



# Commercial insurance rates hit with fallout from natural disasters

Earthquakes, tsunamis, tornadoes and fires resulting in tens of billions of dollars in claims thus far in 2011

By Richard Chu

Insurance brokerages in B.C. will have to deal with the financial fallout from the string of natural disasters that has caused tens of billions of dollars in losses thus far in 2011 for insurance companies around the globe.

But industry insiders in Vancouver are cautiously optimistic that premiums for various types of commercial insurance will not increase significantly for their clients as a result of the earthquake and tsunami in Japan, the tornadoes in the U.S. and the fire that recently destroyed nearly half of Slave Lake, Alberta.

Any significant increase would be an abrupt reversal of the drop in commercial insurance rates over the past several years as insurance companies have rolled up strong profits from commercial insurance. **Mike Berris**, partner at **Berris Mangan Chartered Accountants**, noted insurance companies have paid out only \$0.588 in commercial claims for every premium dollar earned. That's far less than the \$0.736 they pay out for personal insurance claims, which have increased steadily each year because of the rising number of claims.

**Jason Scharfe**, managing director at **Marsh Canada** in Vancouver, noted that while the natural disaster-related losses may be large, most insurance companies have been increasing their pooled funds to cover claims. This year's natural disasters will therefore likely result in a bottoming-out of commercial insurance premiums over the next few years.

**Lloyds of London**, which is one of the largest commercial insurance providers in B.C., suggested as much when it reported its quarterly results in mid-May.

However, the situation can change each year.

**David Lanphear**, assistant vice-president and general manager at **Envision Insurance Services**, noted that it remains unclear how far-reaching the impact of the various disasters will be.

"Hurricane Katrina, for example, was impacting the insurance industry years later because people were still filing claims. So, it's very fluid. Insurance companies are global companies and premiums cover damage all over the world. If an earthquake were to occur in B.C., we would need the assistance of premiums collected internationally."

**Tina Osen**, CEO of **Hub International's** Greater Vancouver division, noted that Japan's earthquake and tsunami will likely affect earthquake insurance in B.C. She said reinsurance companies, which provide insurance to insurance companies, have recently re-



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assessed their potential earthquake exposure in the province, which will likely lead increase rates.

But she added that the continued interest global insurance companies have in doing business in Canada could help reduce any increase in most commercial rates.

"As long as you have new entrants to the market, new capital entering the market, you probably aren't going to see a significant hardening of rates. I'd be surprised if you see big increases in the next year or so."

With the likelihood of increasing rates for personal and commercial insurance, brokers will need to deal with the greater likelihood of clients wanting to shop around for their insurance. In that event, a broker's relationship with its client will be key.

"There's a sense out there that all insurance is equal," Lanphear said. "But as brokers, we try to provide an advisory role. As advis-

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ers, we’re building a relationship with our clients, and take some of the commodity aspect out of it.”

Added Osen: “Sometimes we try to over-complicate it, but bottom line it’s about the service you deliver and the relationship you form.”

With the potential for rate increases in personal and commercial insurance, Osen said there could be another round of consolidation in the industry as smaller brokerages face a tougher challenge of providing adequate insurance for their clients.

The Intercity Group has already acquired a series of brokerages in the past year (see “ICBC profit nosedive worries B.C. brokers” – issue 1120, April 12-18).

But despite the challenges facing smaller brokerages, Berris said they will still play a role in the industry.

“There’s always someone who can find a niche in the industry. They just need to specialize or provide exceptional service.” ■

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**David Lanphear, assistant VP, Envision Insurance:** unclear how far-reaching the impact of the disasters will be