Intact Financial Corp - Principal of Insurance Market Planning at TransUnion

Interview conducted on June 29, 2023

Topics
TMC Insurance Sector, Risk and Underwriting, Fraud Detection, BrokerLink, Intact, Commercial Insurance, Personal Auto Insurance

Summary
The Tegus Client speaks with the Principal of Insurance Market Planning at TransUnion about various topics in the insurance industry. They discuss broker consolidation, the slower adoption of rate aggregators in Canada, and the influence of broker associations. They also talk about how companies like BrokerLink and Intact manage channel conflict, the trend of carriers acquiring smaller brokers, and the direct-to-consumer opportunity. The conversation covers the challenges and expenses of starting a fully digital, direct-to-consumer insurance company, as well as the rate freeze in Alberta and potential solutions.

Expert Details
The Principal of Insurance Market Planning at TransUnion. The expert can speak to P&C insurance broker channel and dynamics around consolidation.

The Principal of Insurance Market Planning at TransUnion, the expert is responsible for strategy, product, and understanding where the industry is headed. The expert faces challenges the industry is facing and develops solutions for those needs.

Prior, the expert was the Director of Consulting at CGI, leaving July 2021. The expert Established a go-to-market strategy and develop partnerships with industry stakeholders to uncover business challenges, product development, and validate IP and solutions.

Q: Q. Are you able to speak to the P&C insurance broker channel and dynamics around consolidation?
A: Yes, I think I am well aware of the market shifts and how the broker channel has been quickly consolidating. Driven by a number of small insurers or Private equity.

Q: Q. Can you speak to the current insurance pricing environment and sustainability of it across lines of business (personal property, commercial and personal auto)?
A: Yes, the data products that we were responsible for at trans union all help inform pricing.

Q: Q. Can you speak to the shift in personal lines market and a review of players with direct to consumer models and the unit economics?
A: Yes. We work extensively with those players and we have a unique view as to which players are more mature in their process.

Q: Q. Are you able to speak to the M&A environment for P&C carriers & brokers/sense of multiples paid and potential IRRs?
A: No, other than other a general understanding of what is taking place. From a macro-economic perspective, I would assume the multiples are coming down. But what people are paying today I do not know.

Tegus Client

Thank you for taking the time to speak with me today about the Canadian TMC insurance sector. How companies operate, the competition and the broker channel as well. That seems to be the dominant way for companies to distribute their product. To start off, could you please give us a quick overview of your background and your area of expertise kind of lies in relation to the Canadian TMC market?

Principal of Insurance Market Planning at TransUnion

Yes. So first of all, my background in TMC has been across multiple different business units. So I've been involved in the claims side, the underwriting side. Predominantly right now, a lot of what I do is around the data that ensures leverage to segment and price the risk more accurately, especially to better understand what is it and who is it that they are insuring, right?

So it's a key element in terms of ensuring profitability as well as offering competitive pricing. I've had significant experience in the claims space as well. But also, where we are branching out really, I'm working significantly also in the marketing space to supply data, consumer level data on targeting consumers that are aligned with the client or the insurers' risk profiles as well as the propensity for consumers to be in market shopping for insurance.

So it's really three lines of capabilities. It's really around risk and underwriting. It's really around marketing capabilities and data, and it's also around fraud capabilities and fraud detection. So I would like to give you a little bit of a background with regards to where the bulk of my work credits is.

Tegus Client

Got it. And is this centered on Canada or both Canada and United States?

Principal of Insurance Market Planning at TransUnion

So I predominantly focus on Canada. With that said, I do have U.S. experience given that the companies that I worked for and I've been with, we're all international. So I have quite a bit of exposure to the international markets, predominantly, the U.S. because of the commonalities between our key markets. What I will say is that the U.S. is typically about three to five years ahead of Canada in terms of transformation, underwriting sophistication, the tools and technologies that are being leveraged to operate and drive the business.

Tegus Client

Okay. So your predominant client base right now is Canadian?

Principal of Insurance Market Planning at TransUnion

That's right.

Tegus Client

Yes. As we've kind of looked at Canada, there're three main kinds of business, commercial, sort of a bit of a catch-all for multiple lines of business, obviously; personal auto; and then personal property. And the middle one, personal auto being regulated in terms of pricing, and the other two unregulated pricing-wise. So from a broker perspective, there's been consolidation, obviously, at the carrier level, and there's also consolidation at the broker level. So what's driving broker consolidation?

