October 27, 2025

Canada Property/Casualty: Stable Credit Fundamentals Despite Increasing Volatility

AM Best is maintaining a Stable outlook for Canada's P/C insurers, driven by the industry's resilience despite being challenged by catastrophes

Principal Takeaways

- Robust capital buffers, disciplined pricing, and effective risk management strategies continue to underpin financial strength.
- Auto results remain challenged by rising accident frequency, bodily injury costs, and theft trends, while the property segment demonstrated strong resilience.
- Property/casualty insurers maintained favorable performance in 2024 even as Canada faced its costliest catastrophe year on record.

Outlook for Canada's Non-Life Insurance Segment Remains at Stable

AM Best is maintaining a Stable outlook for Canada's P/C insurers. The Stable outlook for the industry is supported by the following:

- Robust risk-adjusted capitalization and strong capital buffers, which continue to offset multi-year elevated catastrophe activity
- Resilient underwriting results driven by disciplined pricing and sound product risk management
- Favorable investment returns, which have benefited from higher interest rates on government bonds
- A comprehensive and continuously improving regulatory framework
- Adequate reinsurance capacity
- Easing inflationary pressures

However, insurers continue to navigate significant challenges, including the following:

- Persistent climate-related risks
- Challenges in the personal auto sector
- Economic volatility
- Growing complexity of cyber threats

These pressures are testing the industry's resilience and demand continual refinement of underwriting strategies and risk management practices to sustain profitability.

Canada's Catastrophe Losses Hit All-Time High in 2024

Canada's insured catastrophe losses reached over CAD 9.0 billion in 2024, surpassing the previous CAD 6.2 billion high recorded in 2016. Multiple events throughout 2024 resulted in insured losses exceeding CAD 30 million (**Exhibit 1**), the majority of damage was driven by four major catastrophes that occurred within a span of just 27 days during the summer months. These

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Exhibit 1

2024 Cat Events Exceeding CAD 30M Insured Losses

Cat Event	Insured Losses (CAD millions)
Western Deep Freeze (British Colombia, Saskatchewan and Alberta)	180
Eastern Canada Spring Storm (Southern Ontario to Atlantic Canada)	55
Ontario Early Spring Storms	34
Manitoba Hailstorms	55
Saskatchewan Severe Storms	133
Remnants of Hurricane Beryl (Eastern Canada)	50
Southern Ontario Flash Flooding	900
Jasper Wildfire (Alberta)	1,313
Calgary Hailstorm (Alberta)	3,290
Remnants of Hurricane Debby (Eastern Ontario and Southern Quebec)	2,800
August Southern Ontario Flooding	110
Southern British Colombia Flooding	120

Source: CatIQ

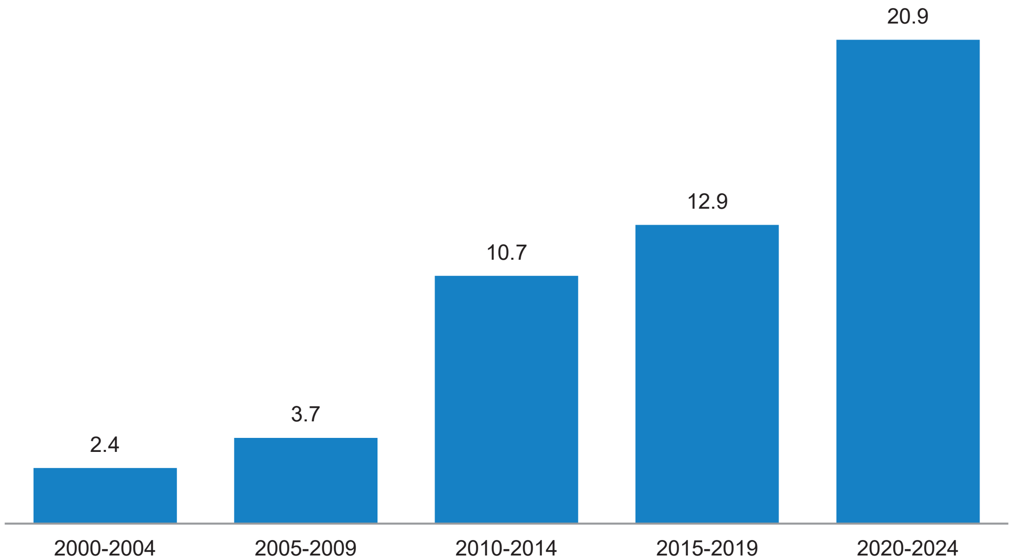
included the Southern Ontario flash flooding, the Jasper wildfire and Calgary hailstorm in Alberta, and the remnants of Hurricane Debby in eastern Ontario and southern Quebec.

The Southern Ontario Flash Flooding event occurred on July 15 and 16, affecting Toronto, as well as its suburbs and surrounding regions. According to Catastrophe Indices and Quantification Inc. (CatIQ), the estimated insured losses reached approximately CAD 900 million. About a week later, on July 22, residents of and visitors to Jasper, Alberta evacuated as wildfires sparked by lightning and fueled by extreme drought threatened the town and the nearby national park. The fire burned approximately 32,500 hectares and destroyed over 350 homes and businesses, ultimately becoming the second costliest wildfire in Canadian history, with insured losses totaling around CAD 1.3 billion. In early August, a record-breaking hailstorm struck the Calgary area, causing an estimated CAD 3.3 billion in insured losses. Calgary has been hit by multiple catastrophic hailstorms in recent years, part of a broader trend in Alberta, which has faced five of Canada's ten costliest natural disasters, all since 2016. In early August 2024, the remnants of Hurricane Debby brought heavy rain and flooding to southern Quebec, resulting in insured losses of approximately CAD 2.8 billion.

