BBB* INDUSTRY REPORT | CA

Insurance Industry Outlook

Trends and Opportunities

BETTER BUSINESS BUREAU* | BBB.ORG

Given the nature of their business, the insurance industry is always "top of mind" in times of economic distress or natural disasters, making the last few years rather eventful for all parties involved. With the pandemic-fueled slowdown coming to an end and economic recovery on the horizon, the insurance industry is well-positioned to see growth through 2026. This growth does not come without industry-wide challenges, as insurance companies are still working to adapt and implement new technologies and retain top staff given rising wage demands.

Introduction

As modern life continues to improve with new technologies and products, so has the demand for new types of insurance and related financial services. Today, it's almost impossible to get through the day without experiencing the benefits, protections, and peace of mind that insurance provides. Initially, insurance policies were entirely optional for individuals or businesses. However, over the last 250 years, some forms of insurance became a legal prerequisite for specific purchases or activities, while other insurance policies and products remained optional.

As a result of consumer demands, provincial regulations, and government oversight, the Canadian "insurance industry" can be subdivided into two distinct subcategories:

Agents and brokers provide P and C (property and casualty) insurance for our businesses, homes, and autos and provide some specialized programs.

Life and Annuities typically provide life insurance and retirement/annuities such as RRSP, RESP, and TFSA products.

While the underlying premise of insurance is loss replacement or paying service providers, each company determines its underwriting process and fee structure independent of the competition. Therefore, rates and coverages can vary dramatically from one insurance company to another.

The insurance industry in 2022

In 2021, the "insurance industry" generated a staggering $95,006,000,000.00 (ninety-five billion, six million dollars) in total revenue across all products and services provided to consumers and companies. To make the data easier to digest, in this white paper, we will separate the subcategories that make up the insurance industry in Canada today.[1]

	Agents/Brokers	Life/Annuities
Revenue	$8.5 billion	$87.1 billion
Profit	$305.8 million	$2.5 billion
Companies	22,841	109
Employees	42,926	90,388

What's obvious is that the industry segment with the lowest revenue and profit margin also has the most companies and the fewest employees. But those types of insurance products (property and casualty insurance) experience more claims as our businesses, cars, and homes are the cornerstone of our daily lives. In addition, P and C claims tend to be more complex. They require more interactions with agents, underwriters, estimators, and a network of service contractors to provide repairs to a damaged vehicle or home.

We can also see the highest profit potential in the sector with the fewest companies, life insurance and annuities. In addition, after the initial underwriting process, most life insurance policies require minimal contact and less maintenance over the policy's life compared to P and C policies.

Annualized growth and projection by segment

	Agents/Brokers	Life/Annuities
2016-2021	2.1%	-0.9%
2021-2026	0.7%	1.6%

Since most lenders require insurance for homes and vehicles purchased using a loan or other financing options, industry growth will continue. However, the annualized growth for agents and brokers is expected to slow by nearly 2/3, compared to the last five years.

Life and annuities revenue declined slightly during the pandemic as many consumers suspended or delayed payments to retirement plans and policies during the economic downturn. Most of this segment's growth will be fueled by disposable income resulting from higher wages and a lower unemployment rate.

Industry products and services by segment

Agents/Brokers	Life/Annuities
6.4% Commercial P&C	21.0% Individual Annuities
28.8% Personal P&C	46.6% Group Annuities
17.7% Life and Health	26.8% Individual Life
38.4% Annuities	5.6% Group Life
8.7% Other	

As the chart shows, the Canadian insurance industry has two distinct segments, providing an overlap of annuities and life insurance products and services.

The bread and butter for most Agents and Brokers are Property and Casualty (P and C) policies for homes, businesses, and vehicles. Many agents have expanded their services due to consumer demand or increasing industry consolidation.

(1) IBISWorld CANADA INDUSTRY (NAICS) REPORT 52421CA / FINANCE AND INSURANCE Insurance Brokers & Agencies in Canada Report by: Samuel Kanda 2022

Market share by industry

Agents/Brokers	Life/Annuities
4.6% Aon PLC	23.3% Great West Life
4.5% Arthur J Gallagher	17.6% Manulife Financial
3.2% Marsh & McLennan	11.7% Sun Life Insurance
3.2% Willis Towers Watson	47.4% Others
84.5% Others	

Life/annuities products and services have always been optional, and the three largest companies are responsible for nearly one-half of the total industry revenue.

