fulfill all your needs.
- ✔ **Work with your broker early on renewals.**
Start the planning for insurance renewal as much as 150 days before the deadline. While that's a lot of time compared with the 60 to 90 days before renewals that companies have allotted in the past, the realities of today's evolving insurance landscape mandate extra time to obtain adequate coverage.



Rate Outlook

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants throughout North America each quarter to bring you our Mid-Year 2024 Business Lines Rate Report for Canada.

Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.

Coverage	Canada Rate Guidance	Insights
Commercial Automobile: 5 Vehicles or Less	↑ 1% to 5%	Inflation and an increase in auto thefts continue to put upward pressure on rates. Due to an increased frequency of claims and repair costs, rate filings are rising in most provinces.
Commercial Automobile: 6 or More Vehicles	↑ 1% to 5%	Insurers' success in commercial auto has kept a lid on rates, although the cost of some claims has risen. In addition, supply chain delays have stretched timelines to resolve claims.
Liability	↑ 1% to 5%	Better performance in general liability coverage has helped insurers offset losses in property lines. Pricing and terms are flexible as underwriters seek to diversify their books of business.
Excess Liability	↑ 1% to 5%	Rates for excess liability insurance remain fairly stable, with some variability depending on exposure and attachment points. Given increases on primary coverage, premiums for some excess layers are increasing while premiums on other layers are falling due to positive claims experience.
Commercial Property	↑ 1% to 5%	Commercial property rates have stabilized and some segments have had rate reductions. But due to more frequent and damaging weather events, properties in catastrophe zones are still seeing rate increases. Rebuilding costs have stabilized somewhat. However, under-valuations remain concerning, as properties may not be insured to full rebuilding or replacement cost.

Rate Outlook

Coverage	Canada Rate Guidance	Insights
Residential/ Habitational Property	↑ 1% to 5%	<p>Insureds face a difficult market as a result of unprecedented catastrophic weather events in 2023 and rising reinsurance costs and construction costs. Supply chain issues are also pushing up rates and slowing claims payouts.</p> <p>Underwriters will pay additional attention to insurance-to-value, which will also affect overall premiums given higher rebuilding costs.</p>
Catastrophic Perils	↑ 5% to 10%	<p>The high number of catastrophes in 2023 has led to higher reinsurance costs, pressuring primary insurers to increase rates. Properties in catastrophe zones could see rate increases that exceed 10%.</p>
Environmental	↑ 3% to 5%	<p>Environmental insurance rates remain soft, with potential increases below inflation. But terms continue to tighten, and insureds should closely review exclusions and restrictions.</p> <p>Litigation involving PFOAs and phthalates (plasticizers) are now common and coverage availability has decreased. Mould remains the top reason for frequent claims. Regulatory fines and penalties continue to increase, along with greater regulatory enforcement.</p>
Directors & Officers: Private	↓ 10% to ↑ 5%	<p>D&O insurance for private companies has stabilized, as insureds with no major changes should expect no premium changes and decreases in some cases.</p> <p>Insureds with claims or significant exposure changes may experience rate hikes. Industries that will see higher rates and lower availability include healthcare, education, energy, cryptocurrency and cannabis.</p>
Directors & Officers: Public	↓ 15% to Flat	<p>Public companies are seeing rate cuts or no increases at renewal due to increased competition. Insureds that did not have significant decreases through 2023 can expect to see those decreases materialize in 2024.</p> <p>Conversely, public companies that had large D&O rate cuts in 2023 are likely to have little or no increases. Insureds that have completed a transaction (such as an IPO or merger) may see higher rates, however.</p>
Cyber Liability	↓ 1% to 5%	<p>As capacity increases, increased competition is resulting in rate decreases for cyber insurance. In addition, excess carriers are dropping rates more aggressively than primary carriers.</p>

Rate Outlook

Coverage	Canada Rate Guidance	Insights
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Inland Marine

↑ 1% to 5%

Rates are rising for inland marine coverage, largely due to the increased frequency and severity of weather events, as well as an increase in theft.

