BFL CANADA

Hard Market vs Soft Market: Why we are currently in the beginning of a hard market:

All industries experience cycles of expansion and contraction and this is particularly true of the insurance industry. We experienced a soft market in the Real Estate industry for approximately five years, starting with the exit of Cooperators. Then it began to level off in 2018. By the end of 2018, the soft market had bottomed out and we are now facing a hard market, not only in Real Estate, but globally.

What is a hard market vs. a soft market?

The characteristics of a **soft market** in the insurance industry include:

- Lower insurance premiums
- Relaxed underwriting criteria, which means condominiums are easier to place with insurance companies
- Increased capacity, which means insurance carriers write more policies and higher limits
- Increased competition among insurance carriers

On the other hand, the characteristics of a **hard market** include:

- Higher insurance premiums
- More stringent underwriting criteria, which means condominiums are difficult to place due to age, claims, location, etc
- Reduced capacity, which means insurance carriers offer less coverage or limits
- Less competition among insurance carriers

Why are we currently facing a hard market?

A string of natural disasters and the residual effects of the economic downturn worldwide have been the main causes for this change in the insurance cycle from soft to hard market conditions. Ultimately, the premiums being charged and the investment income are not able to keep up with the amount of claims that are being paid out. (see next page for stats)

What can we expect form insurance carriers during a hard market?

During a hard market, underwriting gets more stringent. With each passing year, underwriters are becoming more sophisticated, looking more closely at losses, flood zones, and hail zones. Most insurance underwriters today are requiring ten to twenty percent (10% to 20%) higher rates upon renewal, and some are requiring substantially more.

What you can do in a hard market when you are seeing rates increase?

While you will need to be prepared for rate increases due to this new market, there are several things you can do to help minimize the impact of the more stringent underwriting criteria your corporation will face:

- Start your insurance process earlier with your broker
- Take a more active approach to managing your Condominiums risks and insurance claims (proactive / preventative maintenance inspections, etc)
- Provide updates on roofs, plumbing, electrical and heating
- Weigh deductible options and what is a corporation's threshold for higher, but reasonable, deductibles.

BFL CANADA Insurance Services Inc.
Financial Services Firm

200 – 1167 Kensington Crescent NW, Calgary, Alberta T2N 1X7 · TEL: 403-451-4132 · FAX: 403-313-3365
www.BFLCANADA.ca
Halifax · Quebec · Montreal · Ottawa · Toronto · Winnipeg · Calgary · Kelowna · Vancouver

Statistics and Facts:

- Claims (both locally and globally):
  - More than 50% of Canada's largest catastrophic losses have occurred in Alberta and surprisingly all in the last decade.
  - Hail, wind, flood, ice damming and wild fires continue to affect Alberta and will likely continue to cause catastrophic insurance losses in our province.
  - Water damage is always an issue in buildings, particularly multi-story, relating to human error, ageing buildings and ageing infrastructure
  - Fort McMurray wildfires resulted in $4 Billion of insurer losses
  - California wildfires are expected to result in $15 Billion (USD) of insurer losses
  - 2017 Hurricanes Harvey, Irma and Maria, along with the Mexico earthquake resulted in over $200 Billion of insurer losses
  - 2018 Hurricane Florence is nearing $27 Billion and may end up being the costliest storm to ever hit the US
  - 2018 Typhoon Jebi in Japan has become the most expensive on record causing insurer losses of over $5 Billion (USD) with some predicting losses reaching beyond $7 Billion (USD).

- We are in a globally connected economy.
  - Canadian Domestic insurers are tied to larger Re-Insurance companies globally and to Lloyds of London, one of the world's largest insurers, who have signaled they are willing to lose market share to bring their book of business back to profitability. This included insurance industry rumblings of insurance companies exploring the option of pulling out of Canada all together for Condominiums.
  - Large insurable events globally (as outlined above) will increasingly affect insurance ratings closer to home as most larger risks are re-insured in the world market
  - Market capacity is shrinking as investor dollars are fleeing to sectors with higher returns.

BFL Commitment:

- BFL is a privately **Canadian owned** independent insurance brokerage who works solely for our clients.
- We are leaders in Canada placing more condominium business than any other broker. This provides strength in numbers, benchmarking and total spreading of risk across the country
- BFL's commitment remains resolute to canvass as many insurance companies as it takes for quotes and then to deliver the best possible outcome on each and every renewal
- Many of these insurance companies we canvas are **exclusive** to BFL
- We are well positioned, with many insurer relationships, to place coverage for Flood and Hail Zones
- **BFL will NOT compromise coverage**. Regardless of sourcing new insurance carriers, our product remains consistent with our Exclusive Condo and Apartment Protect Manuscript Wordings

- **Transparency is key**. Our team is ready and willing to meet with condominium boards to review market conditions, their policy and answer all questions.

Sources: Lockton Wholesale P&C Market Gossip News (11/26/18)
Craig English Article (1/29/13)