P and C insurance has been mandatory for autos since 1996, with the passing of the Automobile Insurance Rate Stability Act[2]. Homeowners' insurance is not a requirement in any province, but lenders can require purchasers to obtain a policy. The agents/brokers market remains wide open despite these requirements since the four largest companies maintain a combined market share of just over 15%.

(2) www.ontario.ca/laws/statute/03a09

Industry trends

Based on IBIS data[1], the most pressing issues for the insurance industry are as follows:

Increased competition from online brokerages can lower profit margins, prolonging the hard market status.

Increased housing demand, fueled by higher wages and disposable income, has increased premiums for home and auto products.

Catastrophe insurance demand to rise due to the increased frequency of natural disasters.

The insurance industry has gained first responder status for minimizing financial risk in times of crisis by supplying immediate financial relief to individuals, businesses, and governments. Many experts expect the pandemic to become the largest loss event in insurance history.

Because people and companies from all levels, backgrounds, and industries have suffered through economic hits over the last two years, insurance demand will continue to climb through 2026, as risk awareness continues to grow.

(1) IBISWorld CANADA INDUSTRY (NAICS) REPORT 52421CA / FINANCE AND INSURANCE Insurance Brokers & Agencies in Canada Report by: Samuel Kanda 2022

A look at the next few years

As the effects of the pandemic continue to fade, the insurance industry is poised to take advantage of some of the immediate growth potential resulting from higher wages, more disposable income, and continued demand for new homes and vehicles.

But this growth will be challenging as implementing new technologies and preparing for future catastrophic claims while maintaining existing staffing levels, especially those requiring advanced experience or skill sets.

1 Economic outlook

According to IBIS research, the insurance industry can expect an annual growth rate of 2.3% through 2026 and an increase in profit margins ranging from 0.7% -1.6% (depending on the sector).

As a result of the pandemic, the entire consumer purchasing cycle has changed dramatically. According to a recent Deloitte survey[3], "Insurers are increasingly dependent on emerging technologies and data sources to drive efficiency, enhance cybersecurity, and expand capabilities across the organization. However, most should also focus on improving the customer experience by both streamlining processes with automation, as well as providing customized service where needed and preferred."

Customer-centric platforms that allow customers to shop/compare, make payments, request policy changes, and file a claim in real-time are no longer optional for insurance companies looking to grow their market share.

2 Inflation is on everyone's mind

Inflation doesn't discriminate; it has the potential to wreak havoc on everyone's budget, including insurance companies. Replacement costs always include an inflation factor, but the pandemic supply chain shortages created forced prices well beyond anticipated price increases. For example, the future price for lumber in March 2020 was $303.40 per thousand board feet. That price quintupled over the next fourteen months to $1,607.50 in May 2021 for the same lumber.[4]

Inflation should remain a concern for the foreseeable future, as it has the potential to hinder growth and reduce profit margins for insurance companies. However, unlike the hard market created by low-interest rates over the last few years, soft market conditions will reappear as the inflation rate slows and eventually drops.

(3) www2.deloitte.com/cn/en/pages/financial-services/articles/financial-services-industry-outlooks-2022/insurance-industry-outlook.html

(4) www.npr.org/2021/06/21/1008843212/lumber-prices-are-finally-dropping-after-they-soared-during-the-pandemic

3 Future of work is here

Fueled by the stay-at-home orders and the "Great Resignation," insurance companies are working to support the future workplace, whatever that may be. While remote Work From Home (WFH) options became popular during the pandemic, insurance companies are working to support in-office, WFH, and hybrid (mixed) work environments for the industry moving forward.

This mindset is a stark shift from the traditional insurance company office, where everyone worked from a central or branch location. While many expected employee attendance and productivity to drop dramatically for WFH workers, the data suggests otherwise. According to Apollo Technical[5], several recent studies indicate that those who WFH spend less time unproductively, typically work one extra day per week, and are 47% more productive.

