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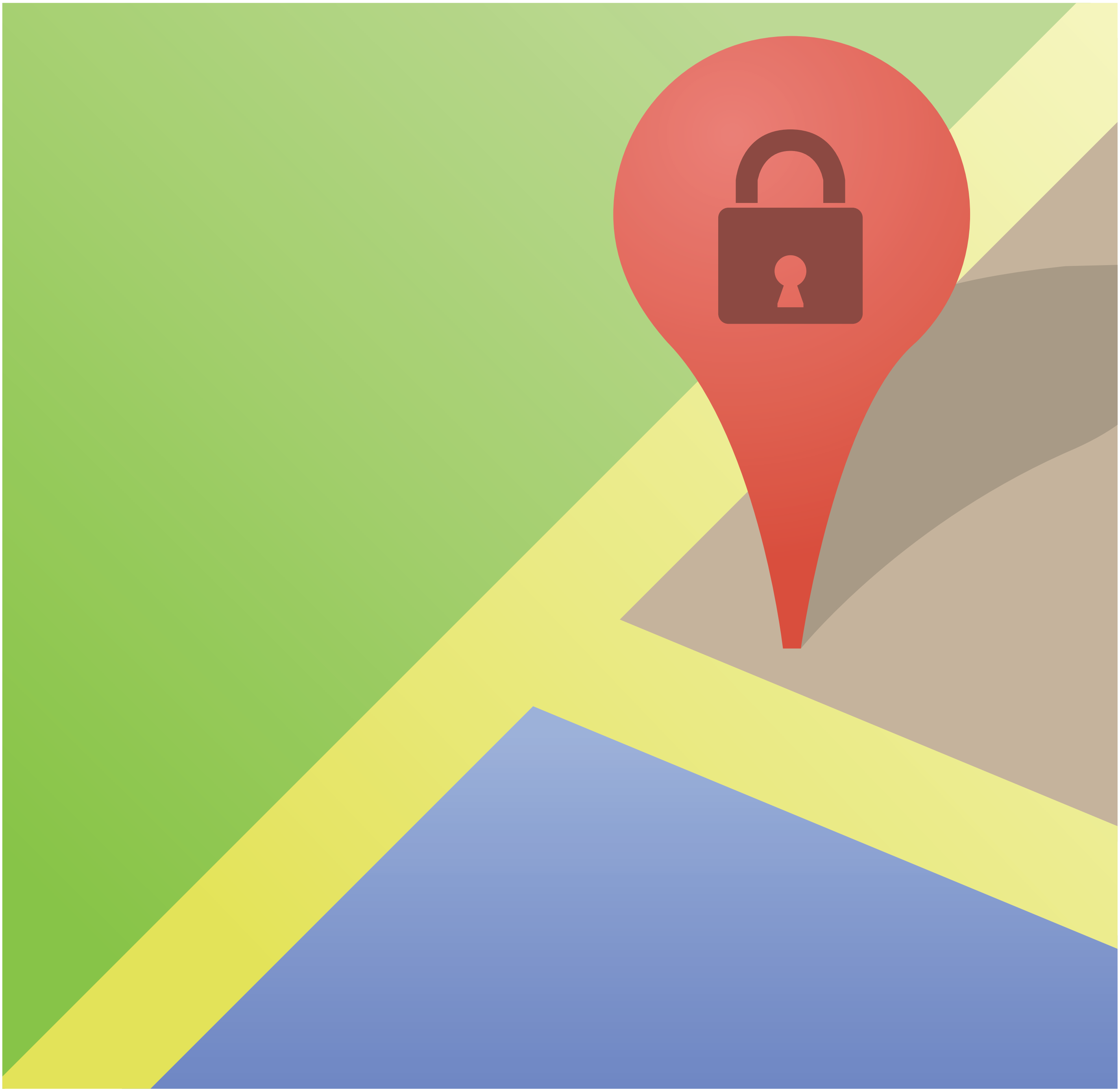

CANADIAN UNDERWRITER

OCTOBER 2013

A Business Information Group Publication #40069240

Privacy Pause
BY CRAIG HARRIS

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Small Goes Micro
BY JAMES COLAÇO

Curtain Call.

Celebrating five years of recognizing our national leaders.

