

Emerging from the Shadow of COVID-19

Michael Adams – Associate Director
Brian Lynch – Financial Analyst
Gordon McLean – Senior Financial Analyst
Anthony McSwieney – Senior Financial Analyst
Ann Modica – Associate Director

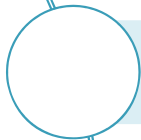
AM Best's Canada Insurance Market Briefing
September 15, 2021

Send questions to:
webinars@ambest.com

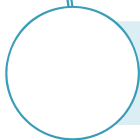
Agenda



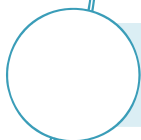
Intros



Economic Outlook



Life/Annuity Outlook



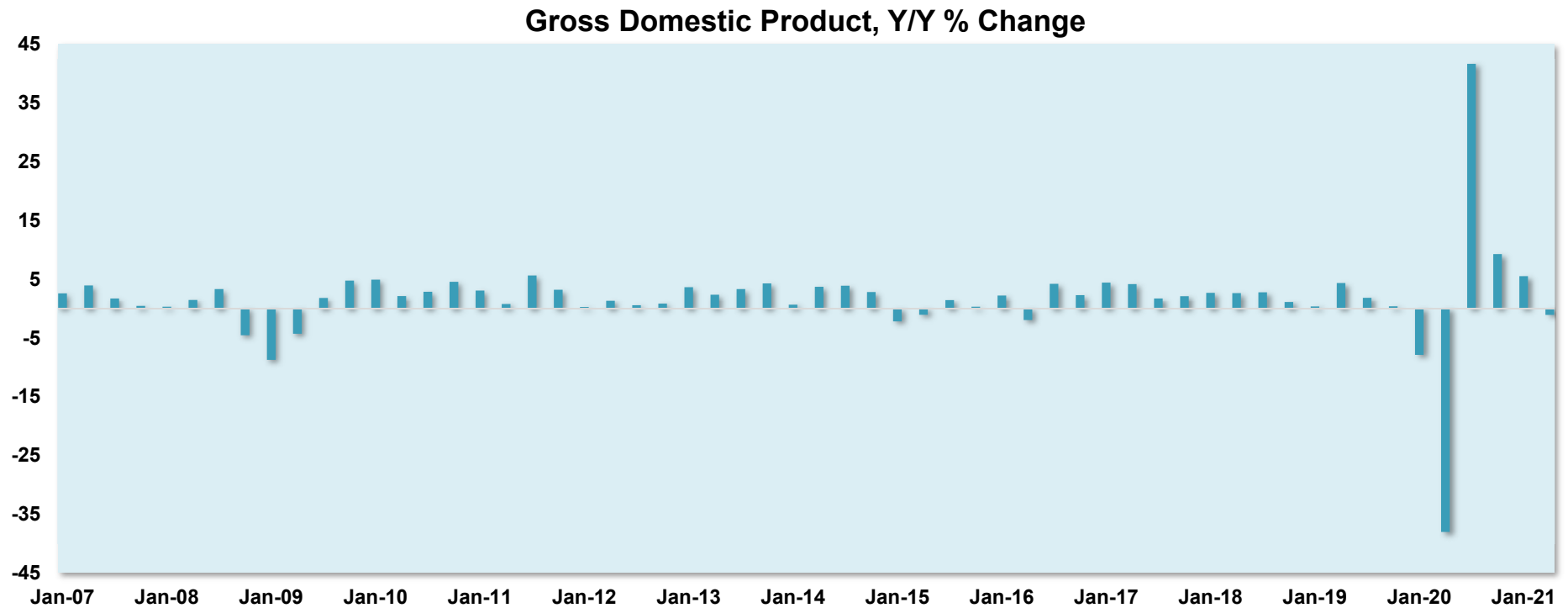
P/C Segment Remains Resilient



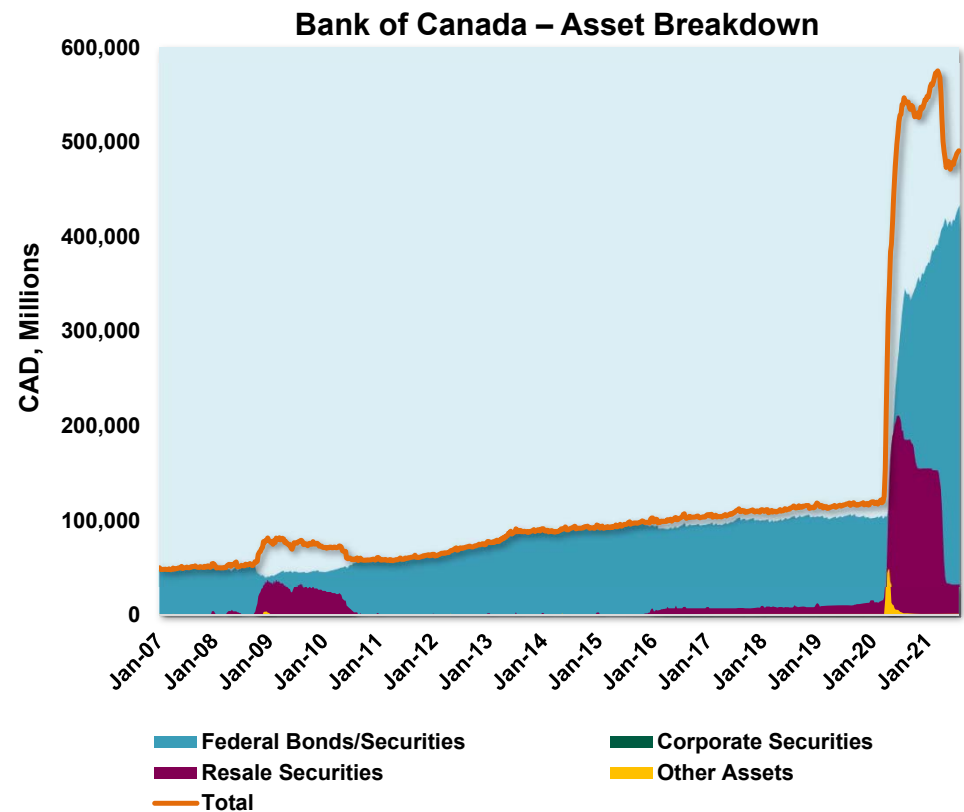
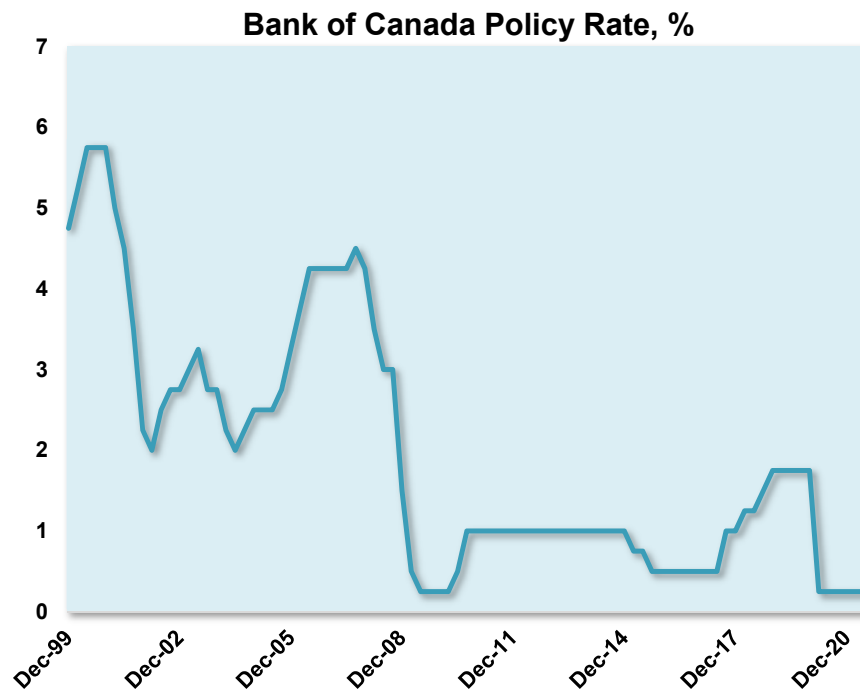
Q&A

Economic Outlook

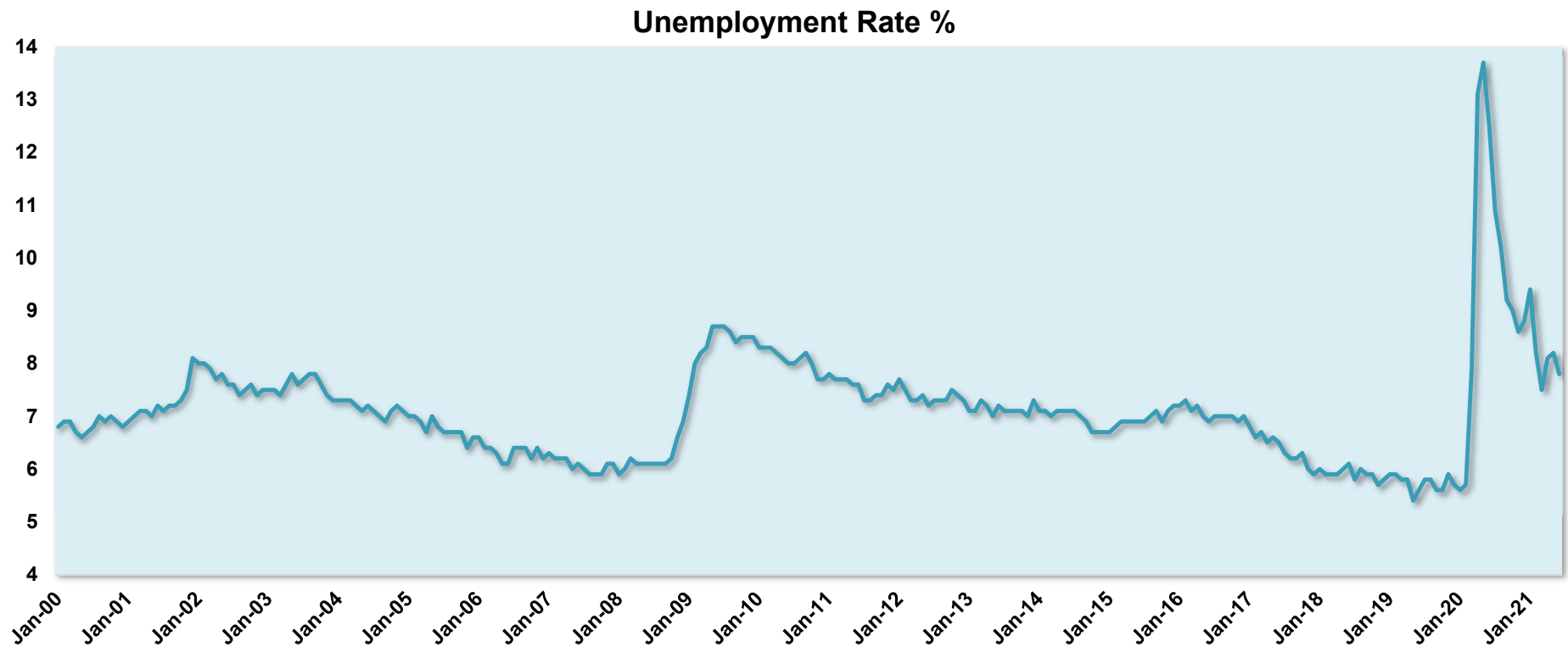
Is Canada's Recovery on Firm Footing?



