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# The Canadian Financial Lines Insurance Market: Market Conditions & Risk Factors that Brokers and Policyholders Should Know

Denis Panariti • January 22, 2024

Per Beazley's 'Canada Snapshot Report: Risk & Resilience in a Time of Change', launched in late 2023, 35% of Canadian business leaders identified a high-risk environment, marking a significant 15% jump from 2022.

This uptick in risk perception coincides with notable changes in the financial lines insurance market. The transition from hard to soft market has been characterized by growing competition, surplus capacity, and falling rates, which affect profitability. Interestingly, despite the financial lines insurance market softening—a usual indicator of reduced risk concerns—business leaders' sense of operating in high-risk conditions has not diminished. This scenario underscores a complex interplay between market dynamics and risk perceptions, indicating they are not always in sync.

Analyzing the financial lines insurance market through eight key factors provides insight into its current state and reveals the risks that underwriters are closely monitoring.

## Volatile interest rate environment

In the current high interest rate environment in Canada, similar to other global markets, we are diligently assessing how these rates affect a company's ability to repay debt and the associated risks of default or financial strain. It is crucial for insureds to demonstrate

robust and proactive financial management strategies. This includes showing evidence of effective measures in place to manage and mitigate the impact of rising debt costs on their overall financial health.

### Economic inflationary pressures

As North America's macroeconomic conditions continue to stagnate, there's a notable rise in D&O related claims. These claims predominantly involve mass layoffs, debt restructurings, and in more extreme cases, full dissolutions and liquidations of companies' remaining assets. Stock drop claims are also becoming more prevalent, with plaintiffs' firms viewing these devaluations as opportunities for class actions alleging mismanagement or misrepresentation. As underwriters, we are closely examining how policyholders manage costs and maintain profitability amidst inflation. This includes evaluating the risk of financial instability arising from failure to offset or transfer rising input costs to consumers.

### Social Inflation

Canada is not as litigious as our neighbors to the south. Nonetheless, social inflation is a growing issue in the market. In response to rising litigation costs, driven by plaintiffs seeking substantial monetary relief and often targeting reputations rather than relying on evidence-based arguments, we're keeping a close eye on clients' public perception, legal defense strategies, and litigation history to assess potential financial risks.

### ESG compliance and continuous disclosure

Canadian firms, particularly those in industries heavily dependent on natural resources, face heightened scrutiny regarding ESG compliance in today's market. The transparency and frequency of policyholders' ESG disclosures, significantly influence stakeholder trust and company reputation.

### Employment Practices Liability / DEI Commitments

EPL continues to be a major driver of claims on a global scale, and Canada is no exception. Therefore, assessing how effectively a company implements and enforces comprehensive employee handbooks and specifically DEI policies is crucial in evaluating risk exposure. Non-compliance or inadequate DEI practices can result in litigation and/or reputational harm to the company.

### Canadian real estate market volatility and effects on our clients

Similar to the US, Canada has been stricken with a challenging real estate market, with mortgage rates remaining high. In many cases, this tough market is influencing clients' asset values and investment strategies, necessitating increased focus on risk exposure and management.

### Cybersecurity posture and planning

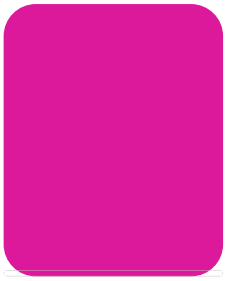
Policyholders' cybersecurity posture and crisis planning must remain a central priority as cybersecurity breaches continue to affect a large

number of Canadian companies. We continue to evaluate the adequacy of clients' incident response plans, thus ultimately assessing how prepared they are to mitigate and recover from cyber incidents.

### Foreign exposure amid geopolitical tensions

Canadian firms, especially in resource-intensive sectors like mining with international operations, face increased scrutiny from underwriters due to rising global geopolitical tensions, particularly in Eastern Europe, South America, and the Middle East. Underwriters are evaluating these companies' foreign exposure, assessing their risk mitigation strategies and the potential financial and operational impacts.

Now for 2024, policyholders should prioritize proactive risk management strategies, continue to adapt to evolving market conditions, embrace and follow through on ESG and DEI commitments, and invest further in their cybersecurity postures in order to demonstrate their risk resilience and become stronger and more desirable risk profiles to underwriters.

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