The CIP Society created the National Leadership Awards to celebrate excellence and to recognize individuals who demonstrate a passion for learning, dedication to the profession, personal integrity and outstanding commitment to their organizations. The Society is proud of its role as a supporter of those industry leaders who act as role models and mentors. Their positive influence energizes and inspires the people around them. They enrich their communities. And they bring great credit to our industry.

We thank all the nominees, as well as those who took the time to nominate them for this prestigious national award.

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AWARDS

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PROFILE

SPECIAL FOCUS

CANADIAN UNDERWRITER

Editor
Angela Stelmakowich
astelmakowich@canadianunderwriter.ca
(416) 510-6793

Associate Editor
Greg Meckbach
gmeckbach@canadianunderwriter.ca
Twitter: @CU_Greg
(416) 510-6796

Online Editor
Harmeet Singh
hsingh@canadianunderwriter.ca
Twitter: @CU_Harmeet
(416) 442-5600 ext. 3652

Associate Publisher
Paul Aquino
paul@canadianunderwriter.ca
Twitter: @InsuranceCanuk
(416) 510-6788

Account Manager
Michael Wells
michael@canadianunderwriter.ca
(416) 510-5122

Account Manager
Christine Giovis
christine@canadianunderwriter.ca
(416) 510-5114

Account Manager
Elliot Ford
eford@canadianunderwriter.ca
(416) 510-5117

Senior Publisher
Steve Wilson
steve@canadianunderwriter.ca
Twitter: @InsuranceMedia
(416) 510-6800

Art Director
Gerald Heydens

Art Consultation
Sascha Hass

Production Manager
Gary White
(416) 510-6760

Subscriptions/Customer Service
Gail Page
gpage@bizinfogroup.ca
(416) 510-5187

Circulation Manager
Mary Garufi
mgarufi@bizinfogroup.ca
(416) 442-5600 ext. 3545

Print Production Manager
Phyllis Wright

President
Bruce Creighton

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Pain and Gain

"We know it is impossible to prevent floods from happening; however there's a lot we can do to lessen the impact these events have on Alberta's communities."

Angela Stelmakowich, Editor
astelmakowich@
canadianunderwriter.ca

Damage from severe weather events may be insurable; it may not be insurable. But whether covered or not, someone, somewhere is going to have to pick up the tab.

In the case of flooding, that payer may be the insurer through a claim, government through disaster assistance and recovery efforts, or the home or business owner who does not qualify for either.

Sharing the pain to share the gain (or, at least, avoid the loss) is an idea getting a lot of traction of late. Alberta seems on board with a "one for all, all for one" approach in the wake of the loss and cost (the latter still rising) from the severe rains and subsequent flooding in June.

Recent media reports indicate that Doug Griffiths, Alberta's municipal affairs minister, says Alberta is looking to Ottawa to help pay for flood prevention projects and recovery costs. If the federal government already pays for the lion's share of disaster recovery costs, investing in mitigation efforts would surely help with reducing the tab.

The Alberta government's estimate, albeit preliminary, on recovery costs stemming from the June flooding is approximately $5 billion.

As for insurable loss, the flooding has overtaken the 1998 ice storm as Canada's costliest natural disaster ever, with insured property damage currently estimated to exceed $1.7 billion. Property Claim Services Canada reports that well in excess of 25,000 related claims have been filed.

Those figures were released not long after another estimate from PCS-Canada, this time $850 million in insured property damage from July's wind and thunderstorm event that produced flash flooding in and around Toronto.

In both cases, cautions were issued that the figures were expected to climb higher.

Those figures are among many that make words (and actions) like prevention, mitigation and resilience all the more appealing.

For example, the Alberta government-commissioned flood mitigation panel has recommended, among other things, that berms with dry ponds be built in remote areas in the headwaters of the Elbow and Highwood rivers, and that channels to divert water be built in more populated areas. Associated costs would run from $660 million to $830 million.

More big figures, but ones that long term could prove a sage investment. "We know it is impossible to prevent floods from happening; however there's a lot we can do to lessen the impact these events have on Alberta's communities," Griffiths says.

The City of Sault Ste. Marie in northwestern Ontario would likely have something to say about the value of preventive measures. The city was hit hard in September when it witnessed more than 86 millimetres of rainfall over just four hours, and about 140 millimetres over two days.