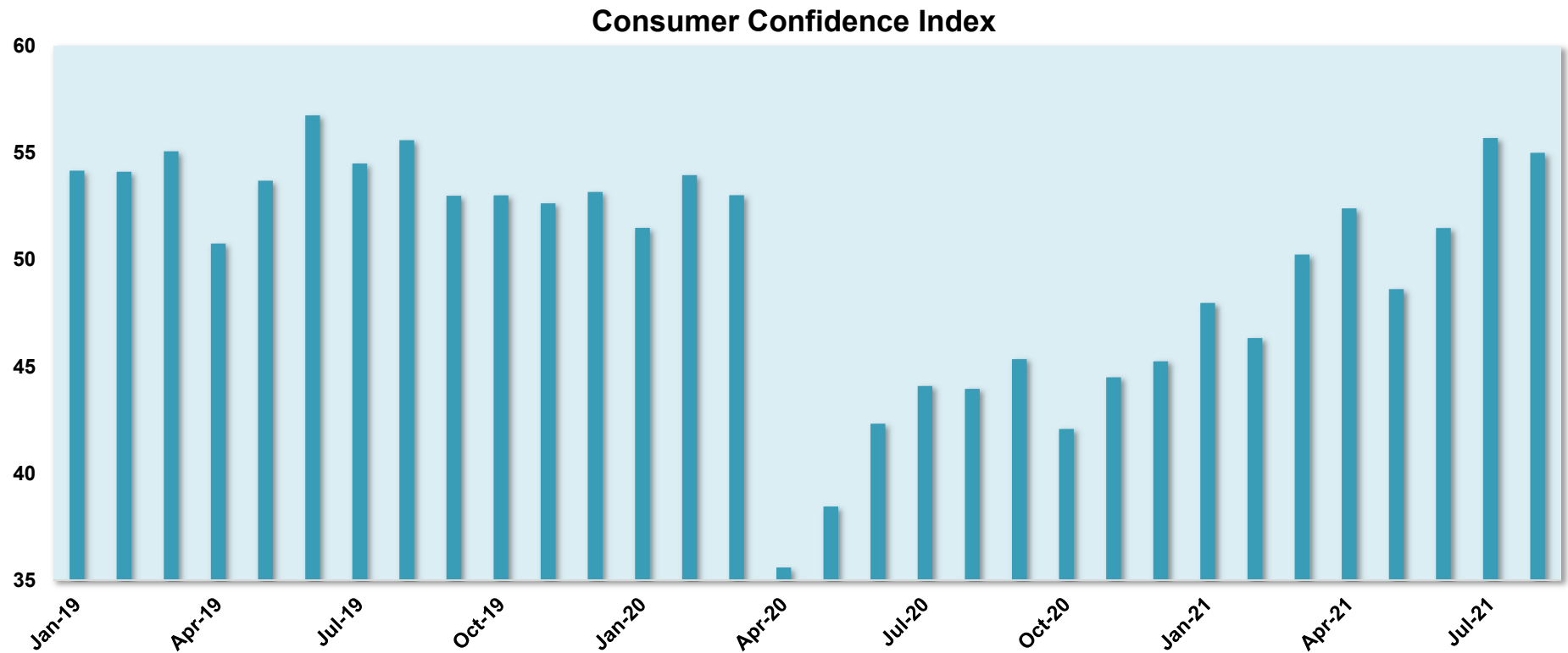
Monetary Policy Remains Accommodative



Unemployment Rate Continues to Fall



Consumer Confidence Rebounds



Life/Annuity Outlook

Rating Outlook Changed to Stable

Outlook is stable, but remains cautious

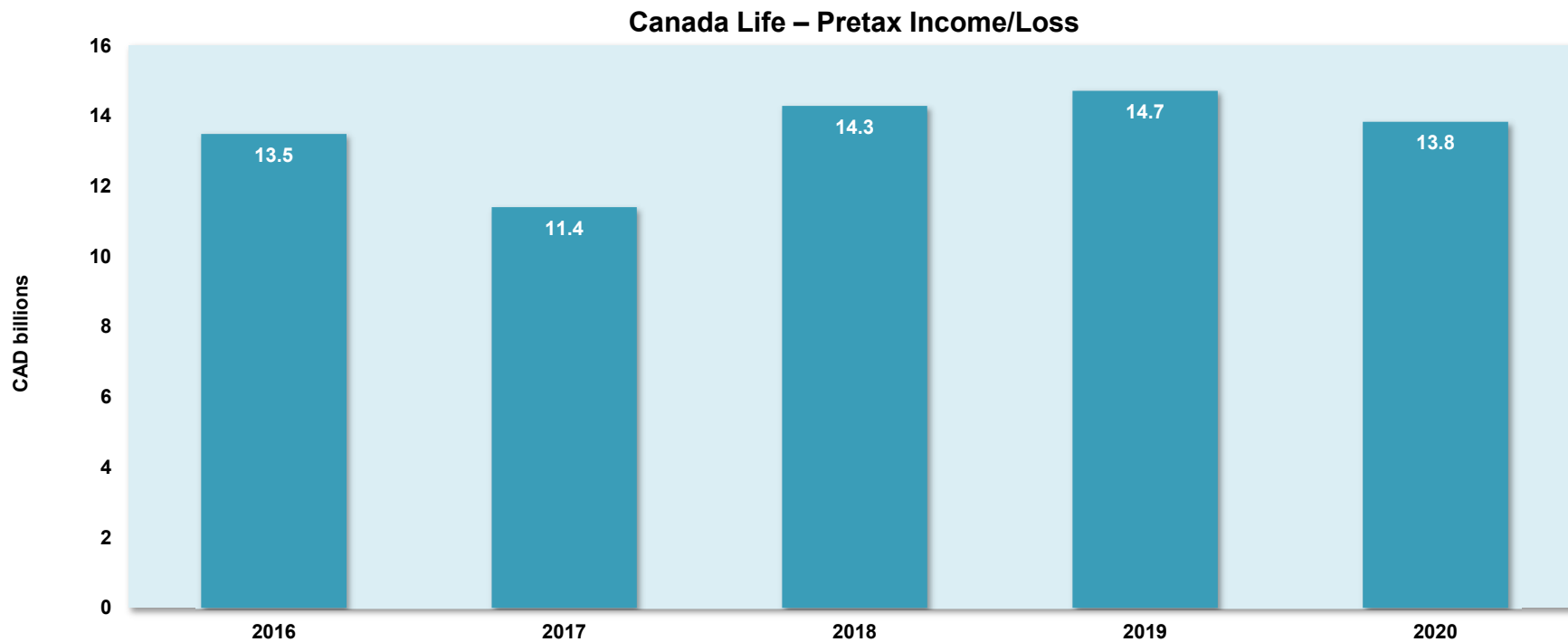
Rating outlook reflects stable capital profile of industry