Principal of Insurance Market Planning at TransUnion

So with broker consolidation, you can first look at it from the perspective of the players that are making these acquisitions, and really growing their portfolio. It's really what it is. I mean like when you purchase a brokerage, you're essentially purchasing multiples of the existing book of business.

So first of all, you have large players like large carriers, first of all, like BrokerLink being the classic example. They're starting to max out, when it comes to market share in personal lines. So they obviously still need to grow. And one of the areas of growth and actually owning more of that life cycle and value chain is by expansion into the broker space. That's driving that particular acquisition strategy there is simply because that's where they need to go in order to become more and more profitable, first of all, because you're eliminating significant costs with regards to acquisition, via commissions that are being paid out.

And then on the flip side of the coin, what I also see is that the personal auto and property space is very commoditized. So it's very much of a vanilla type of product. So those types of businesses are relatively easier to maintain and acquire, I feel. This is my opinion. This isn't something that I've necessarily validated or talked to brokers about.

But when I look at that, those lines of businesses, you don't necessarily need to have extensive expertise or in-house to service and to run those types of businesses. Whereas I think that in the commercial lines, in really some of the niche commercial lines, some of the specialized lines, those particular books you potentially may not see as much consolidation.

Like you're seeing brokers that focus on personal lines, those are the ones that are typically being bought more readily. So I think that you're really seeing a divergence right now. When the personal line space is becoming more of a cookie cutter, a lot of digitalization going on, automating the process, so you can scale that very easily. And so therefore, that lends well to consolidation.

Specialized lines, I think that's where there's an opportunity for the small brokers, I should say. Small means that brokers could still be very competitive, because those lines typically require more of the handholding, more of the one-to-one consultation. You need to understand that line of insurance very well. Whereas obviously, personal auto and property is, again, more of a vanilla type of product.

Tegus Client

Yes. So it's basically that the complexity of like a commercial lines product, it tends to be a lot greater than one would see for personal auto and personal property, which tend to be, as you said, more plain vanilla and commoditized. The risks are less complex and hence, lend themselves to commoditization and thus, digitization. Does that make sense?

Principal of Insurance Market Planning at TransUnion

Exactly. And if you think about it, since it is more plain vanilla and commoditized, you can automate a lot of that acquisition process. So when you look at other geographies such as like the U.K., they have all these various rate aggregators and people like just go directly to the rate aggregators and just shop for insurance like through various portals they have.

Well, here in Canada, I think that we're significantly behind the times. We obviously have RATESDOTCA and such as that are in the space. But I think that's the area of insurance where technology is the whole Amazon type of business model, trying to anticipate your needs and automating the whole buying process, that's where that's really taking place.

Tegus Client

Got it. Why do you think rate aggregators haven't had as big an impact as they have in United Kingdom? So in Canada, it doesn't seem like that has much traction. Why do you think that's the case?

Principal of Insurance Market Planning at TransUnion

Yes, I think one of the reasons perhaps is that the brokers in Canada have very good relationships with insurers, so first of all. And I think that it's taking longer for that switchover to take place. I also look at the consumer, too. And then when you think about the Canadian consumer, are we as digitally mature in comparison to some of the other geographies?

Like when you look at online quote to bind. So like let's equate the rate aggregators to a digital way of purchasing insurance. So it's very hands-off, automated, they're doing it online. When you look at the insurers currently that have been pioneered in Canada around online quote to bind, so you can look at Sonnet, you can look at belairdirect, their adoption rate has been extremely slow in comparison to other countries.

And so that leads me to believe that inherently that maybe perhaps culturally, there is something in the

Canadian consumer that we're not quite ready yet, that we're not quite there. I think that also in Canada, there may also be a higher proportion of consumers that bundle insurance versus in the U.K. Again, that's a data point that you might want to validate.

But I know that approximately, at least 40% to 50% of insured Canadians bundle their insurance. So when you buy your auto, you're going to buy your home and get some type of a discount, et cetera. That inherently makes the product just a little bit more complicated, whereas like some more questions might need to be asked, just to understand the whole risk.