Over the past 25 years, the frequency and severity of extreme catastrophic weather events have increased noticeably, with particularly pronounced trends emerging since 2015 (**Exhibit 2**). When adjusted for inflation, the cumulative cost of these events since 2000 has reached CAD 50.6 billion. Approximately 18% of these total costs were incurred in the record-setting year of 2024 alone. A review of five-year increments highlights a general increase in event frequency, with the exception of 2005–2009, reinforcing the long-term nature of climate risk (**Exhibit 3**).

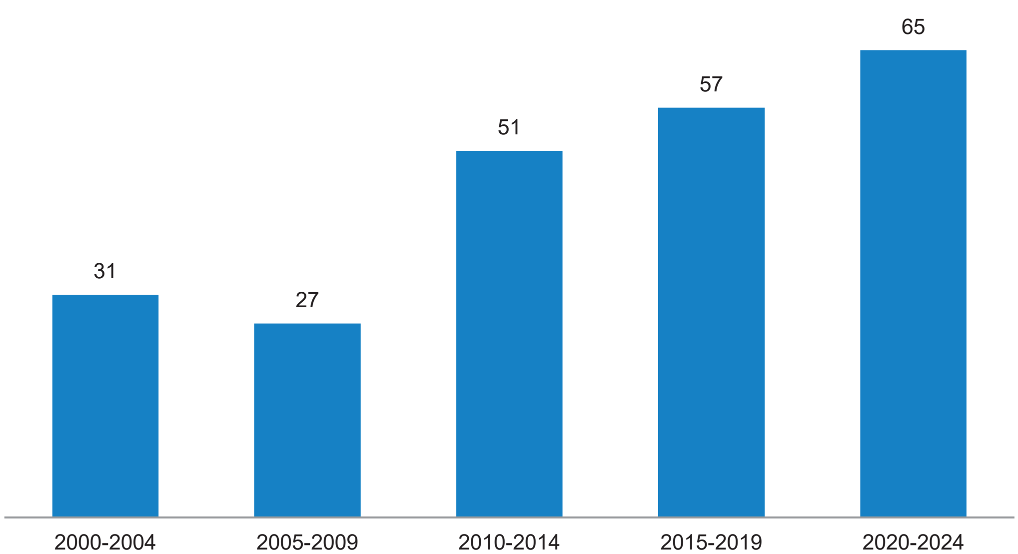
Although catastrophe activity through the first half of 2025 is not on pace to reach the record levels reported in full-year 2024, the insurance industry has still faced significant events, totaling approximately CAD 1.6 billion according to the Insurance Bureau of Canada (IBC). As of August 2025, CatIQ has confirmed that Canadian insurers had responded to 12 natural catastrophes year-to-date in 2025, including four wildfires. Canada's 2025 wildfire season has been exceptionally active, with significant events in Saskatchewan, Manitoba, Ontario, Alberta, and British Columbia. As of early August 2025, an estimated 7.3 to 7.8 million hectares had been consumed by fire, already surpassing most full seasons. This environmental volatility underscores the growing pressure to adapt to increasingly frequent and severe weather-related losses.

Exhibit 2
Canada Property/Casualty – Cumulative Catastrophe Losses
(Inflation-Adjusted Costs, CAD billions)



Source: IBC

Exhibit 3
Canada Property/Casualty – Catastrophe Frequency
(Number of events)



Source: IBC

The discovery of a fault line located primarily in Canada's Yukon Territory adds significantly to existing concerns over earthquake risk. Long dormant, a rupture along the Tintina fault line is believed to have the potential to exceed Magnitude 7.5 on the Richter scale. This could create a protection gap for consumers in the territory due to an already low insurance penetration rate. The impact on the industry could also be substantial, particularly as AM Best believes the availability and affordability of reinsurance coverage in Canada may be strained by such a scenario.

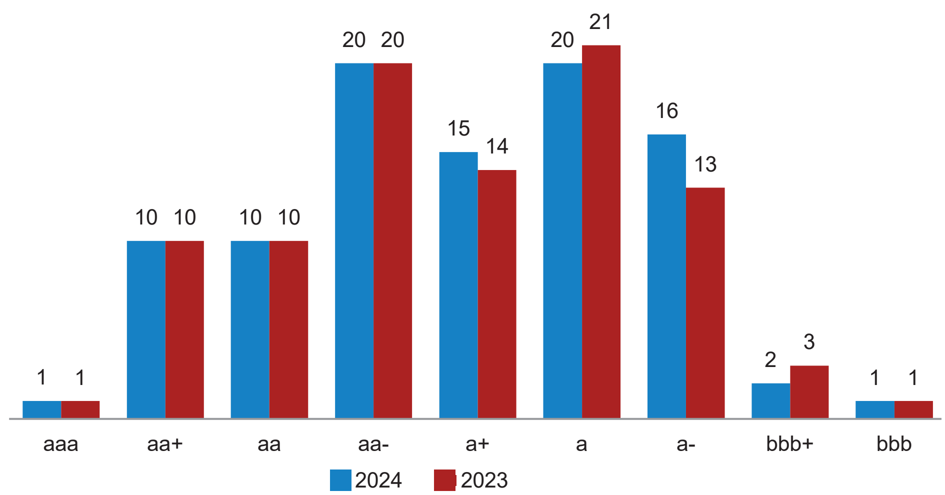
While primary perils such as earthquakes and hurricanes have traditionally dominated the focus of the insurance industry, Canada is also increasingly experiencing a surge in secondary perils. Severe convective storms, wildfires, flooding, and hail have become more frequent and destructive. According to Swiss Re, approximately 90% of Canada's catastrophe-related losses in 2024 were due to secondary perils. As climate change amplifies the frequency and intensity of these events, the need grows for insurers, governments, and communities to collaborate on proactive mitigation measures. Investments in infrastructure resilience, updated building codes, and advanced early-warning systems can play a vital role in reducing future exposure and enhancing overall preparedness.