The rainfall, which a city press release characterized as extraordinary and unforeseen, caused significant damage to municipal infrastructure and private homes. Despite the damage, the city notes, "were it not for the significant improvements made in recent years to the city's storm and channel diversion programs, damage would have been much worse."

Clearly, both co-operation and preventive measures have a place in trying to minimize flooding-related costs and loss. The solution is likely to include an insurance scheme for overland flooding, although just how quickly that scheme could or will come together remains a question mark.

A new report commissioned by The Co-operators, reflecting input received from representatives for some of Canada's major insurers, indicates insurers are split on whether or not overland flood insurance is viable.

Beyond that, a key recommendation within the report was to initiate a broad-based discussion on the actions necessary to improve flood and disaster risk management with key stakeholders.

"The way things stand, property owners are not adequately protected under a system that places too much emphasis on recovery at the expense of mitigation," Kathy Bardswick, president and CEO of The Co-operators, noted in a statement.

Sounds like advice for one and all.

Canadian Market

ALBERTA FLOODING MOST COSTLY NATURAL DISASTER IN CANADIAN HISTORY: IBC

The Insurance Bureau of Canada (IBC) reported in late September that insured property damage from the Alberta flooding this past June is estimated to now exceed $1.7 billion, making it the costliest insured natural disaster ever in Canada.

"It's a staggering number we expect will go even higher," says Bill Adams, IBC's vice president, Western and Pacific.

For more than a decade, the 1998 ice storm held the record as the country's most expensive natural catastrophe.

The preliminary figures for the Alberta floods reflect the latest estimate of Property Claim Services Canada.

INSURERS SPLIT ON OVERLAND FLOOD

Canada's major insurers have voiced concerns about the lack of overland flood insurance in the country, but still cannot agree on whether or not such a product is viable, suggests new research commissioned by The Co-operators.

The study is based on interviews with CEOs and other executives at insurance companies that account for 57% of the property insurance business in Canada.

To be viable,insurers reported premiums should be affordable and sufficient to cover losses, associated risks and losses must be able to be predicted, and premiums must be "sufficient to incentivize investment in risk mitigation by policyholders."

Claims

TENTATIVE SETTLEMENT IN ICE STORM LAWSUIT

A consumer advocacy group has come to an agreement with 15 insurance carriers to settle a class action lawsuit over homeowners' coverage of additional living expenses related to the 1998 ice storm.

The insurers reached an agreement in principle for an out-of-court settlement, notes a September 11 statement from Option consommateurs. The tentative agreement, valued at about $40 million, is subject to approval by Quebec's Superior Court.

The lawsuit sought compensation for policyholders whose homes became uninhabitable during the storm and whose coverage included additional living expenses.

Last year, the group settled with four other companies in a $12.5-million deal applying to 200,000 policyholders.

No carriers in either settlement have admitted liability.

Regulation

HIGH COURT DENIES ZEFFERINO APPLICATION FOR LEAVE TO APPEAL

The Supreme Court of Canada has denied an application by Nicola Zefferino, who lost a lawsuit two years ago against Meloche Monnex Insurance Company, to appeal a ruling by Ontario's appeal court.

In March, the Ontario court upheld an earlier ruling that found Meloche Monnex had breached its duty of care in 2003 by "failing to properly offer optional income replacement" coverage to Zefferino under his auto policy.

But the judge dismissed Zefferino's lawsuit because he was not convinced, based on past insurance-buying choices that never went beyond basic coverage, that optional benefits would have been bought even if Meloche Monnex had fully explained them to him.

ONTARIO BROKERS BACK BILL SEEKING LOWER AUTO RATES FOR NEW DRIVERS

Ontario Liberal MPP Mike Colle has introduced a private member's bill that could allow new drivers with clean driving records to have lower auto insurance premiums.

The *Insurance Amendment Act (Minor Accidents and New Drivers) 2013* was tabled in September and the first reading was carried. If passed, new drivers could pay less, but would have premiums increase in the event of an at-fault accident, or revert to a poor rating if, for example, convicted of a traffic offence.

"We hope that these ideas will find support in the legislature and within the government to make the system more fair and affordable for our customers," says Randy Carroll, CEO of the Insurance Brokers Association of Ontario.

Risk

CURTAILING OF B.C. QUAKE COVERAGE PRESENTS OPPORTUNITY: AON

Earthquake risk in British Columbia is a "pocket of opportunity" for global insurers, Aon Benfield reports.