And the brokers in the Canadian space, that's really where they add their value, right, is to help consumers understand what types of limits do they need and to direct them to the right product and solution. But that's a great question. And I'm hypothesizing here. It's something that I have thought about, but it's definitely not an answer that I'm able to confidently say that, that is absolutely true.

Tegus Client

Yes. And Canada seems like it has a lot more concentration, especially on the personal lines side in terms of like the top, whatever, it's 10 underwriters. I don't know if they all participate in RATESDOTCA, because you basically have the underwriter, they're not stupid. They wouldn't be just like, "Oh, of course, we'll open ourselves up to the aggregator." It sounds like the market power that's utilized would be underwriters. So why would they open themselves up to RATESDOTCA or something like that?

Principal of Insurance Market Planning at TransUnion

Yes, that's also another thing. When I was first alluding to the fact that the brokers and the carriers have very strong relationships, like long-standing, strong relationships. And the voice of the broker, the broker association, like the IBAO, the IBAC and all these different broker associations, they have significant influence, with the carriers, especially those are the largest ones.

Because of how many businesses that influence on the business that they have. So I wouldn't take it out of the realm of possibilities that there was significant pressure from various stakeholder groups like broker associations to try dissuade carriers to move that way, that's definitely a possibility.

Tegus Client

Right. But why would brokers want that? Because that does intimidate the broker, doesn't it?

Principal of Insurance Market Planning at TransUnion

Yes, so brokers don't want that. Brokers don't want rate aggregators. So they're a great example. And you can probably do a bit of background work on this. But Wawanesa Insurance was the largest here in Canada, and they're broker only. And they're very committed to the broker channel. And they've been vocal about that. Their CEO, she's not the current CEO, but this is going back one year or two ago. But she very vocally came out and spoke against rate aggregators.

And again, highlighting the fact that they want their business to be based upon the value added through strong relationships. And those relationships can really only be achieved through those one-on-one interactions that a broker can provide, not a rate aggregator, which is essentially just a portal.

Tegus Client

Right. So you mentioned, BrokerLink. And how does like an Intact manage channel conflict? Because if a wholly own a broker and they could big ticket a broker, "Hey, before we owned you, you only had 25% of your business with us. Now you have to have like 50% or 80%." How does that channel conflict get managed?

Principal of Insurance Market Planning at TransUnion

Well, my understanding is that they claim that they're completely separate entities so to speak, right? But obviously, there is some internal influence. But from a market-facing perspective, when faced with that question, that has always been their answer, is that no, there's no influence. That we're separate, and that they have a fiduciary duty towards their clients, towards the customer. So how it's operationalized and things of that nature and if there are any political or dynamics, obviously, I wouldn't have any line of sight on that, but that's been their kind of toe the line in terms of answering the question.

Tegus Client

Got it. So is that a trend you continue to see? So they're not the only carrier that's been acquiring kind of smaller brokers and made it a business or there's a secondary business. Is that a trend you continue to see and the way they manage the channel conflict is saying exactly that, the asset is an independent entity?

Principal of Insurance Market Planning at TransUnion

Yes. So the first big carrier to start this buying spree, so to speak. But you're now seeing other carriers mimic them. And they obviously have a similar voiceover. I think when you look at Definity that recently went public, I don't know, a couple of years ago or like 1.5 years ago, they're obviously sitting on a ton of capital right now that they're looking to deploy. And I think that they've already made moves to acquire a number of books to business. So they do need to be very careful there. Because it is their inherent. It looks to be an inherent conflict of interest if it's not careful around that.

Tegus Client

Got it. And you talked a little bit within that model like a secondary cost-saving list. But it gets washed out because if you own 100% of it or 80% of the broker, whatever commissions you pay the broker are whatever they are at the top line, but you get it back on, the bottom line because you're like a 75% or 80% owner? Is that the right way to think about it?

Principal of Insurance Market Planning at TransUnion

Yes. I wouldn't have too much insight with regards to that. I don't want to speculate and lead you down the wrong direction. But something like that, I think that asking that type of a question to an actual brokerage or a broker that's in this space would be more appropriate. And I think that they would have some more insights around the inner workings of that.

