2020 Canada Insurance Outlook

Trends and imperatives shaping the life and non-life markets

EY

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Canadian insurers are facing challenges on several fronts — from regulatory pressures, including cyber and IFRS implementations, to InsurTech disruption and more demanding customers, to increased operating and claims costs.

In spite, or because, of all of these factors, insurers in Canada continue to innovate and adapt. We have seen an increase in market transactions and investments in intelligent automation, including artificial intelligence (AI), robotics process automation (RPA) and machine learning. Insurers are increasingly focused on consumers' needs, which is driving investment and strategic initiatives related to an enhanced consumer experience and more tailored product offerings.

Despite slowing premium growth and rising claims costs, insurers in Canada continue to invest for the long term in new technologies and talent as they prepare for the challenges ahead.

Compound annual growth rate, gross written premium, Canada, 2013-2018

In CAD		In USD
4.7%	Total	0.0%
5.1%	Life	0.4%
4.4%	Non-life	-0.3%

Source: Swiss Re Sigma

Key trends

Life

Life insurance is shifting from product-centricity to customer-centricity

Consumers expect experiences and interactions with greater choice, personalization, simplicity and ease. Using technology to enhance customer interaction, insurers and brokers are focused on front-office applications and automating sales and marketing processes.

Percentage of uninsured Canadians

40%	30%
No life insurance	No health insurance

Source: CIA

Emerging technologies and the industry dynamic

Greater adoption of cloud computing, connected smart devices, new protocols and easy-to-scale platforms are driven by the need for agility. This is especially important with talent shortages and an aging Canadian workforce, which require insurers to cultivate new skill sets, reduce costs and automate processes where possible.

Growth through acquisition

With increased uncertainty in the global economy, Canadian insurers are looking to maintain growth by acquiring stable firms that align to or complement their existing competencies. Large life insurance companies are evaluating portfolios to streamline their business and remain agile enough to pivot and adjust to a changing landscape. This dynamic is evident as insurers focus on enhancements around core strengths and operational efficiency.

In 2018, 626 transactions were completed among brokers and agents, the highest-ever annual total and an increase of approximately 140% since 2013. While transactions grew, the number of buyers completing acquisitions declined to 142 in 2018 from 177 in 2017 and 153 in 2016, reflecting industry consolidation as players looked to acquire agents and brokers to build out their capabilities.

Regulatory and reporting pressures

Insurers across the country are faced with shifting regulations and changes to financial reporting standards. Announcement of IFRS 17 soon after the introduction of the Life Insurance Capital Adequacy Test (LICAT) has implied that many insurers continue to struggle in meeting regulatory requirements.

Adding to the regulatory burden is the increased focus on data protection, including cyber risk, data privacy, identity and access management. While insurers prepare to redesign their financial reporting frameworks to meet IFRS 17, insurers must also embed data privacy in all systems, operations and processes. These changes are having an impact across asset strategies, IT infrastructure and organizational structures.

Key trends
Non-life

Increased claims costs and reduced profitability

As claims costs rise, insurers' profitability is under pressure, especially within automotive lines. Increasing bodily injury claims and more expensive repair costs have also led insurers to enhance their cost focus. This emphasis on cost management can be seen from improvements in overall P&C operating expense ratio.

P&C operating expense ratio

2017	32.5%
2018	30.9%

Source: IBC

Growing adoption of AI and machine learning

Non-life insurers increasingly use AI and machine learning across customer-facing and back-end applications. The objective is to better assess risks in underwriting, strengthen fraud detection, improve customer experiences and reduce operating overhead. While P&C insurers have been slower to digitize, telematics use has picked up sharply. Similarly, mobile applications and web portals are more commonly used by brokers and consumers for efficient claims submission and processing. Ultimately, these technologies help reduce administrative overhead and improve customer experience.

Focus on IFRS 17 and 9 implementation

IFRS 17 and 9 are expected to have less impact on P&C insurers that can apply the Premium Allocation Approach (PAA) and have short-term liabilities less sensitive to discounting changes than life insurers. The lighter operational-reporting impact, combined with a one-year deferral and the prevalent wait-and-see attitude, had resulted in P&C insurers delaying IFRS 17 implementation efforts. But with the implementation date approaching, insurers are now focused on preparing for this significant reporting change.

While the implementation is expected to be less complex for non-life insurers than for life insurers, system changes will likely be required. As a result, P&C insurers are taking the opportunity to update older systems, strengthen databases, adopt automation and deploy data analytics — focusing on "small wins" that are economically and strategically valuable.

Increasing capital requirements

New and proposed regulatory changes have the potential to materially increase capital requirements for insurers and reinsurers of large commercial risks. These changes, combined with recent poor results – partially due to a rise in claims from weather-related minicatastrophes – have seen insurers revisiting both their offerings as well as pricing models as they seek ways to improve capital levels.

Rise in P&C claims ratio

2017	2018
66%	69%

Source: EY calculations from OSFI data

Imperatives for insurers

1 **Bundle and unbundle products** and create more tailored services to take advantage of new insights into risk and behavior from the rapid expansion of data sources.

2 **Collaborate with InsurTechs** to create hybrid models where customers discover offers online and make buying decisions in person, thus offering a genuine omnichannel proposition.

3 **Continue to focus on IFRS 17 implementation** and regulatory issues, but look beyond compliance to use investments for improving data collection, analytics and infrastructure and to prepare for potential market opportunities.

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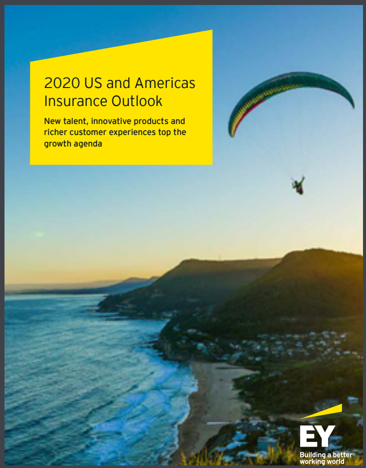

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