Ratings Remain Stable

In 2024, approximately 97% of Canadian P/C insurers rated by AM Best had issuer credit ratings (ICR) of "a-" or higher, relatively consistent with 2023 (**Exhibit 4**). The resilience of the industry is evidenced by most rating actions in 2024 being affirmations, as well as fewer overall rating changes compared to the prior year. In total, there were 95 rated entities in 2024 and only three rating changes: two upgrades and one downgrade. The two upgrades were largely driven by improved balance sheet strength and operating performance, while the downgrade resulted from the sale of a rated entity to a non-rated counterparty. In addition to the rating changes, there were three new assigned ratings in 2024, reflecting the insurance industry's ongoing competitive landscape.

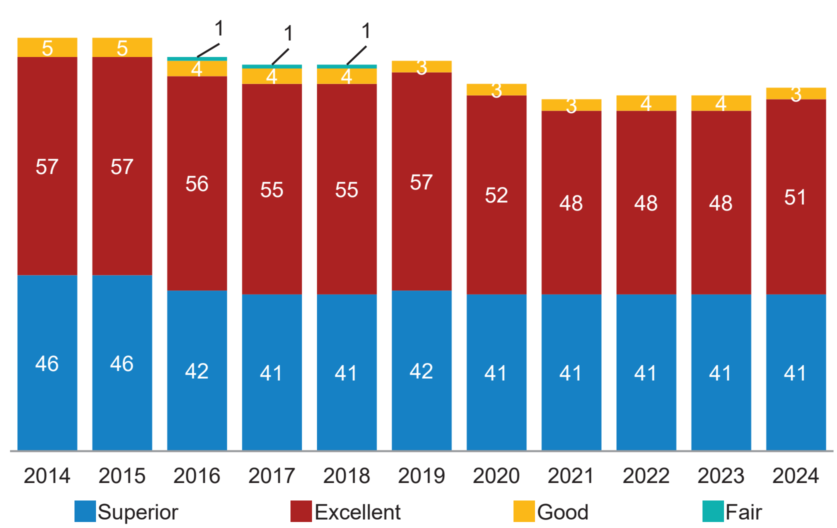
From a financial strength ratings (FSR) perspective, most P/C carriers in Canada are assessed as either

Exhibit 4
Canada Property/Casualty – Number of 2024 Issuer Credit Ratings



ICRs = Issuer Credit Ratings.
Ratings as of December 31, 2024.
Source: BESTLINK

Exhibit 5
Canada Property/Casualty – Number of Interactive Ratings



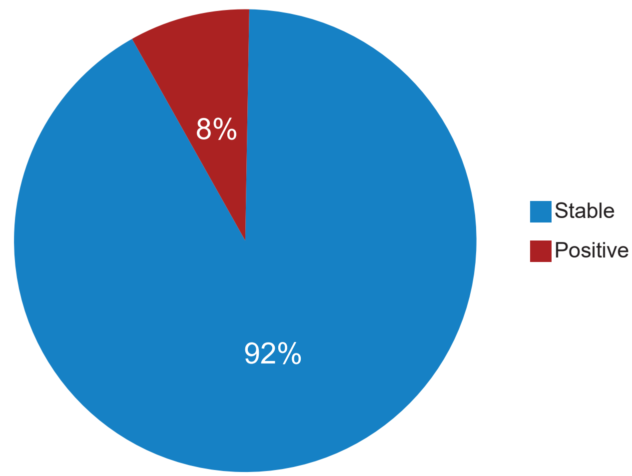
Ratings as of December 31, 2024.
Source: BESTLINK

Superior (A++ or A+) or Excellent (A or A-), supporting historical trends seen over the past ten years (**Exhibit 5**). The stability of the Canadian P/C industry is highlighted by the fact that all rated entities have maintained FSRs of B++ or higher in each of the past six years.

Of the 95 rated entities, 87 had a Stable outlook, and eight had a Positive outlook (**Exhibit 6**). None of the rated entities had a Negative outlook, which is consistent with the prior year. Over 90% of the rated population in Canada has had a Stable outlook in each of the last two years, reflecting the market's stability, owing to consistently robust risk-adjusted capitalization, strong operating earnings, and effective enterprise risk management (ERM) frameworks. Of the ratings assigned a Positive outlook, six have been driven by favorable operating performance compared with peers, while the remaining two reflected improved risk-adjusted capitalization and a more favorable overall balance sheet strength assessment.

Exhibit 6

Canada Property/Casualty – 2024 Ratings Outlooks



Ratings as of December 31, 2024.

Source: BESTLINK

Canada's Reinsurance Industry

AM Best's Positive outlook on the global reinsurance market segment reflects robust risk-adjusted capitalization, strong underwriting profitability, favorable market conditions, and strengthening of risk management capabilities, despite persistent headwinds, particularly elevated frequency and severity of natural catastrophes, increasing geopolitical pressures, and social inflation. AM Best's Canadian reinsurance market closely mirrors the broader positive trends AM Best has observed globally. However, the impact of social inflation is more muted in Canada due to Canada's judicial system, which primarily relies on judges for insurance litigation cases as opposed to jury trials.

Canadian reinsurers fared worse in 2024 than in 2023. The combined ratio increased sharply from 65.6% in 2023 to 92.6% in 2024, driven by a drastic rise in the loss ratio, while the expense ratio remained relatively stable year-over-year (**Exhibit 7**). Despite primary insurers retaining more risk on their balance sheets, reinsurers absorbed a larger share of high severity losses from several large-scale natural disasters across the country resulting in greater underwriting volatility that pressured overall profitability in 2024.

Despite the deterioration in underwriting results, reinsurers maintained strong capital positions, and pricing remained firm across most lines of business. 92% of all AM Best rated Canadian reinsurance companies had an ICR of Excellent (a-/a/a+) or higher in 2024, consistent with trends in

Exhibit 7

Canada Property/Casualty – Reinsurance Highlights*

	Loss & LAE Ratio (Net/Net)	Expense Ratio (Net/Net)	Combined Ratio (Net/Net)	Combined Ratio (Net/Gross)	Insurance Revenue (CAD billions)
2022	64.8	10.5	75.3	83.6	3.4
2023	53.9	11.7	65.6	77.8	4.2
2024	79.7	12.9	92.6	95.0	4.7

* Figures reported in accordance with IFRS 17.