Its *2013 Insurance Risk Study* looks at six countries, including Canada, in a bid to "identify potential growth opportunities."

There are pockets of opportunity, the report notes, including B.C., which has significant earthquake exposure and increasing insured values. Pricing, deductibles and terms and conditions for the business are improving and insurers are applying more granular pricing of earthquake risks in B.C., Aon Benfield notes.

GLOBAL WARMING TO HIKE WILDFIRES, COASTAL FLOODING, DROUGHT

Guy Carpenter & Company LLC suggests coastal flooding, wildfire and drought are all risks of concern as a result of global warming.

In a report, Guy Carpenter warns the "most significant threat for coastal areas" is a rise in sea levels caused by melting glaciers and thermal expansion of ocean waters. "Changing weather patterns will impose drought and inland flood threats for many areas," notes the report.

"Tropical cyclone, extratropical cyclone and tsunami coastal impacts will all come with greater frequency and severity under the projected sea-level rise," it states.

"This poses a significant human and economic concern for these areas, and is a significant concern to the (re)insurance industry."

Wildfire risk is also a concern because of diminished snowpacks and precipitation.

Technology

SGI, KANETIX OFFER ONLINE QUOTES TO ALBERTA COMMERCIAL CUSTOMERS

SGI Canada Insurance Services Ltd., the property and casualty insurance division of Saskatchewan Government Insurance, and Kanetix Ltd. have launched two online quoting tools for commercial customers in Alberta.

Toolbox Pakfor is aimed at independent contractors, while Energy Pak is aimed at small business operations in the oil and gas sector.

The tools are designed to offer quotes on smartphones, as well as desktop and tablet computers. Prospective customers can get quotes both from brokers and from SGI Canada's website.

Reinsurance

ANALYTICS, NEW RISK TYPES KEY TO REINSURER COMPETITIVENESS: REPORT

PwC reports that reinsurance firms using advanced capital and risk modelling, having access to capital markets and using client data for pricing and risk management will be among the most competitive as the industry faces challenges in the next few years.

Low interest rates and the "fresh surge of capital" in the insurance-linked security (ILS) market are key ongoing challenges for the reinsurance sector, PwC suggests in a recent report.

As the ILS market grows, "the key question for sponsors is how to develop untapped markets rather than cannibalizing existing reinsurance demand," PwC notes. "As more capital moves into the market, investors may need to accept new risks or more extreme risks to maintain their target yields."


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Ready, Set, Go

Greg Meckbach
Associate Editor

Chris Floyd, president-elect of the Insurance Brokers Association of Ontario, advises brokers to be ready for technology, both as a means to address emerging issues and to enhance service.

As Chris Floyd prepares for his new role as president of the Insurance Brokers Association of Ontario (IBAO), he is aiming to help brokers ready themselves for the future.

"My theme for next year is going to be, 'Get ready for tomorrow today,'" says IBAO's president-elect. "That will cover a gamut of what we need to be doing, how we speak and when we speak to consumers, and how our businesses are structured to be adaptable to what consumers want," suggests Floyd, a member of IBAO's board for 10 of the past 11 years.

He will replace Debbie Thompson as IBAO president January 1, 2014. At that time, Thompson will become the board's chair.

Like companies in sectors such as banking and telecommunications that are offering more services online and outside of normal working hours, Floyd says that brokers also need to adapt. "Brokers who feel that being open 9 to 5, Monday to Friday, is going to be satisfactory two, three, four or five years down the road — I think they are mistaken."

While it does not mean that brokers need to work 24 hours a day, seven days a week, Floyd recommends they be "more adaptable and flexible around the Internet, around hours of service, around online chatting and around self-service."

This could mean, as one example, allowing customer service reps to work from home.

As younger Gen Ys "start to become more affluent, their first reaction is not necessarily going to be to pick up the phone," he says. "So being in a more responsive environment around e-mail, around online chatting — we need to be ready," Floyd adds.

Another important technology issue is telematics. "As we talk about the subject with insurers and other stakeholders, it certainly is something that is coming," Floyd says of telematics, which involves installing devices in vehicles to monitor driving behaviour.

Just this September, IBAO announced its subsidiary, Independent Broker Resources Inc., intends to partner with Quindell Portfolio PLC to offer telematics in Canada.