Quicker rebound in the global and local economic conditions

Strong operational ERM protocols shifting to remote working

Does not preclude positive or negative rating actions

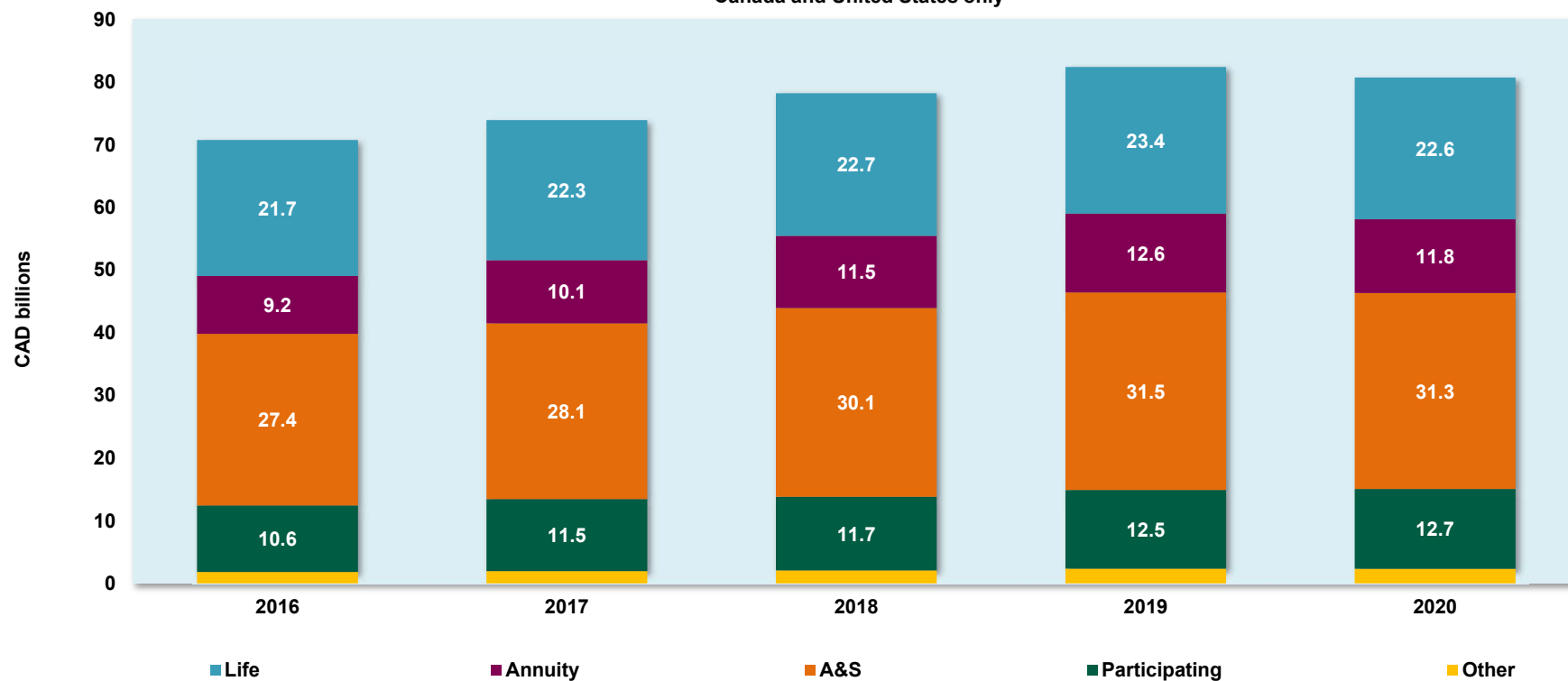
Pretax Income/Loss



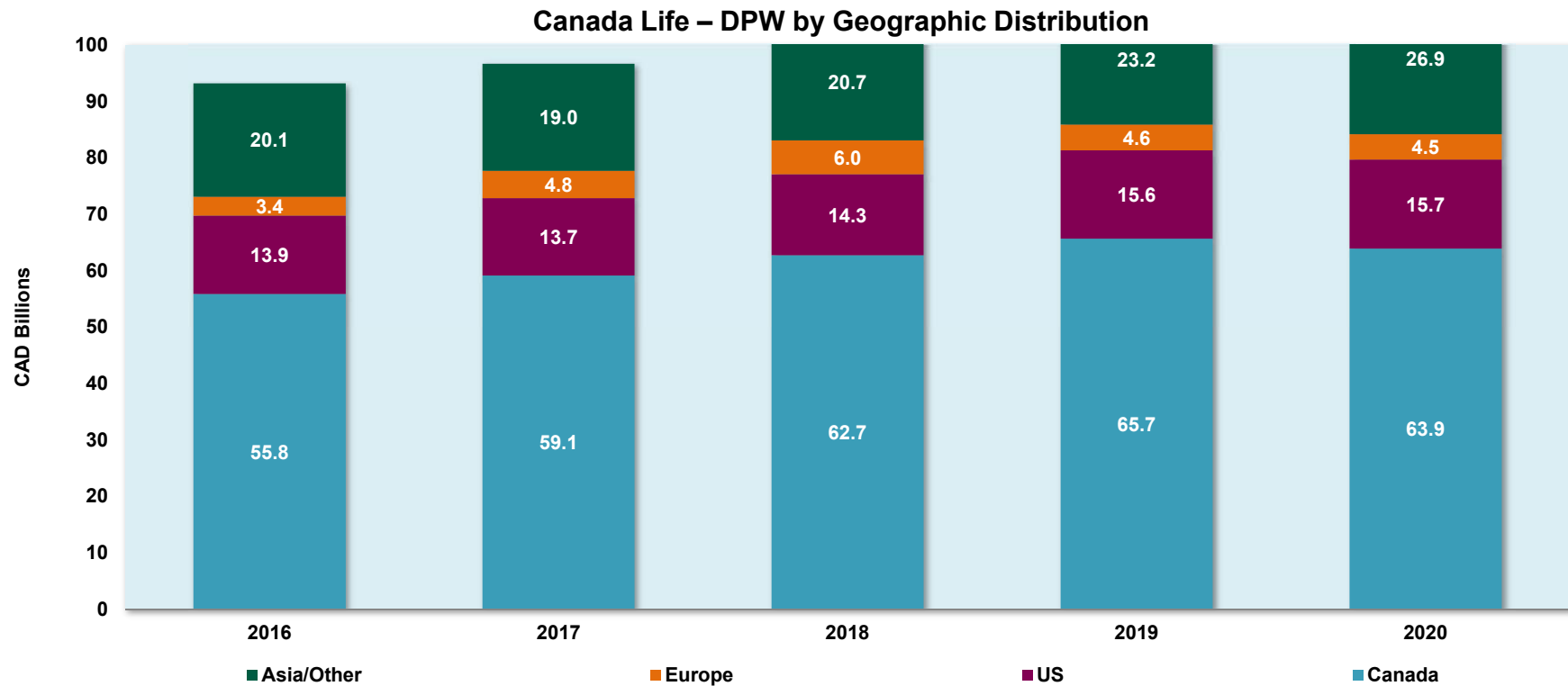
Direct Premiums Written

Canada Life – Direct Premiums Written by Line of Business

Canada and United States only