Source: BESTLINK

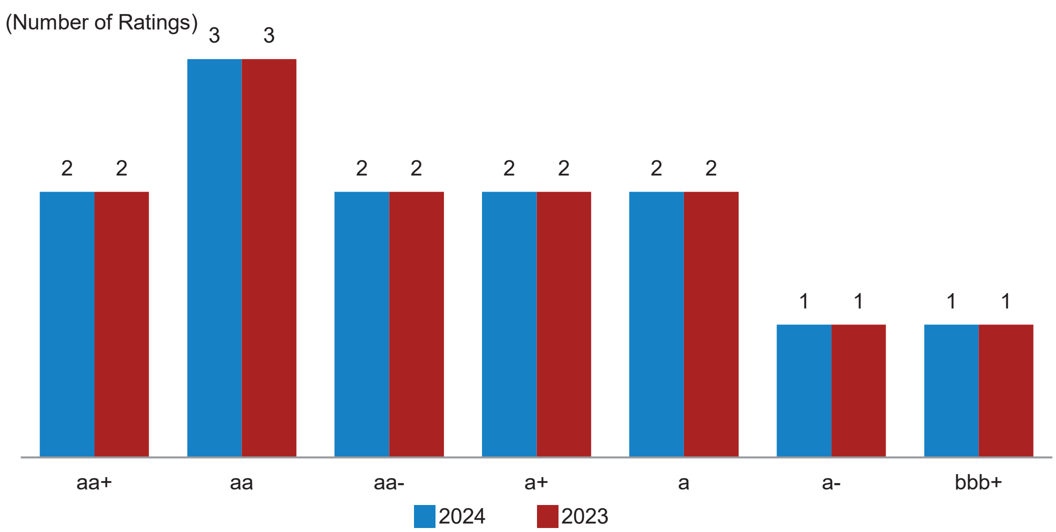
recent years (**Exhibit 8**). Despite another record catastrophe loss year, reinsurers' strong capitalization, higher attachment points, and narrower coverage terms supported earnings, leading to all ratings being affirmed in 2024.

2024 Financial Results

In 2024, Canada's P/C insurers delivered another strong year of financial performance, generating total net income of CAD 6.3 billion (**Exhibit 9**). While this represents a moderate decline from the CAD 7.1 billion net income reported in 2023 due to the record-breaking catastrophes in 2024, the industry's underlying fundamentals remain robust. Underwriting performance was particularly resilient, with an insurance service result of CAD 7.4 billion for the year. In addition to solid underwriting results, investment income was strong, driven by higher bond yields that reflected higher interest rates, which are likely to moderate going forward. Overall, Canadian insurers have consistently generated net income exceeding CAD 4.0 billion annually over the past five years, highlighting the industry's ability to navigate economic uncertainty and evolving risk landscapes.

Exhibit 8

Canada Reinsurance – Distribution of 2024 and 2023 ICRs



ICRs = Issuer Credit Ratings.
Ratings as of December 31, 2024.
Source: BESTLINK

Exhibit 9

Canada Property/Casualty – Net Income[1,2]

(CAD billions)

	2020	2021	2022	2023	2024
Insurance Service Result/Net Underwriting Income	1.9	7.6	7.1	7.9	7.4
Investment Return/Net Investment Income	2.1	1.5	-1.2	5.1	7.2
Net Finance Income	n/a	n/a	1.5	-2.8	-3.8
All Other Income	1.8	1.5	-2.2	-1.2	-2.7
Income Tax	1.2	2.3	1.2	1.9	1.9
Net Income	**4.7**	**8.3**	**4.0**	**7.1**	**6.3**

[1] Excludes Lloyd's, CAB, and ICBC. Totals may not sum precisely due to rounding.

[2] 2022-2024 figures are reported in accordance with IFRS 17; prior years are based on previous accounting standards.

Source: BESTLINK

Equity and Risk-Adjusted Capitalization

As earnings have trended positively, total equity has also grown significantly, more than doubling since 2020 (**Exhibit 10**). This sustained increase in equity has contributed to maintaining the industry's strong capital position. Notably, the industry's risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), remains solid, with all P/C insurers rated in Canada achieving BCAR scores within the Very Strong and Strongest categories. In 2024 alone, industry equity rose by 13.9%, reaching CAD 66.3 billion, reflecting solid underwriting and prudent capital management.

Investments

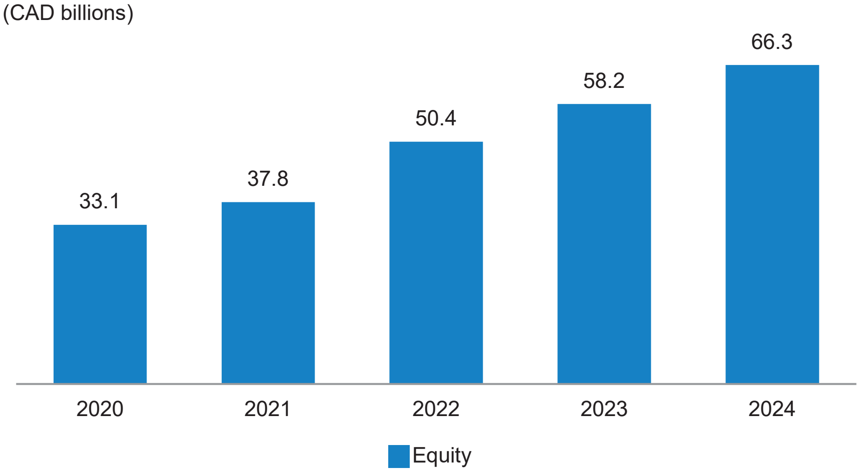
Investment income is integral to profitability for Canadian P/C insurers. In 2024, the industry recorded an investment return of CAD 7.2 billion, representing a 36% year-over-year increase (**Exhibit 11**). In 2022, insurers saw a decline in portfolio valuations, primarily due to the impact of rising interest rates as fixed-income securities were marked to market, and led to unrealized losses. This trend reversed in 2023 as interest rate volatility moderated and market conditions improved. A second consecutive year of robust growth in investment earnings occurred in 2024, reflecting stabilized interest rates and insurers' proactive efforts to reposition their investment portfolios in a higher interest rate environment to secure favorable yields.