Marine

↑ 1% to 5%

Expanding capacity from carriers and increases in commissions is leading to a softer market, as insurers pursue accounts previously considered less competitive. These trends have fostered greater flexibility in underwriting practices, providing insureds with enhanced opportunities for tailored coverage.

Small and Medium Enterprises (SME)

↑ 5%

Rate increases in the SME market are due to inflation, as well as increased claims and reinsurance costs. Rate increases will be in the single digits, particularly in areas without major catastrophe exposure; rate increases are likely in Western Canada due to high reinsurance costs for earthquake and secondary perils.

Casualty rates are flat and decreasing in some specialty lines. Most rate increases will be coming from property insurance.

Agribusiness

↑ 5% to 10%

Greater competition has tempered insurance rate increases, which are flat to up 10% based on exposures and commodities covered. Full highly protected risk (HPR) properties and those without claims are experiencing better terms and rates, while frame unprotected properties are experiencing difficulty.

Cannabis

↑ 1% to 5%

Rates are coming down for the retail segment in cannabis. Micro growers and processors are buying the bare minimum coverage, as they operate with thin margins and in a difficult regulatory environment.

Certain niches will see greater rate declines than others, and decreases may be dependent upon improved risk management practices, industry consolidation and competition among insurers.

Construction

↑ 1% to 5%

Rates will remain stable with flat to minimal rate increases on annual renewals. Inflation continues to result in higher gross receipts, which are driving rate increases.

However, capacity is expanding, allowing for renewals with no rate increase or with some reduction. The market for project-specific wrap-up liability and builders' risk insurance has softened.

Industry Perspective

Business	Canada Rate Guidance	Insights
Entertainment	↑ 5% to 15%	General liability underwriters are seeking increases of up to 10%, but insureds are getting much smaller increases or none at all. Coverage for abuse claims are rising 15% or more as underwriters require higher premiums to support their business. Auto insurance in entertainment is up 5% to 8%.
Financial Institutions	↓ 5% to ↑ 5%	Rates for reps and warranties (R&W) insurance remain at historical lows, between 2.3% and 2.7% of the limit of liability purchased, and will remain so lacking a significant increase in M&A volume. There is also significant downward pressure on retention; retention for deals with enterprise values of \$50 million to \$500 million are 40 to 70 basis points and falling to less than 50 bps 12 months after closing. Premiums for M&A tax insurance remain at all-time lows. Placements have been made 2% to 3% of the policy limits versus 4% to 6% in the two to three years ago.
Healthcare	↓ 1% to ↓ 5%	Insureds are seeing increases of 1% to 5% from their current insurers on renewal, although there have been modest rate decreases for organizations shopping for new insurers.
Nonprofit	↑ 5% to 10%	D&O and cyber insurance rates for nonprofit organizations have stabilized, but rates for abuse claims have continued to rise significantly, as much as 20%. There are also increases up to 5% due to inflation; underwriters are focusing on nonprofits' insurance-to-value on properties.
Real Estate	↓ 5% to ↑ 5%	Increased capacity and competition has meant best-in-class properties' renewal rates are flat or falling as much as 5%. CAT exposed property, particularly those with large earthquake, flood and wildfire risk, have seen diminished availability but stabilizing rates.
Sports	↑ 1% to 5%	In the sports segment, the availability of property insurance will remain difficult for facilities with total insurable values (TIV) in excess of \$20 million. Limits for abuse liability coverage have been restrictive and underwriters are increasing their review of protocols and procedures for this coverage.
Transportation	↑ 5% to 15%	Rates have been relatively stable the past 12 months. Existing insurers will ask for 5% to 10% rate increases; top, "A+" insureds can expect much more favorable terms. Fleets with low U.S. exposure will get better terms and conditions, whereas owner-operators will see an increase of 10% to 15%.

NOTE: Rate is typically defined as the amount of money necessary to cover losses, expenses and provide an insurance company with a profit for a unit of exposure. **Exposure** refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.



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employees

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