Tegus Client

Okay. So we talked earlier a little bit about this concept that personal lines is going to be a little bit commoditized and easier to digitize, but Canada gets a little bit behind in that process. So one of the things you said was maybe the hesitancy upon the Canadian consumer to actually transact. But Sonnet has grown a decent amount and as has belair, and so like reasonably sized businesses. But I don't know what the market share is, but I'm going to make the number. It's not like 25% of the market is controlled by Sonnet, right?

Principal of Insurance Market Planning at TransUnion

No.

Tegus Client

So it's going to be much smaller, probably single digits. So are you familiar with the direct-to-consumer opportunity? What would take for both those businesses to really continue to make inroads into the personal lines business?

Principal of Insurance Market Planning at TransUnion

So we first started off with the actual customer experience. I should preface this, they are slowly making improvements today on the whole customer journey and that experience aspect. The whole idea of consumers want something that's easy and quick. And right now, what we're seeing is that a lot of the page impressions of consumers that are visiting the site go there to just get quotes, but they don't necessarily bind. So they just go, "Oh, okay, so that's how much." And then they would shop around. And then at the end, they might call up the call center or they might call the broker or whatnot.

So first of all, it's around improvements around that customer experience and making it a little more easier and quicker. I think that would definitely help to scale the adoption, and to improve their market share.

Going a little bit into that, and they're already trying to make a move into that.

There are different solutions like prefilled solutions, where consumers don't have to enter in all their data. Solutions like understanding behavioral analytics, all the consumers that visited their site, to see where the friction points are. So there's work being made there, but at the same time, it's slow because they also have to balance between customer experience and risk mitigation, like fraud.

So there's obviously a significant amount of bad actors out there that try to game the system. And so that's a challenge. And so because of that, it isn't as easy as it can always be. But technology is always improving and we're slowly making our way there. This is one of the areas where it really highlights when I tell you that Canada is like around three years, maybe even five years behind the times.

When I say behind the times, I'm speaking to in comparison to like, say, U.S., in comparison to like, say, Asia, Singapore. They're using some very cutting-edge AIs, and they're really making the whole buying process a lot easier. In Canada, we're just simply not there yet. As the Canadian consumer matures from a digital standpoint, as they become more comfortable with the product, that will also help. Making the product, and this is partly the fault of the insurer and partly the fault of the regulators, is that they can make the product more simpler?

I think right now it's not necessarily intuitive, especially something like the auto product, where you have all these various different actions and benefits and buyouts and deductibles and things of that nature. So that's something that can be improved upon, but it's not necessarily solely sitting on the shoulders of the insurer themselves because the regulatory factors also need to be considered.

What else do I think? I think also as they're able to offer more types of products, likely also increase the adoption and usage. And what I mean by that, I'm thinking forward right now. I'm thinking forward in terms of how the consumer is changing and the consumer needs.

So think along the lines of the whole gig economy shift, the sharing economy, there's less young people that actually own their vehicles and such and more people that actually just subscribes to things. So the product of insurance needs to start to evolve. And perhaps if insurance carriers are able to meet those emerging needs, that type of consumer is already digital savvy, then the adoption of online insurance lines should also naturally increase as well.

Tegus Client
Yes. So if you think about the creation of belair and, Sonnet, it sounds like there aren't that many direct to consumers. Like websites are dedicated, digital-only insurance companies. In U.S., it sounds like you go to market?

Principal of Insurance Market Planning at TransUnion
There are a good number of Canadian carriers that have a digital experience, but they're not necessarily quotes to bind.? So there are some carriers that allow you to like just get a quote, but then you have to like call in. So that's not necessarily the full quote-to-bind journey there completed. So anyhow, I wanted just to make that difference or delineation there for you in that there's more carriers that are establishing these digital journeys, but they're not necessarily the full-blown.

Tegus Client
Yes. So it sounds like, at least, belair, for example, has this process, whether you give them like your car or your make and all those kinds that you get through the 11th hour or the one-yard line, whatever analogy you want to use. And then you get to that point and they're like, "Okay. Now call us in 30 minutes, of course. Someone will get back to you in four hours." So what you were talking about in terms of a poor customer experience because the customer wants to transact online, they cannot because the company almost forces you to call them. I don't know if that's a fraud protection measure or what.

My sense or I've heard that Sonnet has a full quote-to-bind experience. I don't know if they're the only one or if there are others as well. I don't know if that means they also have more fraud because people were able to game the system or there's adverse selection because they're the only game in town that has a full quote-to-bind.