DPW by Geographic Distribution

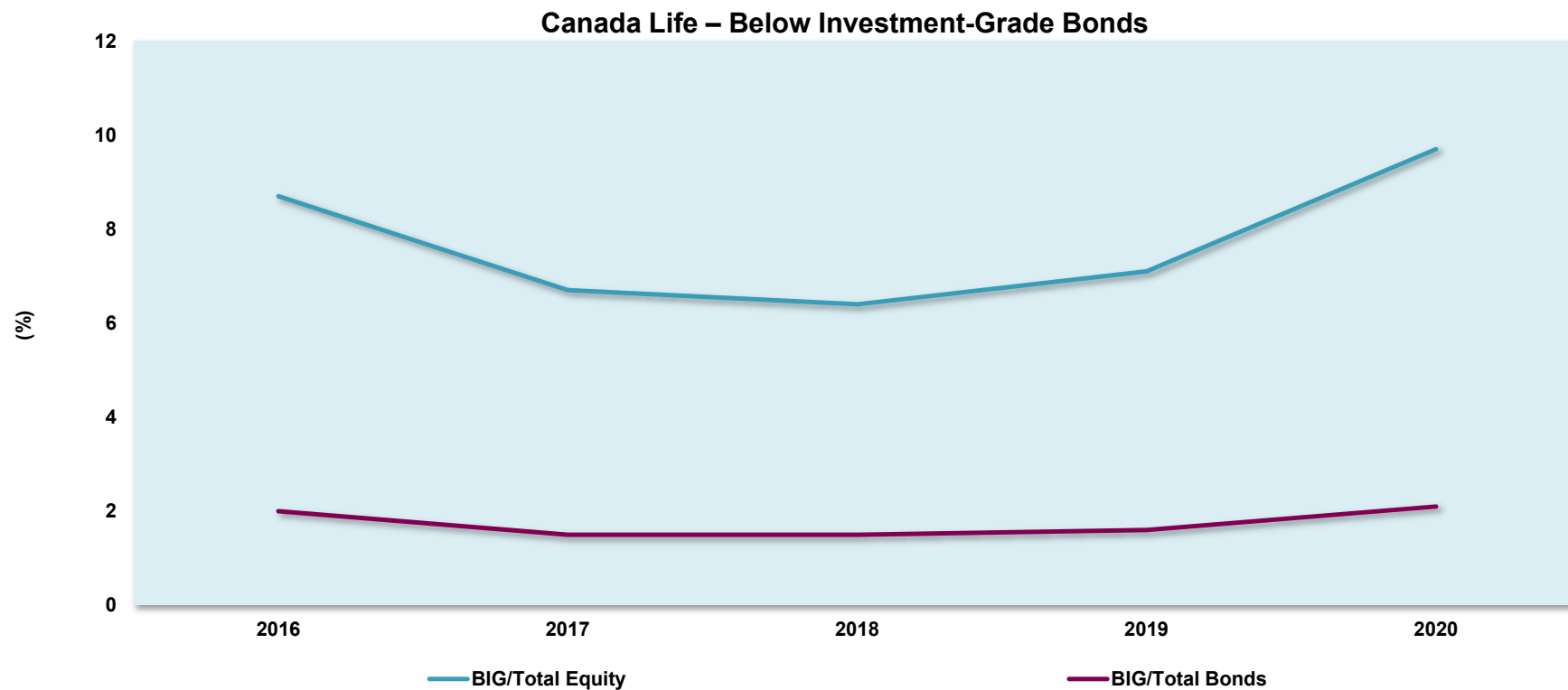


Bond Portfolio Distribution

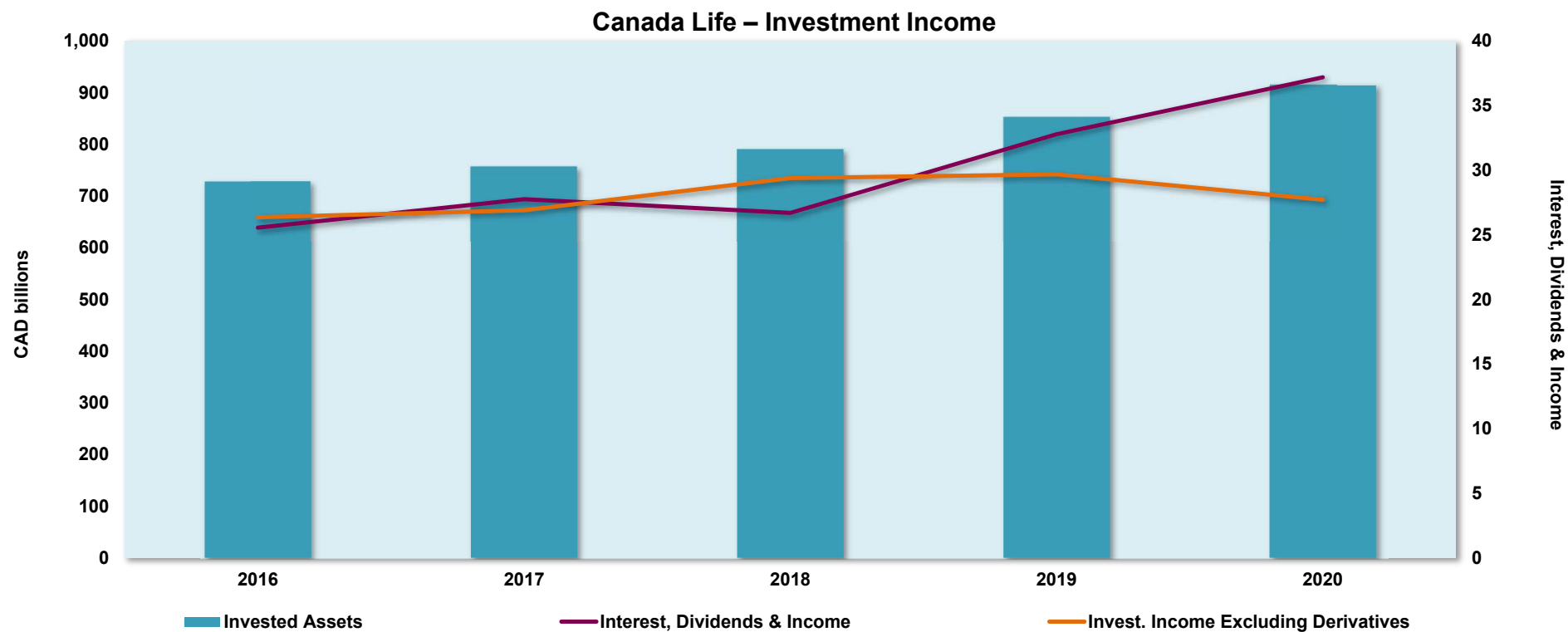
Canada Life – Bond Portfolio Distribution (%)					
Portfolio Components	2016	2017	2018	2019	2020
Government	37.3	36.0	34.3	34.0	33.4
Municipal, Public Authority, Schools	6.0	6.1	6.1	6.0	6.0
Corporate - Public	41.8	42.4	43.2	43.5	43.8
Corporate - Private	14.9	15.5	16.4	16.5	16.8
