Insurance Market Changes

When I started in insurance in 1987, the insurance industry was just coming out of a hard market cycle. My employer was LUA (primarily a sawmill specialist), and as a new person to the industry I heard stories of how clients had no options but to install sprinkler systems, drop coverages, demolish buildings, or even self insure as the availability of insurers had dried up which drove up rates dramatically.

After 9/11 another hard market occurred fueled by the fear of further terrorist attacks, and this market lasted for approximately 3 years.

After years of losses, LUA announced in 2011 its ceasing of operations in Canada, as a result every sawmill nationwide saw an immediate hard market with premiums often tripling, if not more. On one account that paid LUA $300,000 per year, the only insurer the broker could find quoted $1,800,000. I was asked if LUA would accept $100,000 for a one week extension which would hopefully allow enough time to find something better than $1,800,000. This is how bad things can get in a hard insurance market.

In the early portion of the summer of 2019 if a renewal had a 10% rate increase it was seen as the start of a changing market. Over the last 12 months, the insurance market for wood products, plastics, greenhouses, condo buildings, municipalities etc. has become increasingly more difficult with many of these types of companies being non-renewed or seeing 100% increases. I have had at least 40 brokers we do not do business with call me trying to find a solution for wood products accounts being non-renewed. Month after month the industry has moved towards (1) **higher rate increases**, (2) **restricted capacities** (the dollar amount that an insurer is willing to offer for property coverage needs), and (3) in some cases **ceasing to renew certain classes of business** altogether. Two weeks ago, a large insurer that has been supporting wood products nationwide announced they were effectively closing their commercial insurance operations altogether in Canada.

Why this is happening:

Insurance companies make money two ways: underwriting income, and investment income (which has little in the way of yields). In 2019 the industry as a whole saw premiums of $57.35 billion dollars, with an underwriting profit of $128,275,000 (**0.2%**). Insurers measure their operational results by looking for an acceptable "Combined Loss Ratio" (i.e. Claims + Expenses / Premiums). When this ratio is above 100% they are losing money from insuring, and can only improve results by reducing the claims component of the formula by:

- Increasing rates
- Increasing deductibles
- Reducing capacities on property insurance
- Avoiding loss prone or hazardous classes of business, and concentrating on better performing classes of business. The wood products industry is generally seen as a hazardous class by most insurers subject to major fire losses.

2019 Top Ten Insurers Results				
Rank by Premium	Company	Premium (000s)	Underwriting Income (000s)	Combined Loss Ratio %
1	Intact	$ 8,518,693	121,801	99.65
2	Desjardins	$ 4,987,863	-19,915	100.67
3	Lloyds	$ 3,842,182	402,207	89.53
4	Wawanesa	$ 3,368,152	-211,585	107.26
5	Co-operators	$ 3,272,822	-56,778	101.8
6	Security National	$ 2,419,263	-85,197	103.52
7	RSA	$ 2,506,393	61,026	97.57
8	Economical	$ 2,343,173	-147,235	106.72
9	Aviva	$ 2,495,659	4,193	99.83
10	Allstate	$ 1,793,951	115,260	95.28

Beyond competition keeping rates low rates over the last several years, another leading reason for poor combined loss ratios has been the increased frequency of insured natural disasters. In 2019 the industry saw a total of $1.3 billion in weather related claims making 2019 the 7th worst year in the history of natural disasters stemming from 8 different events. On June 13th of this year the industry saw an estimated $1.2 billion of losses stemming from a single hailstorm in Calgary, making it the fourth largest insured natural disaster in Canadian history, with another 6 months left in the year. These types of claims affect every insurer, and the larger the insurer the more likely they are affected.

As the only insurance program for the structural wood products industry in Canada, WOODsure has not been immune from losses. In 2019 our Property loss ratio (before AIG's internal expenses of 40%) for truss clients was **214%** alone. For the 5 years ending December 31st, 2019, our Property loss ratio for the truss industry was **111%,** again this is before internal expenses.