Principal of Insurance Market Planning at TransUnion

Yes. So first of all, Sonnet is definitely not the only player that has a full quote-to-bind journey in place. Now with that said, you're absolutely right around having different customer journeys or different levels of friction, for different levels of risk. So as these people are either entering their information, or even earlier, I had alluded to behavioral analytics, so how someone is filling in a form. That can all be a monitor and score. And so depending on if there are any flags that are raised, either from the data pool, the data verification assets that they use, either from behavioral analytics that they use.

So for example, someone then like went back and like changed their postal code like three, four times to like try to get different prices, that person's obviously trying to game the system. So they have ways of detecting these things. And so when these happen and there are flags, then they may send them down what you might call the high-friction path and not the happy path.

So that's one of the fraud measures that they have because it is a big problem. It is a point of vulnerability given the innate nature of just being anonymous, so to speak. I know that carriers also analyze things like the device. So not just the IP address but the device itself.

So if the actual iPhone or the actual PC or laptop that you're using to obtain quotes on, that's also being gathered and that data and that information gets cross-referenced through to various different consortium-type databases that they're able to determine whether or not that there is a heightened fraud risk. So it's not as simple as just creating a single journey. There are multiple paths to that journey.

One other way that they do it is a concept called papering. And what papering is, is that if there is a risk that they don't necessarily want to take or that they feel that is a higher risk, they can't just deny, simply because of the regulation. We have that take-all-comers rule here in Canada.

So because of that, what they do is that they try to add friction by saying, "Okay, well, you know what, we're going to print this application up and fill it up by hand and like mail it in." Now the regulator has been questioning that and saying, "Hey, that's not really nice, we shouldn't be doing it." And I think that some insurers are starting to get the picture that, that it's not best practice. But again, it's just highlighting that there are different levers of friction and that they can add to that process.

Tegus Client

Got it. So who are the D2C insurers that do quote and bind, who have that capability?

Principal of Insurance Market Planning at TransUnion

Okay. We can run through the top 10 quickly, this isn't something that's very hard to find out. I mean you can google on the websites. So TD, I know that they have a quote process. I'm not sure if it's fully quote-to-bind. Intact obviously has belair. Wawanesa does not have anything. The Co-operators has some type of a quoting engine, again, but I don't think that, that's quote-to-bind. Aviva just launched their full, direct quote-to-bind, but they only launched it under their RBC general portfolio. So that's their group book. So I think Aviva is moving there to having it available to everyone, but this is like their initial launch.

Desjardins is an agent network. So I think predominantly, things go through their call center and their agent portals. We already talked about Sonnet. CAA, they're an agent network. Northbridge, Intact. I'm sure that I'm missing some here, I'm just trying to run off the top of my head here.

Tegus Client

Super helpful. When you say something like a Desjardins is an agent network, could you describe what that means?

Principal of Insurance Market Planning at TransUnion

Yes. So you have broker distribution, and brokers are third parties, and brokers also represent multiple markets. And then you have an agent. An agent, okay, represents one market. So a good example is like

Allstate. Allstate is an agent distribution model. So Allstate has their neighborhood corner in like commercial plazas or whatnot. They have this little thing there that you can go in and talk to the agent and get your insurance needs and financial needs and things of that nature.

Think of Desjardins. So what Desjardins did was that Desjardins purchased the State Farm agent network. And State Farm exited these markets a number of years ago. So that's essentially what they were buying, was the State Farm book of business, but also the network in order to distribute their products.

So that's what an agent network is. They represent one market, is the biggest difference. Broker is multiple markets. Agent is one market. And many agent networks are owned by the insurer themselves. So Desjardins owns theirs. Co-operators is another one, they own their agent network. And then Allstate is another great example.

Tegus Client

Got it. And how do the economics differ? Because in the broker model, the brokers can be independently owned by the broker themselves and they represent multiple markets, as you said. For an agent, these agents are effectively employees? Do they come physically? Or they actually own their own business?

Principal of Insurance Market Planning at TransUnion

No. So it can be both ways. So Allstate, the agents are employees, period. Now my understanding is that with Desjardins because they purchased the State Farm network, there were probably some agreements that had to be grandfathered. So some of those agent's branches were likely independently owned. So they might have like some type of a mixed model there. You might want to just confirm that, but I'm 95% sure that's the case. But just going back to answer your question at a high level, it can be both ways.

