2017 Canadian Property and Casualty Insurance Outlook
The Canadian property and casualty (P&C) sector will continue to evolve at a rapid pace in 2017 as the convergence of economic, political, technological, customer and regulatory forces shape the playing field in profound ways. These multiple disruptive forces will continue to put pressure on insurers from the growth, profitability, compliance and risk management perspectives.

Advances in technology are raising customer expectations for innovative insurance offerings and digitally-enabled business models. Growing demands for technology-driven solutions and threats from new, digital players will push insurers to enhance their digital capabilities in 2017. P&C insurers will increasingly use digital technology to reach new clients, upsell insurance services and products, and enhance interfaces between sales agents/brokers and customers.

InsurTech will lead to further disruption in 2017 as innovative startups take a customer-centric approach to fill gaps in the current insurance offering. This represents both an opportunity and a threat for insurers. Additionally, insurers will take further steps to enhance the online customer experience and use technology to deliver simpler, faster and more affordable insurance products, processes and new business models.
Technology advances have brought with them a variety of new risks that will impact the P&C insurance landscape. These include smart homes, the sharing economy, self-driving cars, drones, cybersecurity and sensor-based insurance. In this context, improving data analytics, including customer data analytics, will be a priority for most insurers in 2017 as advanced analytics can help insurers address many of these risks and deliver on their customers’ changing expectations.

Despite these advances in technology, many insurers are saddled with dated technology platforms and inefficient operations which hinder their efforts to achieve their strategic objectives and meet their customers’ evolving needs.

Global economic weakness and volatility, coupled with political uncertainty on numerous fronts, are having an impact on the Canadian economy, and insurers are not immune. From slow growth and low interest rates to volatility in the energy sector and potential protectionism in the US, the economic and political contexts will affect insurers in 2017. To add to this backdrop, P&C insurers are dealing with low investment yields, soft pricing and increasing claims costs, including catastrophic loss claims stemming from increased natural disasters. This is straining returns, necessitating fundamental structural change to the enterprise cost base and driving the need for insurers to focus on profitable growth and finding cost efficiencies.

Add to this an evolving regulatory context, and it is clear that for many insurers 2017 will be a year of continued change and strategic reassessment of core businesses and business models. On the regulatory front, changes in response to new risks affecting consumer protection, capital, cybersecurity and the sharing economy will only become more onerous for insurers.

In all, 2017 will be a year of disruption and change. The insurers that will be well positioned to succeed in the years ahead are those that are able to understand how changes in the external environment impact them and formulate a strategic response to seize the opportunities that this dynamic market offers.

### Impact of external factors on the Canadian P&C market in 2017

(1 = low impact, 10 = high impact)

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<th>Factor</th>
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<tr>
<td>Technology</td>
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<tr>
<td>Constant innovations such as blockchain, digital technologies, InsurTech, the sharing economy, drones, robotic process automation, sensors and analytics are having a profound effect on the insurance sector. The impacts can be felt throughout the insurance value chain and insurers need to be aware of opportunities and threats related to these innovations. Advances in technology are enabling proactive insurers to improve efficiencies across their operations, from underwriting and policy administration to claims and risk management. New smart technologies, such as artificial intelligence, telematics, driverless cars and blockchain, will be game changers.</td>
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<td>Economic and political uncertainty</td>
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<td>Low interest rates and stagnant Canadian growth will put continued pressure on insurers, and the economic policies of the new US administration may affect the broader economy.</td>
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<td>Customer expectations</td>
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<td>The convergence of demographic, regulatory and technological change will raise expectations for a more digital, personalized and seamless customer experience. Simpler products and a holistic financial orientation will become prerequisites as insurers strive for true customer centricity.</td>
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<td>Catastrophes</td>
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<td>Natural and human-made disasters are a constant threat for P&amp;C insurers, already dealing with low investment yields, economic uncertainty and soft pricing.</td>
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<td>Cyber risks</td>
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<td>With digital attacks on the rise, cyber risk insurance will see significant growth as a commercial line of business in 2017. To maintain their leadership role, insurers themselves will be under pressure to create robust cybersecurity systems in their own organizations.</td>
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<td>Talent</td>
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<td>With many insurance professionals retiring in the coming years, insurers will need to attract millennials to fill the gaps. Insurers will need to attract data scientists, cyber risk specialists, digital marketers and others to secure their future.</td>
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Strategic priorities for 2017
For Canadian P&C insurers, the interplay of economic, regulatory, technology and market shifts will bring new strategic challenges. These disruptive forces are having a profound impact on customer expectations and creating demand for new products and services. In a fast-evolving digital environment, agility is key. This poses challenges for an industry that in the past has been slow to change. Additionally, the investment required to drive future innovation is competing with the need to find efficiencies and comply with growing regulations.