Total	100.0	100.0	100.0	100.0	100.0

*Totals may not sum to 100 due to rounding.

Below Investment-Grade Bonds



Investment Income



Looking Ahead

Inflation is a concern as it relates to economic strength weakening

Longer term impacts of COVID-19 are still present

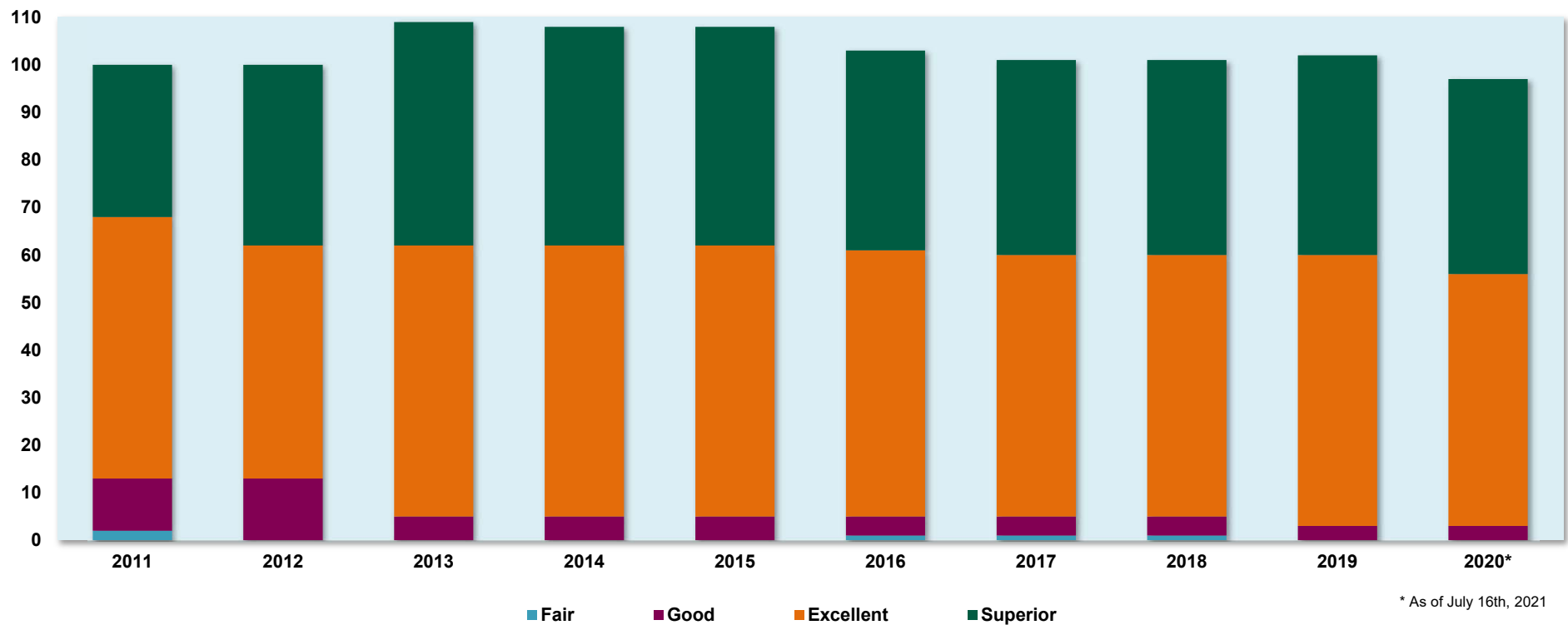
Concerns related to the negative outlook last year are still present but better understood