So in terms of the economics of it, obviously, if you own your Asian network, you're not paying commissions, right? I mean the agents probably do make some type of a commission, but it's not going to be anywhere near what you would be paying a third-party broker, right?

So one of the levers that Intact, right, is doing right now and part of the BrokerLink strategy is it is really, owning more of that value chain, so what you'll see in their annual reports when you look at it, their acquisition costs, have been decreasing as they expand out their BrokerLink network.

Tegus Client

Right. So if I were to use a broker, what are the average commissions they get, just roughly? And is it materially different than what you would pay for if you can compare and contrast? What you would pay in the United States, is it roughly the same? Is it maybe 5% or whatever? Like I don't even know what the numbers would be, but is it the same?

Principal of Insurance Market Planning at TransUnion

Yes, so don't take this as gospel because I'm not a broker, and that's not my area of expertise, of course. But my understanding, it's like in the teens, maybe up to 20%, thereabouts of the full-time value. So again, that's one of the questions that I would definitely just confirm with a broker. And it's not information that's difficult to obtain. I'm sure that even a Google search can probably find out for sure.

Tegus Client

Okay. What roughly you would save in terms of commissions in the case that you did in a four-year range?

Principal of Insurance Market Planning at TransUnion

Yes. So again, I'm not 100% sure how those comp structures are done. But I would think or I would venture a guess that in an agent model, if I own that agent network, the renewal commission is probably going to be significantly less. So there's a lot of levers that a BrokerLink or that any insurer can actually pull to actually increase their profitability announcement.

Tegus Client

Got it. And the trend is probably similar in Canada, where there's probably a lot of start-ups and VC fund has also slowed down in the last 12 months. If someone wanted to start up an insurtech, just more focused on personal lines and do it right.

In other words, get the right product analytics, get the right underwriting and requires a certain amount of capital, I guess, both to build the infrastructure, like coding the AI, the fraud analytics, all that stuff, like the bones, and then getting licenses and all that stuff. How much time is capital? Is it possible to sort of estimate the time and capital required to replicate or to build a fully digital, personalized, direct-to-consumer insurance company?

Principal of Insurance Market Planning at TransUnion

I'm not an IT expert, by any means, even though I did work for a few years over at CGI, and there, we did have a team that did that, I really couldn't give you an accurate estimation. But what I will say, okay, is that all those things they you listed there, yes, you need all those things. But however, what you're missing there is also procuring the contracts in the market. That's not always an easy thing to do. So if I wanted to start up a like an online brokerage, so to speak, like an insurtech where consumers can go and purchase insurance from you in that respect, I would have to get the markets.

And so very frequently, someone like an Aviva or Intact or whoever it might be, I would have to guarantee volumes, like minimum, mid minimum, minimum premiums written in the first, second, third year. So there's a whole process around that, that may not necessarily be as straightforward as it may seem on the space. I haven't been through the process, but what I do know is that you can't just be Joe Schmo and like Bob Brokerage and like get markets from these carriers.

Tegus Client

Right. But let’s say I want to create like an equivalent of belair or Sonnet, just this kind of a stand-alone company where I am in the market, and I have an insurance provider platform? Or do you have to go out and buy like a license and a small entity and then you can build a direct digital D2C company on top of that? What I was getting at, not trying to partner with the existing incumbents.

Principal of Insurance Market Planning at TransUnion

Yes., I'm just not 100% sure. So it's not a question that I'd be comfortable giving you an answer what I'm confident on.

Tegus Client

That's fair enough. And the D2C opportunity within Canada. If you look at the United States, like the direct auto and home underwriters are Progressive and GEICO are the two probably biggest and well-known. And they have all their risk segmentation and fraud analytics and all that, probably way more developed and probably even the folks, even the larger guys like Intact in Canada. If you look at the expense ratios and the underlying financials of the business, excluding the underwriting performance, it's obviously the big part of it, but I'm more focused on the expense ratios.

Is it fair to say like if an Canadian underwriter figures out the D2C model, that their expense ratios would be in the same ballpark? I think if I'm not mistaken, GEICO and Progressive, their expense ratios are kind of like in the 20% range or lower.