Against this backdrop, the fiscal realities of compressed margins and declining investment revenues in the sector are making investment choices increasingly difficult. Insurers will need to use technology to optimize costs to free up funds for strategic investments.

In today's context, organizational transformation is essential if the insurance sector is to weather the unprecedented forces that it faces.

**A strategic roadmap to drive profitable growth:**

1. Focus on customer-centricity
2. Focus on customer-driven innovation
3. Use technology to improve top- and bottom-line performance
4. Put the perils of CAT and cyber high on the corporate agenda
5. Rethink strategies to attract, develop and retain talent
Focus on customer-centricity

Direct insurance has arrived.
Canada’s P&C insurance sector lags other developed markets with comparatively low direct-to-consumer offerings or innovative business models. Industry observers have argued that onerous regulatory obstacles, particularly with respect to Ontario auto insurance, and front-ended underwriting validation costs are barriers to true digital direct.

This is about to change. Economical Insurance’s launch of Sonnet in the spring of 2016 represents the first foray into direct digital quote-to-bind. And other carriers and digital brokers are rapidly following suit with similar strategies.

Insurance company or digital broker?
Brokers are not sitting idly on the sidelines of the digital relevancy debate. In fact, given the glacial adoption of straight-through processing and brand-build investments, digital brokers have succeeded in establishing their presence, be it through corporate partnerships or targeted territory marketing.

Underpinning such strategies are traditional intermediated carriers motivated by channel support, growth and a fear of being left behind as consumer preferences and buying behaviors change. However, such models have also spawned what was once thought inconceivable; pricing aggregators across panels of intermediated markets are now in play.

Stay customer-centric.
The self-service, on-demand economy is forcing insurers to take a critical look at their commitment to customer centricity, regardless whether they operate on a direct, tied-agent or intermediated operating model.

To adapt to a fast-changing marketplace and differentiate themselves from their competitors, insurers must stay laser-focused on the customer and adapt their go-to-market strategies to meet their customers’ ever-changing needs.

In 2017, insurers will want to develop a millennial-minded strategy that highlights 24/7 digital access, personalization, self-directed functionality and a seamless customer experience. Millennials’ strategic importance is becoming clear to both personal and commercial insurers. Millennials are now the largest generation in the workforce; their wealth is growing faster than other age group and, according to a recent BNP Paribas study1, “Millennipreneurs” have started twice as many businesses as baby boomers. Large commercial carriers targeting millennipreneurs should continue to provide risk engineering, loss control and expert risk advice as a strategic additional value to their large commercial clientele.

Customer-centricity as a force for regulatory change.
The unyielding advance of disruptive business models will inevitably impact the insurance regulatory landscape. As evidenced with ridesharing’s impact on the regulated passenger transport industry or short-term rentals’ influence on condominium corporation by-laws, regulations are only temporary obstacles that are susceptible to shifting political winds.