Investment income for insurers still have significant headwinds

P/C Segment Remains Resilient

Distribution of Ratings

Canada Property/Casualty – Interactive Ratings Distribution (2011-2020)



Source: BestLink

Our Insight, Your Advantage™



Top 10 Property/Casualty Writers

Canadian P/C Market Share – Top 10 at Year End 2020			
Rank	Group/Company	DPW (C\$B)	%
1	Intact Group	10.3	14.3%
2	Desjardin Group	5.7	8.0%
3	Aviva Canada Group	5.6	7.8%
4	Lloyd's Underwriters CAB	4.0	5.6%
5	Wawanesa Mutual Insurance Company	4.0	5.5%
6	Co-operators Group	3.9	5.4%
7	TD Insurance Group	3.9	5.4%
8	RSA Group	3.1	4.3%
9	Economical Group	2.8	3.9%
10	Northbridge Group	2.3	3.2%
	Total	71.9	63.5%

Source: AM Best data and research

Our Insight, Your Advantage™

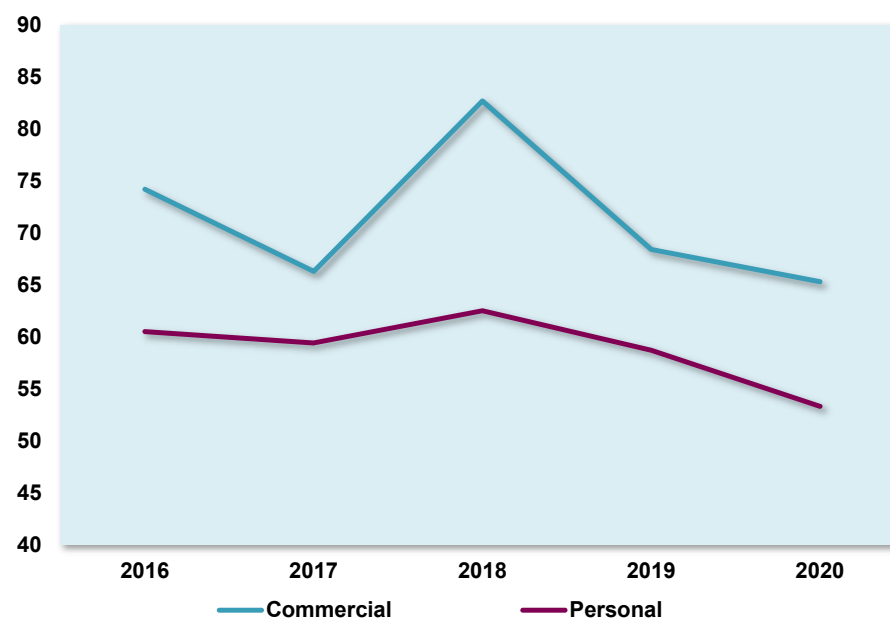


Personal Property

Observations

- Improved results benefit from the impact of COVID-19 stay at home orders
- Enhanced risk selection and pricing sophistication
- Growing risk of climate factors remain a concern as population and spread increase
- Maturing emphasis on risk mitigation efforts

Canada Property/Casualty – Personal and Commercial Property Net Loss Ratios (2016-2020)*