The industry's net investment yield increased to 5.1% in 2024, up from 4.2% in 2023, both significantly above the 10-year average trend. This improvement was driven by increased allocations to high-quality fixed

Exhibit 10

Canada Property/Casualty – Equity[1,2]

(CAD billions)

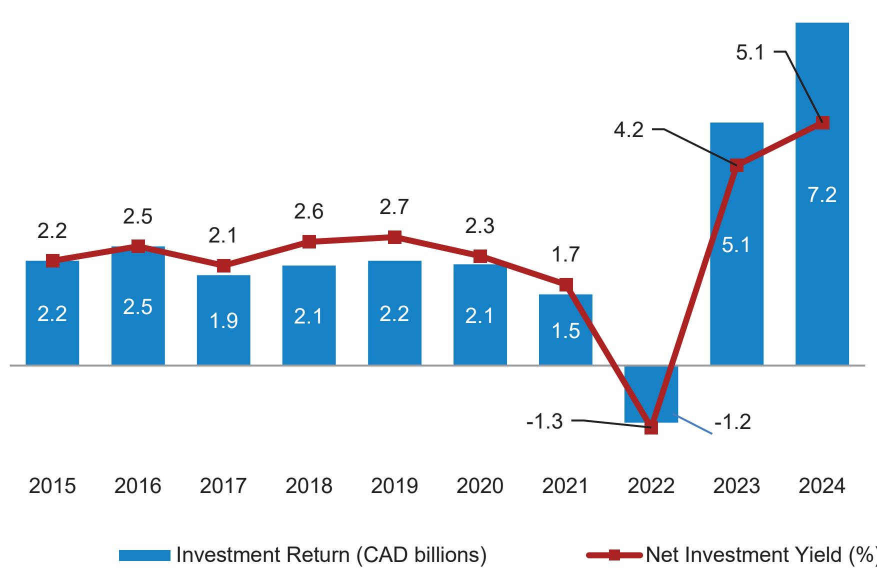


[1] Excludes Lloyd's, CAB, and ICBC.
[2] 2022-2024 figures are reported in accordance with IFRS 17; prior years are based on previous accounting standards.

Source: BESTLINK

Exhibit 11

Canada Property/Casualty – Investment Return and Net Investment Yield[1,2]



[1] Excludes Lloyd's, CAB, and ICBC.
[2] 2023 and 2024 figures are reported in accordance with IFRS 17.

Source: BESTLINK

income securities, particularly government and corporate bonds. Insurers have shifted away from real estate, pooled funds, and alternative investments, moving toward stable, income-generating assets. As of year-end 2024, fixed income remains the dominant asset class in P/C insurers portfolios, representing 61.7% of total invested assets (**Exhibit 12**). Insurers also prioritized duration during periods of monetary tightening.

Underwriting Results

Canadian P/C insurers experienced a moderate decrease in underwriting performance in 2024, as demonstrated by the combined ratio increasing to 95.4% from 92.3% in 2023 and 91.0% in 2022 (**Exhibit 13**). Underwriting results remained challenged in 2024, exceeding CAD 9.0 billion, driven by an active and severe summer storm and wildfire season. Insurers achieved rate increases while maintaining stringent underwriting guidelines and higher deductibles to soften ongoing catastrophe and inflationary pressures, but the margin is narrowing.

Despite weakened underwriting results compared to the previous year, profitability at the industry level remained positive, supported by continued strong investment performance and disciplined underwriting. Net insurance revenue rose by 18.5% to CAD 71.8 billion in 2024, up from CAD 60.6 billion in 2023. Insurance revenue growth was largely driven by firm market conditions, particularly in personal lines, while commercial lines experienced some softening. Historically, Canadian P/C insurers have adopted conservative initial loss reserve estimates, leading to favorable long-term reserve

Exhibit 12

Canada Property/Casualty – Invested Assets (%)[1]

	2015	2016	2017	2018	2019	2020	2021	2022	2023 [2]	2024 [2]
Bonds & Debentures	68.0	57.2	54.5	53.4	52.4	52.2	48.0	56.7	69.8	61.7
Total Stocks	11.4	8.3	8.9	7.3	7.4	6.5	8.0	7.6	10.7	11.3
Real Estate & Mortgage Loans	1.0	0.7	0.7	0.8	0.8	0.8	0.7	0.5	1.9	1.7
Affiliated Invested Assets	3.5	3.7	4.5	5.4	5.7	5.5	5.8	5.5	2.6	1.6
Cash & Cash Equivalents	3.9	3.5	4.2	4.0	4.3	6.0	7.3	5.9	6.6	5.5
Other Loans & Invested Assets	12.1	26.5	27.2	29.2	29.3	29.1	30.3	23.8	8.4	18.2
Invested Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] Excludes Lloyd's, CAB, and ICBC.

[2] Figures are reported in accordance with IFRS 17.