When considering all the coverages we offer (Liability, Auto, Umbrella Crime, and Equipment Breakdown) our truss clients have generated a combined ratio well over 100% over the last 5 years. These loss results are fortunately offset by the other classes of wood products business that we insure under the WOODsure banner, which have performed significantly better over the same 5 year period.

Where we are now

Compared to just the beginning of this year, there is now only a handful of insurers that might even consider insuring wood products based companies, be it trusses, flooring, cabinet manufacturers, distributors, etc. On a recent WOODsure account a broker went to market and received 26 declines. If an insurer can be found, rarely will they offer a 100% participation thus requiring other insurers to be found to share in a subscription policy where all insurers must agree to a portion of the premium and claims (for the Property portion). With the ongoing COVID pandemic, and trying to make their operations profitable, many insurers have simply stopped insuring any new business. At WOODsure we have been negotiating to find new insurers to fill a void that now exists as AIG now offers a maximum 40% participation on the Property portion only. This is a challenge for every renewal.

Obtaining the full capacity needed for property insurance is dictated by a variety of factors. Assuming a good loss history exists, these factors include: the **size of insured values**, availability and quality of **public fire protection** (hydrants and fire departments), **type of construction**, and **sprinkler protection**. Below are examples of how construction, public protection, and sprinklers can affect available capacity. At the lower end of the scale of desired business is “frame unprotected”, at the upper end of the scale is hydrant protected, sprinklered, non-combustible buildings, with superior fire departments.

	Desirability Scale		
	Low	**Medium**	**High**
Structure	Frame or Frame metal clad	Mix of Combustible & Non-Combustible	Non-Combustible
Protection	No Hydrants / No Sprinklers	Hydrants / No Sprinklers	Hydrants & Sprinklers
ABC Inc. Total Values	$8,000,000	$8,000,000	$8,000,000
Capacity Available	$2,000,000	$4,000,000	$8,000,000

What you should do

Whether you are a WOODsure client or not, here are some actions that you may want to take regarding your commercial insurance. Be diligent, reach out to your Broker well in advance of your renewal (90 days) and ask:

- Will my insurer offer renewal terms?
- Will I have capacity problems?
- What can I do to get ahead of the situation?

Note: If you bring in other brokers it can limit your existing broker’s ability to find markets.

WOODsure which has represented AIG since 2006 has historically been able to offer stable rates and capacity in conjunction with broad liability coverages designed for the truss industry, but now we too are dealing with an insurer moving towards stringent terms and conditions. We are working to find alternative solutions, but this takes months.

Your next renewal will certainly see increased rates, you should expect a minimum of 30%. This can be higher if your facilities are at the lower end of the desirability scale and your property values are substantial. You may have to accept increased deductibles, or, consider doing so of your own accord to help control the increase in insurance rates.

If need be, you may want to discuss with your broker your insured values and decide to insure differently, such as:

- Insuring on an Actual Cash Value basis (i.e. depreciated value basis) vs Replacement Cost
- Exclude items that really have no value to you should they ever be lost.

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- Eliminate Business Interruption coverage or consider changing to a lower indemnity period which will reduce your values (12 months of coverage is given as a default).
- Eliminate secondary coverages like Equipment Breakdown.

Note: The above items should be considered in conjunction with any financing agreements that exist.

Summary

No company should expect a smooth insurance renewal at this point in time. Although nobody wants a rate increases, the key issue is finding capacity for your values at risk. The industry is now seeing examples of clients that can no longer find insurance <u>at any cost</u> to cover their Property, sometimes Auto, Liability is less difficult.

There are no indications of these market conditions changing anytime soon, and they will most likely continue into 2021, and beyond. Typically, a hard market will last for a couple of years until insurance industry results start to turn around.

As a write this, AIG is continuing to support the Canadian truss industry via WOODsure and its approved brokers. They continue to do so but now ask that they be limited to a 40% participation if a Property loss occurs. They also continue to support WOODsure as AIG understands that truss manufacturing involves minimal machinery as compared to other wood products companies.

If any truss manufacturer not currently insured with WOODsure finds themselves without a renewal option, we will do all we can to provide one although it may be limited to a participation on the Property portion.

Maurice Vialette

Vice President – WOODsure