Is it fair to assume that in Canada that could be similar if they got to that scale? Or there's something I'm missing that would make it difficult for them to replicate the same economics that you see in the D2C player in the U.S.?

Principal of Insurance Market Planning at TransUnion

So first of all, it's fair. But however, the big caveat though is that the market side is just not anywhere near what the U.S. is. So you're just not going to have the same level of scale. So I think the expense ratio is if the U.S. is 20%, Canada is probably pushing like 25%, at least. So the old comparison of the entire size of Canada, the whole market is like the size of California. And then I would also add is that the provincial differences, okay, also needs to be taken into account.

So there are additional expenses, that will come out of that just simply because of a regulatory perspective. So I think you'll be challenged here simply because of scale. That's the biggest challenge there exactly.

Tegus Client

Right. And it's probably one of the reasons why no one's gone and tried to do it as a stand-alone entity. Meaning like no one has tried to replicate Progressive in Canada, or GEICO in Canada probably because the market is just somewhat smaller. And the market is mainly like Ontario, probably Alberta and British Columbia, maybe Quebec.

Principal of Insurance Market Planning at TransUnion

Yes. And I would also add to that, that in BC, the personal auto is provincial. So that takes out even more of it. So when you think about insurance in Canada, especially on the personal lines, you have to attack Ontario. I mean that's approximately 40% of the market right there, at least. Probably 40-something of the market is Ontario.

Tegus Client

All right. So in BC, you're saying that the market there is basically provincially run? In other words, there's no private auto insurance in British Columbia?

Principal of Insurance Market Planning at TransUnion

There is no private auto insurance except for buy-ups and optionals. So the mandatory coverages all followed the plate. And they're all provincially run.

Tegus Client

Got it. Alberta recently had a rate freeze. I guess people say because of the provincial election, which was completed at the end of May. And then I believe the rate freeze automatically ends towards the end of the year. And a couple of carriers have either reduced or moved some of their volume away or their capacity away from the market, which is what was kind of heard.

Do you have a view as to how that resolves itself? In other words, if the provisional authorities said, "Okay, we're going to do a rate freeze," which happens, like every now and then. And that rate freeze expires. Do people typically come back? Or something has to change regulatorily? Meaning like to allow people to have more options. Alberta, from an auto insurance perspective, has the resegmentation is not combined enough. In other words, there's not too many different types of auto policies you can buy in Alberta.

So is the answer that you start unbundling different types of policies, and that's the way you can offer consumers a discount or different prices as opposed to maintaining price cuts, allowing the insurers to risk segment a little bit more and offer different types of coverages? How does Alberta resolves itself?

Principal of Insurance Market Planning at TransUnion

Okay. So this is a thinking in the realm of what might transpire, what are the levers that the Alberta government could have. So first of all, I think that from a risk segmentation perspective, right, so aligning price and risk and having additional tools and allowing additional rating variables is one lever.

So we're seeing that here in Ontario actually. So again, similar to Alberta, there's a big push to ensure that the auto product is affordable and it's fair. So the regulator here in Ontario that informs the finance minister, they're actually doing a study to understand the impact of including credit data, in the underwriting and pricing of auto insurance. We know that will allow insurance carriers to better segment their risks and to price more accurately. So they could take a similar stance to that, over in Alberta.

So in Alberta, currently right now, the regulations say that they cannot use credit data in the underwriting pricing of auto for mandatory coverages. So for the optionals, they are allowed. So that's the current framework. Now they may consider making that change. And I think that, that would help. Another lever that they could pull is reforming the auto product itself. So what I mean by that is that right now the auto product and again, very similar here in Ontario. The Ontario government is very seriously considering reforming the product and offering a bare bones product.

So strip out all these accident benefits, the rehab benefits and make all that optional. Because a lot of Canadians actually have coverages for those things through their employer. Through extended health and stuff. So that's another lever that's possible. But there really isn't any easy path through it. When we look at what the insurers are experiencing from a financial perspective, they're just not profitable in Alberta, so they need to find ways to change that.

So I think those are the two levers, if you want, put that two headlines there. One is product reform from a structural perspective, and then the other one is the variables and what it is that they're allowed to use to rate and give them more tools. Give the insurer more tools to rate and price and segment more accurately.

Tegus Client

Got it. That's helpful. Thanks for taking the time and your insights. I appreciate it.