Source: BESTLINK

Exhibit 13

Canada Property/Casualty – Combined Ratio Components, 2015-2024 [1]

	Net Premiums Written (CAD billions)	Net Insurance Revenue (CAD billions)	Loss & LAE Ratio	Underwriting Expense Ratio	Combined Ratio
2015	39.3	-	63.2	32.2	95.4
2016	41.1	-	65.6	32.5	98.1
2017	40.7	-	63.9	33.2	97.1
2018	43.8	-	69.6	31.9	101.4
2019	44.9	-	67.3	33.1	100.3
2020	51.1	-	64.9	31.9	96.8
2021	55.5	-	53.7	32.4	86.3
2022 [2]	-	52.5	59.9	31.1	91.0
2023 [2]	-	60.6	60.4	31.9	92.3
2024 [2]	-	71.8	63.3	32.1	95.4

[1] Excludes Lloyd's, CAB, and ICBC.

[2] Figures are reported in accordance with IFRS 17.

Source: BESTLINK

development trends. While some insurers were forced to increase reserves due to heavy catastrophic losses in 2024, many carriers still continue to report favorable reserve development. Insurers continue to actively manage exposures by utilizing enhanced risk frameworks and stress testing capabilities and have reduced concentration risks in catastrophe-prone areas.

Auto

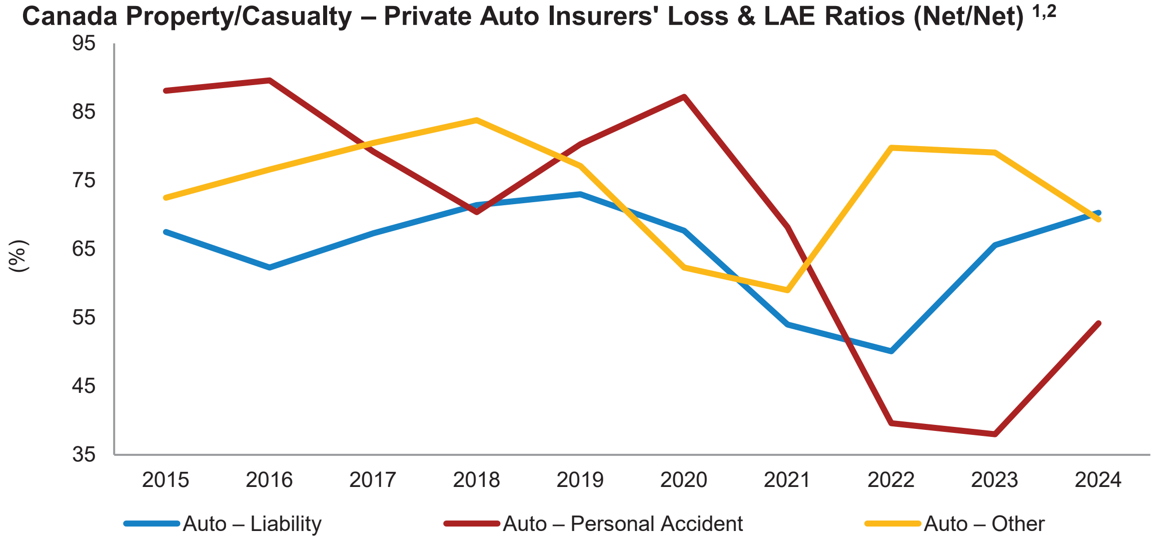
Canada's private auto market experienced mixed performance across its three lines (liability, personal accident, and other) in 2024. The auto liability loss ratio increased to 70.3% in 2024, now in line with pre-pandemic levels after two consecutive years of decreases (**Exhibit 14**). The personal accident loss ratio increased sharply to 54.2% in 2024, from 38.0% in 2023. The upward trends reflect the return to more typical levels of driving and accident frequency and increasing cost pressures on bodily injury claims and legal expenses despite relatively stable inflation.

Loss ratios in the auto — other line of business decreased substantially in 2024, dropping to 69.3% from 79.1%, placing the ratio below the ten-year average. Drivers of this improvement include moderation in vehicle theft albeit from elevated levels, normalized vehicle inventories, and some stabilization of vehicle repair and replacement costs. While vehicle theft remains a headwind, increased police presence has reduced the number of incidents in high-risk areas. Additionally, insurers have responded through pricing adjustments and risk mitigation strategies that include increased comprehensive premiums and utilization of theft prevention technologies for higher-risk vehicles. Regulatory challenges, predominantly in Alberta, also remain a headwind. As a result, AM Best expects hard market conditions to continue through 2025 and into 2026.

Property

The commercial property insurance market has seen its loss ratio increase incrementally over the past three years, following a significant post-pandemic improvement in 2021. Despite this trend, AM Best notes that the segment has maintained its overall profitability. In 2024, the loss ratio reached 52.0%, compared to 50.9% in 2023 and 50.8% in 2022 (**Exhibit 15**). This modest uptick was influenced by the significant weather events of the third quarter of 2024. The sustained strong performance over this

Exhibit 14
Canada Property/Casualty – Private Auto Insurers' Loss & LAE Ratios (Net/Net) [1,2]



[1] Excludes Lloyd's, CAB, and ICBC.
[2] 2023 and 2024 figures are reported in accordance with IFRS 17.
Source: BESTLINK

period has contributed to a softening market, evidenced by the rate decreases observed in 2024 and thus far in 2025. While rates may be softening in non-catastrophe-exposed areas, properties in high-risk zones, such as those prone to wildfires or hurricanes, continue to face higher premiums and more limited capacity.

Canada's personal property insurance market demonstrated remarkable resilience in 2024 despite enduring a record-breaking catastrophe season. The segment's loss ratio improved slightly to 63.6% in 2024 from 65.1% in 2023, though still elevated compared to historical performance. The modest improvement in 2024 reflects proactive measures taken by insurers, including premium increases implemented at the start of the year to account for prior years' elevated catastrophe losses. Additionally, insurers adopted tighter underwriting guidelines, including re-evaluating their exposure in high-risk regions. Many insurers also have been utilizing advanced catastrophe modeling to inform underwriting decisions. As a result, while the frequency and severity of weather-related events continued to rise, the financial impact on the segment was more contained. Through 2025 thus far, signs of a hard market continue which AM Best expects to persist into 2026.