Technology-enabled convenience will bring industry debates out of the back room to the forefront of public policy discourse with far-reaching implications. Regulations perceived to be “old economy” impediments to progress and customer convenience will no doubt be politically expedient targets. Consider the challenge: if banks are no longer insurance companies, but merely distribution entities, then why should tied-selling be restricted?

The Millennial workforce

1 2016 BNP Paribas Global Entrepreneur Report

Source: Statistics Canada (LFS)
Accelerate the development of new products and business models. 2016 saw a proliferation of new products and business models offered by InsurTechs: Metromile’s pay-per-mile insurance model, Trov’s on-demand insurance for belongings and Bought by Many’s peer-to-peer (P2P) insurance, to name a few.

Although not as prominent as in the US and UK markets, some Canadian companies have also entered into the InsurTech space. For example, in early 2016, Intact Financial Corporation made a strategic investment in American startup Metromile.

According to EY Canada’s Insurance Leader Janice Deganis, insurance product innovation will kick into high gear in 2017. “Customer needs and priorities – among both individuals and companies – are changing rapidly,” she says, “The pace and scale of change is driving interest in new types of products and new ways of connecting with customers.”

Deganis cites emerging trends such as short-term house and car usage and shareable work environments for small business as just two examples of scenarios that insurers must now accommodate.

“Anticipating and responding to the fast-changing needs of customers requires both agility and a determined effort, not just to develop these ‘next gen’ products but to get them to market as quickly as possible.”

Who will help you reimagine the possible?
An organization’s greatest asset is its people. However, as the creators, custodians and stewards of the very models currently in place, they too can be a significant liability for change and innovation. Organizations are now required to flex a different set of organizational muscles on the digital, product innovation and customer experience agendas. These are not inherent skill domains of traditional underwriting organizations. Ensuring these functional skills and disciplines are integrated into the business’s fabric is critical for strategic and entrepreneurial insights and creativity to flourish. It is not only a cultural fear of failure that needs to be addressed, but the question of who exactly gets to devise and champion propositions that flourish or flounder.

Nurture a culture of innovation.
For the insurance industry, “Innovation is no longer an option. It’s absolutely key for success,” Swiss Re Sigma’s Thomas Holzheu says. “The price of not keeping up with innovation to cut costs and move with demographic trends will show up not just in weaker growth, but also eventually in rising claims.”

For a conservative business such as insurance, building a culture of innovation can be challenging. It requires embracing change at the top, staying focused on evolving customer needs and taking a test-and-learn approach that accepts occasional failure. The most successful insurers now have chief innovation officers and innovation labs that work together with the business heads to drive change throughout the organization. Connecting and partnering with InsurTech startups and external innovation incubators and think tanks can also be powerful ways to transfer new ideas.

2016 saw some pockets of innovation from Canadian insurers, including Economical Insurance’s launch of Sonnet in the spring of 2016 as just one example. Other examples include Intact Financial Corporation’s collaboration with Uber Canada and Turo, a US company that has adapted the Airbnb home rental concept for the automotive industry, as well as Intact’s launch of drone insurance for small and medium-sized businesses.

Supporters of InsurTech will reshape the competitive landscape.
In practice, few InsurTechs are actually new, innovative insurance companies. Instead, they can best be thought of as creative product and distribution schemes enabled through technology. In short, they’re digital managing general agent (MGA) models that require licensed capital providers to back the concept and corresponding risks and obligations.

Lemonade is backed by Lloyds; Trov is backed by Munich Re; and Metromile was backed by National General Insurance until it purchased its own insurance company, Mosaic, in the fall of 2016.

Partners are required to bring these schemes to life and they stand to share—or survive—in an ever-shifting customer demand landscape. Nevertheless, primary carriers have been slow to participate. Instead, reinsurers who are well-versed in arm’s-length risk transfer are playing a dominant role. Specialty insurers and reinsurers have typically played in the margins where the mainline carriers dared not tread. Consider now that an absence of creativity is bringing these players into primary commodity lines. Are reinsurers vs. InsurTechs the true destabilizers?
Use technology to improve top- and bottom-line performance

Expense transformation in the face of shrinking returns. Low investment yields, soft pricing and increasing claims costs, including catastrophic loss (CAT), are straining returns and necessitating fundamental structural change to the enterprise cost base in both the front and back office.