Still on the technology front, brokers are well-advised to learn how to address the Extensible Markup Language (XML) eDocs standard, designed to allow brokers to transmit policy documents directly into their broker management systems. "Since it will have an impact on the broker's workload and workflow, IBAO needs to be helping develop best practices for brokers to implement (eDocs), once it does come in a more fulsome way," Floyd adds.

"We have to be very cognizant of the costs and the expense that is still embedded in the (auto accident benefits) system and moving on rate alone is not going to be viable in the long term," Floyd argues.

CLOSE TO HOME

By day, Floyd is president of OTIP/RAEO Insurance Brokers Inc., a wholly owned subsidiary of the Ontario Teachers Insurance Plan (OTIP), which is a non-profit trust directed by a board of eight trustees from four different teachers unions. He has worked there since 1994.

Born in Hamilton, Floyd grew up in nearby Kitchener and later began his career at Cambridge-based Gore Mutual Insurance Company in 1986. "I would fall into the category that insurance found me," he says. "I had some friends from high school who were working at Gore Mutual, who called me up and said, 'You should come down here for an interview,' and one thing led to another."

While there, Floyd worked in several roles, including claims, field marketing and underwriting. Today, at OTIP/RAEO, he deals with issues ranging from homeowners and auto to life, retiree health, dental and travel.

Floyd also serves on the Board of Directors of the Insurance Brokers Association of Canada (IBAC), which, like IBAO, is a volunteer position. He volunteers for both associations, he says, because he believes they can truly make a difference for brokers.

Being on IBAC's board offers Floyd a "good perspective" on property insurance issues — such as water damage — across the country, he says.

"What our friends in Western

Canada dealt with this year in horrific flooding, and some of the challenges that are happening with wind and hail and things like that, I do not think one jurisdiction is in isolation," he says.

"We are able to work and learn from one another. It is not just an Ontario issue," Floyd adds.

One issue of particular interest to Ontario brokers right now, though, is private passenger auto. The ruling Liberal government is seeking a 15% decrease in premiums over two years.

To meet that goal, the Ministry of Finance announced in August that the Superintendent of Financial Services has been given the authority to require insurers to re-file rates, with the aim being to reduce premiums 8% by August 2104.

IBAO has been vocal on the issue and the government timeline. "We have to be very cognizant of the costs and the expense that is still embedded in the (auto accident benefits) system and moving on rate alone is not going to be viable in the long term," Floyd argues.

"The government needs to, whether through regulation or legislation, take advantage of what is in front of them with the 38 recommendations from the Auto Insurance Anti-Fraud Task Force," he emphasizes.

Photo: Peter Tym, Ripley Photographic

Released last November, the recommendations include the following: giving the Financial Services Commission of Ontario (FSCO) the authority to oversee and audit the business and billing practices of health clinics and individual practitioners who invoice auto insurers; providing FSCO with a "range of sanctions" it can apply to violators, such as limiting or stopping a regulated facility from accessing the Health Claims for Auto Insurance (HCAI) system; and adopting a province-wide licensing scheme for the towing industry, including prohibitions on unsolicited referrals to automobile repair facilities or vehicle storage facilities, to be administered by an "administrative authority."

Floyd acknowledges that some of the task force recommendations "might be more difficult to implement." These include those relating to both healthcare and towing.