* Excludes Lloyd's CAB and ICBC

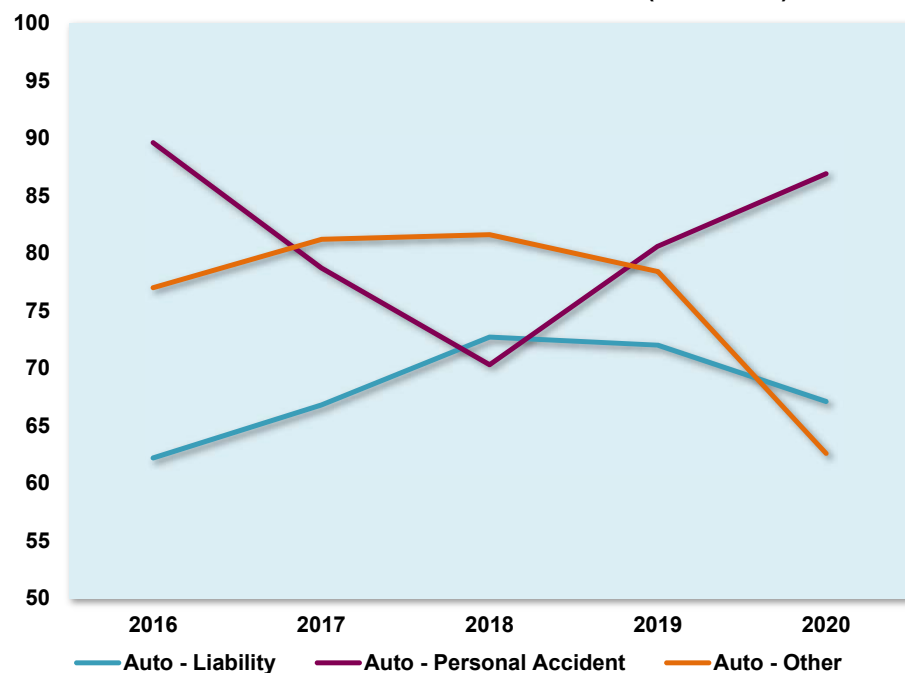
Source: Bestlink

Our Insight, Your Advantage™



Personal Auto

Canada Property/Casualty
Private Auto Insurers - Loss Ratio Trend (2016-2020)



*Excludes Lloyd's CAB and ICBC

Source: AM Best data and research

Observations

- Results have been variable in recent years
- Auto Personal Accident deteriorates further
- Results benefit from lower miles driven, somewhat offset by distractions
- Severity continues to rise along with inflation and complexity of vehicles

Segment Outlook – Canadian Property/Casualty

Headwinds	Tailwinds
Catastrophe losses – long term increases in frequency and severity remain a concern	Solid balance sheet positions, stress tested for COVID-19 impact
Underwriting volatility due to weather and auto	Significant increase in operating profitability
Challenges remain within the auto lines, Ontario and Alberta specifically	Ongoing refinement in underwriting and distribution
Market competition remains strong despite rate increases	Top line premium growth – despite the impact of COVID-19
Investment pressure – yields decline due to market swings resulting from COVID-19	Sustained favorable reserve development – auto and property
COVID-19 Business interruption claims warrant close attention	High quality investment holdings, comprehensive reinsurance programs

Solid capitalization has been achieved through retained earnings, with improved underwriting performance driving a significant increase in pre-tax operating earnings as the industry incurred less frequent but more severe natural catastrophe losses. The improvement in results reflect the reduction in auto frequency as well as a decline in property loss ratios, both impacted by COVID-19. Carriers have implemented more sophisticated underwriting and claims handling initiatives, while expanding distribution and employing innovative ideas to strengthen market position. AM Best has maintained its stable market outlook.

Impacts of COVID-19

Operational

- Rapid response by Canadian government helped minimize cases of infection
- Quick and efficient transition to remote and out-of-office work environment
- The balance sheets of Property/Casualty writers fared well in the AM Best COVID-19 stress test
- Return to “normal” may lead to some reevaluation of coverages, i.e. personal vs. commercial

Insurance

- Auto frequency down due to less miles driven; some premium returned to policyholders
- Auto severity up due to continuing cost inflation and more speeding on less congested roads
- Personal property losses mixed; the increased presence in the home helps mitigate some losses
- Shortages in lumber and labor created increased costs of primary materials
- Commercial property more susceptible to theft, damage losses if business is unoccupied

Climate Risk and Catastrophe Losses

Climate Risk

- Global climate evolution leads to increasing strength and variety in severe weather events
- Human population patterns and behaviors help lead to increasing frequency and severity
- Model science will continue to be challenged to increase granularity and to incorporate more robust and intricate data into catastrophe modeling

Catastrophe Losses in 2020/2021

- Wind and rain from the remnants of Tropical Storm Isaias in 2020 and Hurricane Ida in 2021 in Quebec and the Maritimes
- Spring flooding in Fort McMurray in 2020
- Major tornado/hail events, particularly in Alberta both years
- Numerous wildfires across the country – Lytton's fire in BC in 2021 comes after record breaking heatwave

Insurtech and Cyber

Insurtech

- Significant investments made in Insurtech firms
- Focus on improving the overall customer experience
- Data aggregation supports more usage based products
- Enhanced capabilities for brokers too
- Innovation improves competitive advantages

Cyber

- Cyber security products still maturing but may not be sufficient to counter threats
- Threats are more detrimental to smaller entities
- Cyber criminals generally stay ahead of law enforcement efforts
- Remote work environment may create openings for mischievous activity
- Phishing schemes and other individual employee risks are on the rise

Blockchain and Wildfire

Blockchain

- New technology offers solutions to longstanding problems
- Data organization and authentication improvements
- Transparent and speedy handling of claims and risk management
- Still exposed to human error while entering the data
- Still too costly to all but largest players to be effective

Wildfire

- Canadian NGO's calling on Canadian Government to address growing climate risk
- Climate Proof Canada backed by Insurers propose National Adaptation Strategy
- Large Scale infrastructure could save the Canadian economy \$500 billion
- Provincial governments are allocating budget resources towards mitigation and prevention research

Send questions to:
webinars@ambest.com

Thank You

© AM Best Company, Inc. (AMB) and/or its licensors and affiliates. All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT AMB's PRIOR WRITTEN CONSENT. All information contained herein is obtained by AMB from sources believed by it to be accurate and reliable. AMB does not audit or otherwise independently verify the accuracy or reliability of information received or otherwise used and therefore all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall AMB have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of AMB or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if AMB is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. Credit ratings do not address any other risk, including but not limited to, liquidity risk, market value risk or price volatility of rated securities. AMB is not an investment advisor and does not offer consulting or advisory services, nor does the company or its rating analysts offer any form of structuring or financial advice. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY AMB IN ANY FORM OR MANNER WHATSOEVER. Each credit rating or other opinion must be weighed solely as one factor in any investment or purchasing decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security or other financial obligation and of each issuer and guarantor of, and each provider of credit support for, each security or other financial obligation that it may consider purchasing, holding or selling.