

Claims Drive Premiums Market Update 2023

The municipal insurance market remains in a state of flux with many different drivers impacting rate, performance and market demands. Here's a look at what IPE is seeing across Canada.

Municipal insurance is complex and has unique elements when compared to traditional commercial and personal insurance. **The most significant differentiator is the long tail nature of municipal liability claims.** Furthermore, social inflation continues to impact the legal landscape. Society is more litigious and individuals demonstrate less accountability resulting in higher claims frequency and severity. In response, judges have awarded more contributory negligence to municipalities vs. plaintiffs because of their perceived deep pockets.

- 1. Motor vehicle accident claims are the largest driver of claims costs and premiums.** This is attributed to claim severity and the length of time it takes to reach resolution. In 2022 a County in Ontario closed a road claim from 2011. Although the municipality followed MMS, the award was in favour of the plaintiff and the municipality was attributed 100% liability (\$16M), double what was anticipated.
- 2. Climate events and resulting property damage are more prevalent.** What was once deemed a "100-year storm" years ago, now occurs with increasing frequency. Unfortunately, not all municipalities are ready for this new reality. In 2022 Canada experienced the 3rd highest insured property losses on record at \$3B with 30 catastrophic events that year. The two largest being the derecho in Ontario in May at \$1B and Hurricane Fiona in Atlantic Canada at \$800M. In addition, nine of the top 10 most severe property loss years have occurred in the last 11 years resulting in significant increases in property rates and reinsurance costs.
- 3. Class action lawsuits have increased in frequency** since the certification process is now much easier. More plaintiff lawyers are pursuing these lucrative claims and municipalities are exposed. Although a municipality may be innocent of the allegations, class actions are much more difficult and costlier to defend.

The **cyber market** has started to stabilize with fewer ransomware attacks. Lower frequency is attributed to improved cyber hygiene, turbulence in the crypto currency market and the war in Ukraine. There are also more cyber providers in 2023 and indicators point to smaller rate increases when compared to past years. Municipalities need to prioritize enterprise-wide corporate security and be prepared to share actions associated with readiness.

Insurance is cyclical and has hard or soft phases. The commercial market including specialty lines like municipalities is in the 4th year of a hard market. It is anticipated that the hard market will remain for the balance of 2023. Although there were signs of softening, there are a number of factors that caused the hard market to continue: high inflation, supply chain interruptions, costly reinsurance, social inflation, geopolitical uncertainty and a potential global recession.

With all this uncertainty, what can municipalities do? It's more important than ever to focus on the factors that can be controlled to manage risk. This includes reducing exposures and mitigating risk to help manage claim frequency and severity.

- View insurance as a service and focus on your total cost of risk.
- Better understand your risk profile.
- Proactively communicate your risk improvements in ways that insurers will appreciate.
- Lower claim costs = lower premiums.

Put our expertise to work for you. Contact your company representative to learn more about how value added service and best practices can help manage your total cost of risk.