The Canadian Insurance Market

Four Trends Driving Profit Margins and Improving the Customer Experience

By: Peter Read, Peoples Card Services President

Introduction

According to Marsh, a global leader in insurance broking and risk management, capital continues to flow into the Canadian insurance market, providing an abundance of customer choices and competition.

This trend is keeping rates and premiums for some insurance coverages at historic lows. Meanwhile, catastrophic weather events have put more financial pressure on payers and more strain on the claims processes and associated resources. Insurance companies need to find new ways to efficiently and cost-effectively manage claims to remain competitive and profitable.

Canadian companies are tackling this problem ahead of the U.S. by embracing new technologies, modernizing the claims process, and moving away from cumbersome, outdated paper cheque claims.

Here's a look at how these trends are gaining traction:

PAYING CLAIMS IS EXPENSIVE AND INEFFICIENT 1

And we're not talking about the actual cost of the claim. In 2013, Canadian insurers wrote CA$47.8 billion in direct premiums for insurance on consumers' homes, cars and businesses, and more than half of every dollar of those premiums was paid out in claims. That's a minimum of CA$24 billion, almost all of which has traditionally been paid out by cheque from one of the more than 210 private property and casualty insurers across Canada.

2014 RPMG Study: Estimated cost for traditional cheque payment processing can reach as high as CA$37 per cheque

A 2014 RPMG study revealed the estimated cost for traditional cheque payment processing can reach as high as CA$37 per cheque. These costs can be significantly higher when one or more handwritten signatures are required on the cheque.

An abundance of insurance payouts paired with hefty costs to print cheques are driving insurance companies to find more cost-effective payment solutions to manage claims, drive profitability, reduce administrative costs and mitigate fraud.

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THE INSURTECH MOVEMENT

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In the U.S., insurance companies are heavily invested in the cheque business, some even running their own printing presses – a formidable barrier to the introduction of any electronic payment solution. But Canadian insurance companies are reviewing their entire claims operations process – especially cheque-issuance – to understand how electronic payments can drive operational efficiencies, profit margins and improve the customer experience. Known as “InsurTech,” this movement seeks to modernize everything from pricing strategy to customer service, claim processing and payments.

“A good example of this is in the health and accident benefits sector,” says Michael Camacho, MBA, CFP, CLU, CHFC, CHS, FLMI with CSI Brokerage in Toronto. “We see this already with employee benefits, where there are recurring reimbursements to insureds. And in the out-of-country travel insurance market, payment cards are used by the insured to pay a networked medical facility for treatment and settle their claim immediately, in real-time, with no out-of-pocket expenses, paperwork or claims process for the traveler. Rather than issuing and sending a cheque to the insured after the fact, the payment card not only reduces the insurance company's cost, it significantly enhances the customer experience for the insured."

MODERN PAYMENTS REDUCE FRAUD

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Prepaid payment solutions bring big advantages to insurers, such as improved efficiency and reduced fraud. By using a RAN (restricted authorization network), insurance claim payments can be limited to a specific list of approved providers, such as auto body shops and related services, in the case of an auto insurance claim. The RAN concept is a relatively untapped opportunity in the Canadian insurance industry and even in the U.S. The insurance provider who takes the lead in this area will have a significant market advantage.

“RAN can be a win-win-win,” says Prash Rasaiah, Director of Prepaid Market Development for Mastercard in Canada. “Policyholders get convenience, insurers get a safe and cost-effective way to disburse claims, and partner merchants get the value of additional patronage.”

INCREASED SEVERE WEATHER EVENTS REQUIRE MORE IMMEDIATE PAYOUTS

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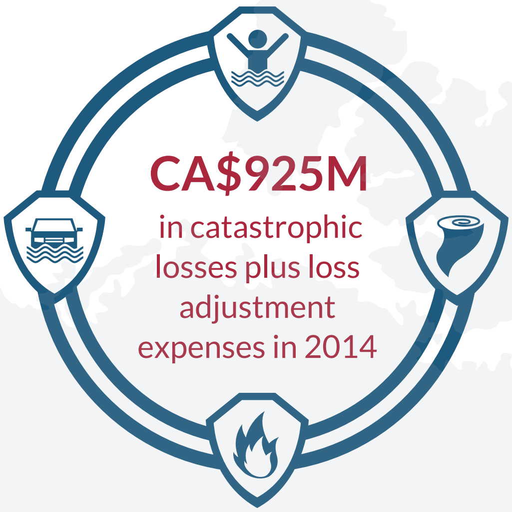

And more competition means carriers must differentiate on service and responsiveness. Property damage caused by severe weather is a leading cause of property insurance claims across the country, and even exceeds fire damage claims in some areas of Canada.

According to the Insurance Bureau of Canada, payouts from extreme weather have more than doubled every five to 10 years since the 1980s. For each of the past six years, payouts have been near or above CA$1 billion.

In 2013, losses were a historic CA$3.4 billion due to floods in Alberta and Toronto. In 2014, catastrophic losses plus loss adjustment expenses accounted for approximately CA$925 million.

More than ever, Canadians' need to get insurance funds quickly and easily to help them get back on their feet. Through alternative payment solutions such as prepaid, insurance companies can move away from the lengthy cheque printing and mailing process and deliver faster payment options to their customers and an overall better customer experience. In a relatively untapped market, insurance companies in Canada that move quickest to adopt electronic payment solutions like prepaid cards may have the greatest opportunity to drive profit margins while improving customer experience.

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SOURCES

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