Even with these perks in place, many insurance companies struggle with recruitment and employee retention. Senior staff and leadership roles are especially problematic, thanks again to the "Great Resignation" and competing companies' higher wages.

4 Find and keeping talent remains a challenge

Currently, the national unemployment rate[6] is at 5.1%, the lowest since 1976, down from its peak of 14.7% two years ago. As a result, insurance companies find themselves fishing from the same shrinking potential-employee pond as everyone else.

Insurance companies are still struggling to hire and retain talent for more technical roles such as data privacy protection, cybersecurity/risk management, and distribution management roles and services despite advances in technology and workplace flexibility.

This talent shortage is particularly evident for roles requiring advanced skill sets, such as climate risk impact assessment. "A disaster-related to a weather, climate or water hazard occurred every day on average over the past 50 years – killing 115 people and causing $ 202 million in losses daily," according to a detailed new report from the World Meteorological Organization (WMO)[7]. Over this period, the number of disasters increased by a factor of five, but thanks to improved early warnings and disaster response, the number of deaths decreased almost three-fold.

5 Technology is great, but relationships matter

Insurance companies have embraced technology to streamline their operations to become more efficient, but this hasn't made the client experience better. Deloitte's report[3] suggested that "most should also focus on improving the customer experience by both streamlining processes with automation and providing customized service where needed and preferred."

The report also suggests that many carriers should take steps to bolster trust among stakeholders by being more transparent in how they collect and use personal data. It also shows they are being more proactive in seeking comprehensive solutions to big picture societal problems such as mitigating the financial impact of future pandemics and natural catastrophes."

With many insurance companies rushing to implement technology to better the customer experience, the human touch could become the growing differentiator if inflation leads to a significant economic slowdown.

(3) www2.deloitte.com/cn/en/pages/financial-services/articles/financial-services-industry-outlooks-2022/insurance-industry-outlook.html
(5) www.apollotechnical.com/working-from-home-productivity-statistics/
(6) www.bloomberg.com/news/articles/2022-06-10/canada-jobless-rate-drops-to-new-record-low-wages-accelerate
(7) public.wmo.int/en/media/press-release/weather-related-disasters-increase-over-past-50-years-causing-more-damage-fewer

How to build a loyal customer base

Create a Customer-First Mentality

With limited face-to-face interactions, it's important to step up your customer service game. Make time for your customers by maintaining transparency, communicating consistently, and answering questions.

Personalize Your Communication

A Segment survey found that 71 percent of consumers get frustrated by impersonal encounters by companies. Earn your customer loyalty by building and delivering an authentic, personalized experience.

Start a Community

With social media abundant, Entrepreneur recommends creating an online community that encourages customer engagement and user-generated content, such as final product photos taken and shared by customers.

Respond to Reviews and Complaints

Whether it's a one-star rant or a five-star cheer, it's up to the business to respond positively and openly. Choosing to answer each review promptly and kindly can increase trust in your brand.

Honor Promises

Whether there are supply issues, price quotes, or unforeseen mistakes, work to keep the line of communication open with customers. By honoring promises and operating with transparency, you're building trust.

BBB ACCREDITED BUSINESS*

THE SIGN OF A BETTER BUSINESS*

What business owners like about BBB

1. Accredited Business **status on BBB.org**
2. Use of the **Accredited Business Seal**
3. BBB **Customer Reviews**
4. BBB **Dispute Resolution**

Source: IABBB Research, 2022, Survey of BBB Accredited Businesses

The Sign of a Better Business*

Be a Top Business in Your Industry

We asked businesses how BBB Accreditation impacts them. Here are their responses...

1. Accreditation increases the **credibility** of my business
2. Accreditation shows **integrity** in our business practices
3. Accreditation builds consumers **trust**
4. Accreditation increases my **visibility** as a reputable business
5. Accreditation shows **we care** about our customers

THE SIGN OF A BETTER BUSINESS*

Business owners also said the BBB Accredited Business Seal shows they are...

- **reputable**
- **trustworthy**
- **honest**

Find out how BBB can help you.
Visit **BBB.org/get-accredited**

Source: IABBB Research, 2022

BBB INDUSTRY REPORT | CANADA