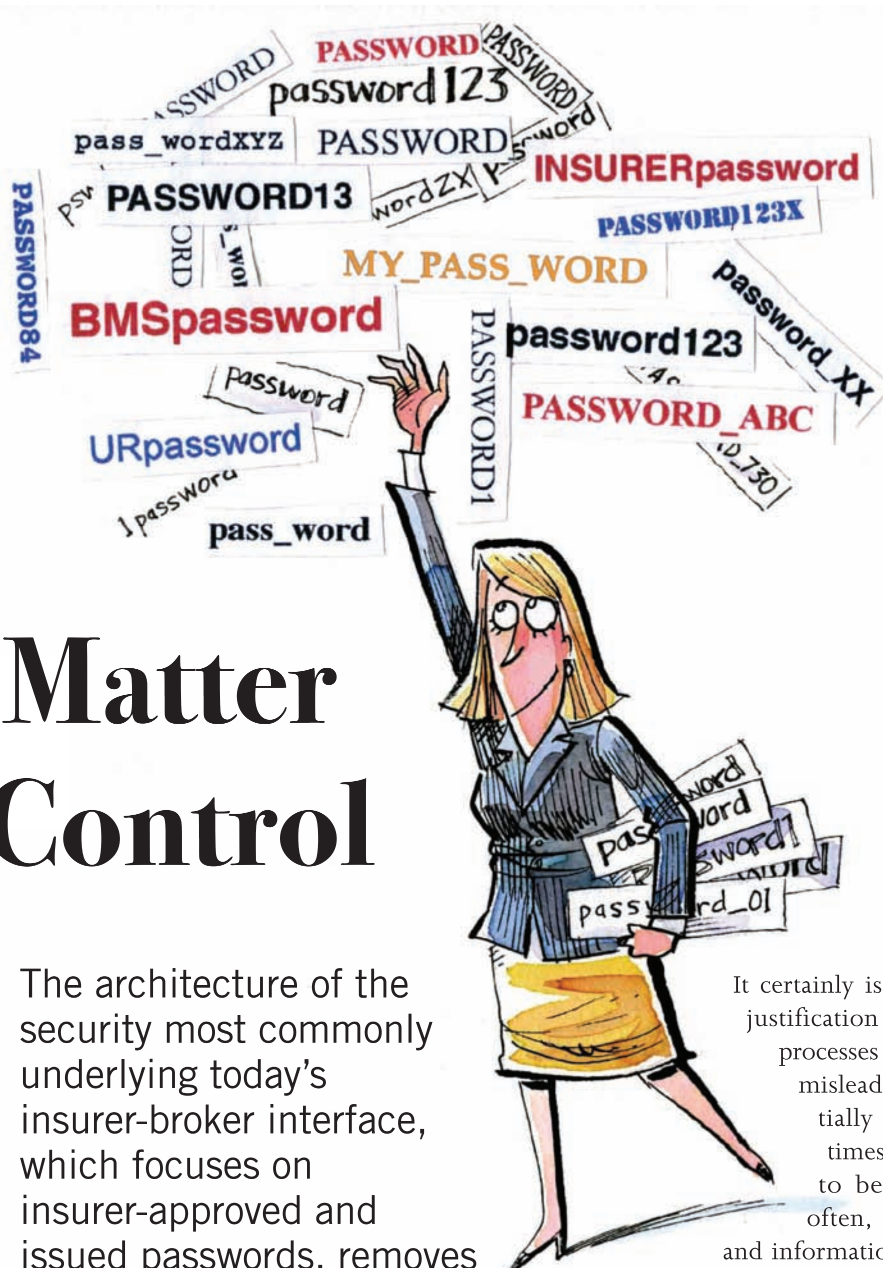
BAD CREDIT

Private passenger auto is certainly not the only issue on IBAO's radar. A persistent concern has been carriers' use of consumers' credit histories, with IBAO arguing that credit scores are not appropriate rating tools.

IBAO's position is that some consumers are not being properly informed about how the use of credit information may affect insurance premiums. "We feel it puts our members in harm's way because of the lack of clarity around the consent that the broker is being asked to get from the consumer," he says.

In June 2012, Liberal MPP Mike Colle introduced the *Homeowners Insurance Credit Scoring Ban Act*, but it died on the order paper when the legislature was prorogued in October. Had Bill 108 been passed into law, it would have, among other things, made it illegal for carriers to use credit history or rating to decline coverage, or to classify risks or rates, for homeowners' insurance.

Bill 108 may be gone, but Floyd says the issue of credit scores will "still be topical" while he is IBAO president.



A Matter of Control

Brenda Rose
Vice President/Partner, FCA Insurance Brokers, and Technology Champion, Insurance Brokers Association of Canada

The architecture of the security most commonly underlying today's insurer-broker interface, which focuses on insurer-approved and issued passwords, removes direct control over access from brokerages to their employees. A need exists to rethink the approach to return control to brokerages, which have the legal relationship with, and accountability to, the carrier.

"Because that's the way we've always done it," has never been a satisfactory explanation. It does not persuade the 12-year-old questioning his or her parents' requirements, and it fails to convince a few years later, when that now teen challenges the reasons for a teacher's apparently arcane routines.