Operational excellence is being embraced in principle out of necessity, but it must become a fundamental part of the organization's culture if it’s to become sufficiently expansive and self-sustaining. Attempts to do more with less have exposed years’ worth of underfunding in strategic IT and operating system efficiencies. This puts companies at a strategic disadvantage — the business and innovation agenda demands a rapid pace of development that legacy platforms either cannot meet or functionally support altogether.

Bespoke sales and marketing or employee workbench tools add to rather than replace infrastructure costs, exacerbating the expense predicament. But upgrading the company's foundational policy, claims and billing systems is increasingly becoming the single greatest element in enabling the integrated digital agenda. Carriers with scale and access to strategic capital are making sizeable investments to re-platform legacy infrastructure. Second-tier players need cost-effective alternative solutions and offerings, including managed services, to keep pace with technology demands.

Drive cost savings by drawing on robotics to automate insurance processes.

Another strategic line of defense available to all P&C companies regardless of size is the use of robotic process automation (RPA) to automate business processes and streamline back-office operations. Digitizing routine processes can deliver significant near-term gains in the form of reduced costs, lower error rates and increased customer satisfaction for carriers across all business lines.

What are the quantifiable benefits of RPA?

- A robot is 1/10 of the cost of an on-shore FTE & 1/3 of an off-shore FTE
- An unattended automated solution that works 24/7 without complaint
- Double-digit reduction in error rates; robots never forget their training
- RPA works with the existing IT landscape
- Robots can be trained by existing business users
- Speed and accuracy of process execution improves significantly
Rather than a next-generation futureproofing technology, robotics is little more than advanced scripting that works on any platform, within any environment, to eliminate repetitive data entry or data movement between systems. A configured software robot enables 24/7, error-free processing, and is especially suited to mainframe application environments where workflow-dependent validation logic inhibits extensions or integration.

“Automating processes through robotics is a sensible route towards reducing costs,” says Janice Deganis, Canadian Insurance Leader for EY. “Carriers should be working closely with their vendors to assess which processes are best suited for this shift. With a good vendor at your side, it needn’t be overly complicated.”

**Sophistication wins — apply advanced analytics systematically across the value chain.**

According to Canadian Insurance Advisory Leader Steve Yendall, “Analytics is rapidly becoming a major player in the race to success this year and beyond.”

Yendall sees the use of analytics spreading across the enterprise, from decision-making to operations, and predicts it will become ubiquitous within a few years.

“The use of analytics will cascade differently through each company. While some might experiment first in underwriting or claims management, others might test it out in pricing. Regardless of the entry point, early success in one aspect of the business will likely accelerate the use of analytics elsewhere in the company. Ultimately, it will become integral in most aspects of insurance activity.”

One natural progression, according to Yendall, is to build on the trends in automation and behavioral analytics to create smart automation that delivers tailored solutions in response to customer behaviours.
Put the perils of CAT and cyber high on the corporate agenda

Overcome the fear of failure.
As regulators look beyond banks for mitigating systemic risk in the financial services sector, the twin perils of CAT and cyber dominate the P&C conversation. Natural disaster-related CAT losses have become the “new normal” in both frequency and severity. CAT exposure, especially related to the risk of a West Coast earthquake, and the industry’s ability to withstand and recover continue to drive regulatory solvency and risk concentration concerns.

After a fortuitously benign 2015, the Fort McMurray wildfires in 2016 resulted in Canada’s costliest event to date and, as reported in the Insurance Insider, may have perilous consequences for a regional insurer that is said to have breached the top layer of their reinsurance program. Exposure and resilience to CAT, including the role of reinsurers and capital residency, will continue to be in the forefront of the regulatory agenda, whether through Own Risk Self Assessment (ORSA) or policy controls.