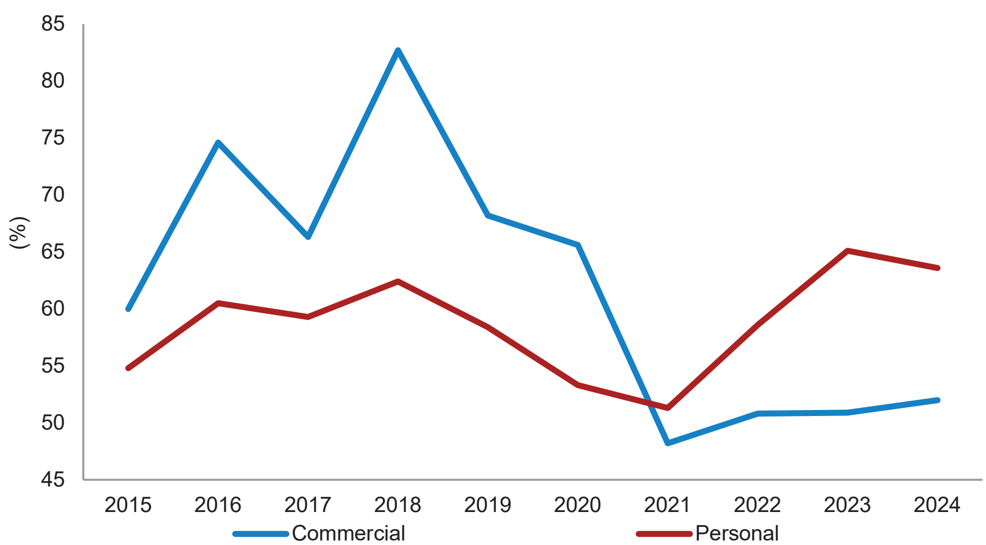
Emerging Risks

Geopolitical Risk

Geopolitical tensions, particularly the ongoing trade disputes between the United States and Canada, pose material risks to the Canadian P/C insurance industry. The recent US decision to impose a 35% tariff (effective August 2025) on a broader range of goods beyond existing steel and aluminum duties, threatens long-standing cross-border supply chains. While Canada removed many of its retaliatory tariffs (effective September 2025), tariffs on US steel, aluminum, and automobiles remain in force. These escalating trade barriers are expected to increase costs for materials such as lumber and auto parts, directly impacting claim costs in property and auto insurance. Higher replacement costs and repair costs, driven by tariffs and inflation, would likely lead to rising claim payouts. At the same time, insurers may be impacted by heightened financial market volatility. Fluctuations in currency exchange rates, bond yields, and equity markets could put further pressure on insurers' balance sheets. As Canada diversifies its trade relationships with other countries, supply chain shifts will take time. In the near term, Canadian P/C insurers face an increasingly uncertain and volatile macroeconomic environment spurred by geopolitical tensions.

Exhibit 15

Canada Property/Casualty – Personal & Commercial Property Loss & LAE Ratios (Net/Net) [1,2]



[1] Excludes Lloyd's, CAB, and ICBC.
[2] 2023 and 2024 figures are reported in accordance with IFRS 17.
Source: BESTLINK

Cyber Risk

While cyber risk is not new, the growing complexity of cyber threats, compounded by heightened geopolitical tensions, has elevated the overall risk profile. Globally, the expanding cyber insurance market is projected to double in size over the next three years. These global trends are mirrored in Canada, presenting both significant growth opportunities and heightened exposure. From a threat perspective, QBE Canada reports that two out of every three Canadian businesses experienced a cyber incident in the past year, with the majority linked to supply chain or vendor-related attacks. Additionally, a report from NordVPN ranked Canada as the second most malware-affected country worldwide as of 2Q 2025. With cybercriminals leveraging advancements in artificial intelligence (AI) and becoming increasingly sophisticated, the likelihood of more frequent and severe attacks on the insurance industry continues to grow. However, insurers can mitigate these risks by enhancing ERM frameworks, strengthening cybersecurity protocols, and remaining vigilant to increased threats in the cyber environment.

In response, Canadian insurers are placing greater emphasis on cyber insurance. The Canadian cyber insurance market is currently valued at over CAD 800 million. The market is moderately concentrated, with the top five insurers (Intact, Aviva, Chubb, Zurich, and CNA) accounting for approximately 50% of total premium volume. Loss ratios have improved significantly since peaking at roughly 400% in 2020, but profitability for the segment remains challenged. The segment reported a 153% combined ratio in 2023, and industry projections indicate loss ratios between 125% and 150% moving forward.

Mergers & Acquisitions

Mergers and acquisitions (M&A) remain a threat and an opportunity. AM Best expects small and mid-sized insurers to face rising competitive challenges to compete with Canada's larger insurers, which may drive consolidation. Recent M&A activity included the May 2025 announcement that Definity was acquiring Travelers Canada for CAD 3.3 billion to expand its commercial footprint, particularly within commercial and specialty lines. Despite the scale and scope of Definity's transaction, the company does not expect to slow its brokerage acquisition strategy. In December 2024, Beneva announced it was acquiring Gore Mutual and merging it with its subsidiary Unica Insurance to expand its geographic footprint and improve its overall market position in Canada as a top ten insurer. The transaction requires regulatory approval, which is anticipated in 2026. Meanwhile carriers remain focused on brokerage M&A, with Intact being a market leader, having completed 25 brokerage transactions in 2024 with CAD 491 million in premium. AM Best expects both insurer consolidation and brokerage M&A activity to remain active as companies seek greater scale, as well as distribution expansion, in pursuit of stronger competitive positioning in Canada.