It certainly is not an acceptable justification now for business processes that are ineffective, misleading or even potentially dangerous. Sometimes, assumptions need to be challenged, and often, with new options and information, it is possible to improve on choices made in the past.

OUT OF FOCUS

Brokerages not the focus of insurer-approved passwords

A prime example of one common industry practice that has been perpetuated over time — to the disadvantage of everyone involved — is the typical password-controlled web access by brokers to insurer sites or systems. Of course, the simple concept of redundant data entry into separate broker and insurer systems is a stark inefficiency that many in the industry are working hard to correct. However, the associated security model that has also evolved simultaneously has its own serious, inherent flaws.

Within the framework of broker-insurer contracts, brokerages — rather than individual employees — hold the legal relationships with

Illustration by Dave Whamond/threeinabox.com

carriers. Insurers grant binding authority on a brokerage-by-brokerage basis; indeed, broker-insurer contracts are abundantly clear that brokerages are responsible for errors or omissions, or infringement of binding authority, by their staff.

Broker principals, then, govern their own operations and are ultimately accountable for individual employees' actions. In the course of their duties, brokerage staff members have traditionally communicated with insurers using various tools, including written memos, telephones or, more recently, e-mail and electronic data interchange. Insurers have never determined a particular employee's authority to correspond with underwriters or relay client instructions; that duty has always rested squarely on the brokerage principals' shoulders.

When communication happens to occur electronically, the essential nature of these relationships does not change. The business purposes behind exchanges, and the roles of the correspondents, remain unaltered, and the distinct roles and separate responsibilities of broker and underwriter still persist.

The architecture of the security most commonly underlying today's insurer-broker interface, however, does not reflect this reality. Most often, access requires insurer-approved and -issued individual passwords for broker employees. The focus for granting permission has been shifted away from the brokerage to individual staffers, even though those employees have no direct legal relationship with, or accountability to, the carrier. The brokerage no longer has direct control over access given to its own employees.

When communication happens to occur electronically, the essential nature of these relationships does not change. The business purposes behind exchanges, and the roles of the correspondents, remain unaltered, and the distinct roles and separate responsibilities of broker and underwriter still persist.

Password proliferation may increase security risk

Moreover, with today's typical separate authentication, an average brokerage customer service representative (CSR) working with a number of different insurers will accumulate an overwhelming collection of passwords. Then, in addition to clouding legal answerabilities, these passwords frequently provide admission directly from the Internet, adding great potential for security risk or even abuse.

Dangerous exposures are created when individuals can access insurer systems directly without routing through an identified brokerage's system. If the only prerequisite is an Internet connection, persons who recall their usernames and passwords — or dishonest individuals who steal others' information — can infiltrate insurer systems from virtually anywhere.

When an employee leaves a brokerage, principals must react immediately to cancel each and every insurer password assigned to that person; sometimes, though, principals can be challenged to complete that task if they must rely on backlogged or unavailable insurer administrators.

There are, however, better alternatives available. Integrations between broker and insurer systems are increasingly common, allowing for improvements to some of the old ways of doing business. A recently approved position paper by the Insurance Brokers Association of Canada (IBAC) asserts that the security around broker-insurer transmissions should reflect actual legal relationships and enable control where there is responsibility. IBAC reaffirms brokers' authority over their own operations


The bigger the questions our changing climate poses, the better our answers need to be.
As natural catastrophes increase in frequency and severity, no one has all the answers. But what we do have at Swiss Re is the depth of expertise and global capacity to offer innovative ways to transfer financial risk and rebuild. Moreover, we have the most advanced proprietary natural catastrophe modelling system in the re/insurance industry. Pioneered in partnership with scientists and engineers, this provides our clients with a unique, constantly updated perspective on natural catastrophe risks. So can there be anyone better placed to help you anticipate, evaluate and mitigate the impact of climate change? At Swiss Re, risk is our raw material; what we create is opportunity.
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and their staff, and advocates an authentication method using a single brokerage-level password, to reflect and reinforce the legal actualities.

Benefits of limiting insurance interfaces to approved brokerage systems

Insurer interfaces that limit incoming broker transmissions to those identifiably originating from approved brokerage systems would eliminate much potential risk, complexity and expense. The insurer would neither be burdened with the task of authenticating individual employees' credentials, nor with the massive chore of maintaining and updating passwords for thousands of individuals.