Implement an active defense system to protect against cyber risks.
As P&C insurers strive to protect their systems and federal and provincial authorities introduce cybersecurity regulations, a comprehensive cyber risk management strategy will be essential for large and small providers alike.

EY recommends an active defense program that relies on four key stages:
- Identify critical assets such as sensitive customer insurance data sought by hackers.
- Develop a model for normal behavior on the network so that it can easily detect unusual activities.
- Identify likely cyber attackers.
- Conduct active defense measures – from third-party audits to war gaming – to enable cybersecurity effectiveness.

Hiring internal or external cybersecurity experts, providing cyber risk training to staff and having the chief risk officer work more closely with IT teams are all critical for an active defense.

Turn cyber risk into an opportunity for building business.
A recent survey conducted by the Risk and Insurance Management Society found that 80% of companies bought a standalone cybersecurity policy in 2016. As these policies become the norm for large companies and more popular among smaller businesses, insurers will need to develop products, services and pricing methods to meet escalating market demand. To be prepared, EY’s Deganis suggests that insurers need to identify potential cyber risks that are embedded in their standard policies.

“Among the implications of this shift is insurers’ growing exposure on general liability policies,” she explains. “We’re seeing growing demand for loss control products around cyber as companies identify the business upside of proactively helping companies develop the cybersecurity programs that can protect them.”

Prepare for the next stage of cyber risk.
In 2017, cyber risks will increase exponentially as digital technology becomes more pervasive and cyber attackers more sophisticated.

According to EY’s Deganis, cyber risk will not only rise, it will also evolve. “Threats will no longer be limited to the digital sphere. As devices become increasingly connected, we face a whole new set of vulnerabilities with some frightening implications,” she explains. “Today, one might be concerned about having personal information hacked; tomorrow, cyber attackers will be able to target physical infrastructure, from household or business devices to train signal systems or more. The degree of physical risks ahead should not be underestimated.”

Adding to the challenge, managing cybersecurity risk can be a moving target, as cyber hackers get smarter and change tactics.
Rethink strategies to attract, develop and retain talent

Have a clear view of the future of work.
With a large percentage of the workforce retiring in the years ahead and digital transformation accelerating, 2017 will be a good time to take a hard look at future work needs.

EY’s Deganis suggests that insurers should work to define what the future could – and should – look like. Assessing how robotics can support human productivity and effectiveness, for example, is a subject that requires thoughtful and careful consideration. At the heart lies the question, “How might we envision a new division of labour in the years to come, between robotics that execute repetitive or analytical tasks and the strategic insights and interpersonal tasks that only a human workforce can fulfill?”

As they plan ahead, insurers will also need to identify the digital expertise they will need in the future, from artificial intelligence, social media and blockchain specialists to digital marketing and customer care executives.

EY’s Deganis believes that insurers should prioritize hiring risk experts next year, particularly in the cyber area, because that knowledge will be needed for internal operations and for providing advice to commercial clients.

Understand the millennial mindset.
Forecasts suggest by 2020, millennials will make up 46% of the workforce. Unfortunately, according to the Insurance Journal, more than half of them (53%) perceive the industry as not being innovative, and 65% say it has a bad image.

“To attract the young talent the industry needs, a more concerted effort is required to communicate just how dynamic insurance is becoming,” says Deganis. One way to do this, for example, is to emphasize the rise of digital transformation and advanced data science. Insurers will be increasing the use of technology such as social media to attract millennials, and targeting messages to their concerns, including social responsibility, career advancement, entrepreneurial rewards, teamwork and flexible hours.

Building a collaborative culture that encourages a free transfer of knowledge between incoming talent and seasoned professionals will be critical for success.

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