Distribution

AM Best expects the P/C market to have a moderate premium compound annual growth rate (CAGR) in the next five years, likely in the 5% to 6% range. Canada remains well diversified by distribution channel, with 56% being brokers and independent agents. We note that embedded and affinity partnership channels will fuel channel growth, increasing potentially to the high double-digit range, driven by strong fintech growth and e-commerce integration through 2030. Embedded insurance distribution, though still small, is growing, particularly in personal lines (i.e., auto policies offered by auto retailers or via e-commerce platforms). Direct channels such as insurer-owned websites, call centers, and bancassurance, which accounted for roughly 44% of 2024 premiums are experiencing modest growth, mostly focused on personal home and auto. In addition, the direct to consumer (DTC) channel is also showing growth. Several independent brokerages made acquisitions recently in Alberta, a trend we expect to continue. According to a 2025 Canadian Underwriter survey, brokers are increasingly pointing to specialization as an important defensive tactic to head off changes in technology and sales models. Brokers cite talent acquisition as the number one headwind, followed by consumer price demands that are elevated from structural economic factors such as economic inflation. Talent recruitment is an industry-wide issue although smaller brokers have elevated risks in their recruitment initiatives. Employee education and training, employee retention, and cost controls round out the top five broker headwinds. These headwinds, coupled with the need for scale, continue to drive traditional brokerage M&A activity.

While regulatory oversight of managing general accounts (MGAs) is nascent in Canada (currently only New Brunswick has a licensing regime), some industry observers are pushing for standards across all provinces, although this has not yet gained a lot of traction. MGAs have come under greater scrutiny, with TruStar taking legal action and being placed into receivership in June 2025 as a result of alleged transgressions by its former CEO around a scheme to defraud the company and its clients of $6 million. Although these allegations remain unproven, it does highlight the need for improved corporate governance, particularly by requiring dual underwriting authority and internal controls, which need to be tailored around the types of organizations that own MGAs in Canada (i.e., private equity, large insurer, individual, etc.).

AI and Generative AI/Technology

Canadian P/C insurers are actively deploying AI to improve underwriting accuracy, streamline claims, and enhance customer service capabilities. They are exploring various insurtech and natural language processing models for deeper insights into unstructured data and enhancement of risk modeling. Meanwhile geospatial risk analytics and exposure tools are also being adopted along with various technologies such as satellite imagery, water and freeze sensors, electricity sensors, to aid in the detection of new property damage particularly in high catastrophe zones. On the customer experience front, enhanced digital customer experience tools are allowing insurers to gain market share through the ease of doing business for policyholders and distribution partners and this is becoming increasingly important, not only at the insurance company level but also amongst broker channels.

As AI continues to mature, AM Best believes Canadian insurers will increasingly adopt generative AI in their workflows. For example, AI agents can be deployed in the brokerage distribution model to handle tasks such as providing insurance quotes and underwriting policies though we continue to believe that this will not fully replace human interfacing particularly when it comes to expertise, creativity and maintaining customer relationships. In the underwriting area, AI is uniquely suited to sort through massive amounts of data to better understand risks and evaluate claims. Generative AI introduces new risks around safeguarding policyholder data, discrimination in underwriting or pricing, and the need to proactively mitigate exposure to fraud schemes driven by AI.

Environmental Risks

PFAS and other chemical risks are a concern. There are growing PFAS-related lawsuits globally and Canadian insurers are monitoring these developments given Canada's PFAS exposures in its drinking water, soil, and groundwater. These exposures have prompted a proposed group-based ban on PFAS under the Canadian Environmental Protection Act (CEPA) and the federal government is considering listing PFAS as a toxic chemical and developing nationwide restrictions. Some provinces, such as Ontario and British Columbia, already impose reporting and clean-up standards. While PFAS is an environmental risk, it may not be a large insurance risk as insurers are increasingly adapting to these risks through underwriting and policy language.

Regulatory Developments

Autorité des marchés financiers (AMF), the financial regulatory body in Quebec, released its Minimum Capital Test (MCT) guidelines, which became effective January 1, 2025, with new rules around nuclear risk that aligns with Office of the Superintendent of Financial Institutions (OSFI) guidelines. The nuclear risk exposures established by OSFI require P/C insurers to maintain an additional reserve of 125% of new written premiums, which can be reversed after 20 years. In addition, there are OSFI updates to Guideline B-2 (Property and Casualty Large Insurance Exposures and Investment Concentration) and B-3 (Sound Reinsurance Practices and Procedures) that emphasize gross underwriting limits, direct payment causes, and counterparty oversight. OSFI's Guideline E-21 (Operational Risk and Resilience) for key controls and governance is now effective and full compliance (including scenario testing) is to be phased in from September 2025 to September 2027. The AMF also implemented new dispute resolution and consumer protection rules on July 1, 2025. As for climate, OSFI's Guideline B-15 (Climate Risk Management) intends to aggregate and report on industry findings this year. Separately, the Canadian Institute of Actuaries (CIA) has released new guidance for ORSA, Financial Condition Testing and capital reporting tailored to these 2025 changes.

In Alberta, ongoing reforms to the automobile insurance framework remain a key focus, with adjustments aimed at balancing affordability pressures for consumers and sustainability concerns for insurers. The province's continued use of rate caps has created challenges for insurers, limiting pricing flexibility while claims costs and loss trends remain under upward pressure. As of January 1, 2025, Alberta raised its auto insurance rate cap to 7.5% for good drivers, up from 3.7% the prior year.

Concurrently, the government in Alberta is advancing its Automobile Insurance Act (Bill 47), which received approval in May 2025 and would become effective starting January 1, 2027. Bill 47 effectively replaces the current tort-based system with a care-first, no-fault model and enhances and expands certain benefits for medical/rehab/income replacement/death. However, the reforms have faced pushback from certain stakeholders although there is broad recognition that a long-term solution for the province's auto insurance market is needed. In addition to Alberta, Ontario has also been active on the auto front. According to Ontario Regulation 383/24, Ontario's statutory accident benefits are being reduced to only medical, rehabilitation, and attendant care coverage on July 1, 2026, with several benefits becoming optional such as income replacement benefits and death.

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