Intelligence MEMOS

From: Alister Campbell and Farah Omran

To: Canadian Insurance Watchers

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Re: **BENCHMARKING CANADA'S PRICE OF PROTECTION**

Over a recent four-year period, Canadians paid $50 billion per year in premiums to insurers for property and casualty insurance, which includes liability, property and auto.

Our recent C.D. Howe Institute Commentary sought to answer several core questions about the sector. How does Canada benchmark relative to its global peers? Do we pay less? Do we pay more? Are there material differences across Canadian provinces?

We begin our Commentary with OECD data to provide a snapshot of the competitiveness and profitability of the P&C insurance industry as a whole. We then focus the analysis on the largest lines of P&C insurance coverage – commercial liability (liability insurance for general business risks), property and auto insurance.

To do so, we modified the OECD data for Canada to reflect material gaps in the reporting, primarily to reflect the substantial portion of insurance premiums paid to government insurers in BC, Saskatchewan, Manitoba and Quebec.

Finally, we took a deeper dive into Canada data, specifically to enable objective comparisons of personal, property and auto insurance among all provinces and territories.

Our analysis indicates that Canada's P&C sector is highly competitive and that returns on equity are, as expected in such a competitive environment, correspondingly low. Canadians tend to pay higher premium for risk transfer than citizens in many, if not most, other developed nations. This is happening despite the core products being offered by a highly competitive industry with normal claims payouts and generally lower returns on equity.

So the explanations must lie elsewhere. In general, these relatively higher premiums appear in line with claims costs. We can see that Canada's loss ratio on average has been roughly mid-pack among benchmark peers, with around 66 percent of premiums paid out in claims.

For auto insurance, the issue of higher premiums appears to be directly correlated with ineffective government intervention – either in the form of government monopoly providers (e.g., BC and Manitoba) or self-inflicted consequences of over-regulation (Ontario).

For property insurance, the explanations are harder to identify. However, they are likely a combination of naturally risk-averse Canadian consumers, the costs of higher prudential capital requirements and the absence of government mechanisms common in many other developed nations to support consumers facing catastrophe risk (e.g., earthquakes, flooding) – leaving consumers to absorb a higher total share of risk from these types of event through higher risk transfer premiums.

While there is much more analysis to be done in order to fully understand these results, we can identify three initial takeaways from this benchmarking exercise:

- The Canadian commercial insurance sector – largely unregulated and highly competitive – charges premiums in line with other major G7 nations;
- Auto insurance, particularly in BC, Manitoba and Ontario, would benefit from reforms that encourage competition (BC, MB) or contain costs (ON); and
- Property insurance costs are intriguingly high and the causes of this merit further study – particularly around risk-sharing between homeowners and government

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