The use of embedded brokerage-level passwords accessible only to broker-authorized staff reduces the potential for abuse by outside individuals. The insurer system verifies that the incoming message is, indeed, from an approved brokerage and authenticates based on a brokerage-wide password. As such, the information received is sanctioned by that firm. No other incoming traffic is allowed access to the insurer system.

This design works whether a staffer accesses the brokerage's broker management system (BMS) remotely, or if the system itself is hosted "in the cloud." The insurer system can still identify and confirm the origination point.

What will not be acceptable is random access from elsewhere on the Internet — such as a former, disgruntled brokerage employee trying to reach the insurer system from his or her home computer.

The brokerage-level authentication model has recently been tested and demonstrated through a pilot project led by Brovada Technologies and The Guarantee Company of North America. For staff at a test brokerage, client information in The Guarantee's system can now be obtained through its brokerage-sanctioned user IDs, and only via the brokerage network.

Those individuals do not see passwords or user IDs. Further, once a user ID is disabled on the broker network, it is no longer possible to access The Guarantee's system, or for that matter, that of any other insurer employing the same protocol.

Dean Bast, The Guarantee's vice president of national distribution, and vice president and regional general manager for Ontario & Atlantic, says he likes the fact that the design "... allows brokers to control the security within their

If the only prerequisite is an Internet connection, persons who recall their usernames and passwords — or dishonest individuals who steal others' information — can infiltrate insurer systems from virtually anywhere.

(own) system. It removes the onus from the carrier to track individual passwords as the system authenticates the BMS to the carrier seamlessly."

Another way of describing this design is "single sign-on." Although this term has been much-abused, the real intent of this phrase when used in reference to brokers' workflows, is to indicate an individual signs on securely once, into the BMS, and that the authority for any other interface with other systems is dependent on that initial log-on. No other independent passwords or authorizations are required.

Of course, the initiator of any communication, whether brokerage or insurer staff, must still be identifiable for audit purposes. The information identifying an individual user, already built into BMSs, must be part of any transmission.

Brokerage principals must be diligent in ensuring that all user-level passwords are kept secure and confidential, and that access to internal broker systems is terminated immediately should an individual leave their employment.

This is not a new duty, but is much more effectively managed, when terminating a single brokerage password also protects all insurer system accesses.

IBAC continues to remind industry that with evolving technology, automated processes should ultimately follow the logic of the business purposes they serve. A legacy of old assumptions, whether stemming from former software limitations or unrelated outdated procedures, should not be allowed to impair the impact of innovations.

As more and more connections between systems are developed, insurers are asked to consider the following key principles when designing and building electronic interfaces with their broker partners:

- brokerages, not individuals, contract with insurers;
- brokerages take responsibility for the training and actions of their staff, for the authority given to them, and for their access to network and communication resources;
- electronic communications do not alter the traditional broker-insurer business model;
- authentication for conveying information electronically to insurers can be most securely controlled by brokerages when based at a system-level (i.e., brokerage system to insurer system);
- system-based authentication eliminates the additional expense, complexity and inefficiency inherent in individual username-password requirements; and
- individual correspondents must be identifiable, but do not require additional authentication.


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Maturing Process

The staggering insurance losses following Hurricane Andrew not only served as a wake-up call for the industry, but the resulting scarcity of traditional coverage prompted the market to innovate and seek alternative sources of capacity. The response included insurance-linked securities, a market that has matured and witnessed significant growth in recent years.

Sharon Ludlow
President and CEO,
Swiss Re Canada

The insurance-linked securities (ILS) market has experienced significant growth over the last few years. A number of insurance and reinsurance companies have accessed it as a complementary source of capacity, and investors have allocated additional funds to the sector.

To understand where the market is today, and the direction it may take in the future, it is first important to understand how it came to be in the first place.

In 1992, Hurricane Andrew devastated the state of Florida, causing approximately US$17 billion in industry losses. At the time, that scale of loss was virtually unthinkable.

In the years leading up to Andrew, insurers had struggled to accurately evaluate the impact of increased population densities and rapid concentration of insured values in disaster-prone areas with catastrophe models in their infancy. The losses from Andrew turned out to be more than twice the figure insurance risk managers expected and several insurers were ultimately forced to file for bankruptcy protection. This event was, in many ways, a wake-up call.

Andrew resulted in a constraint on capacity as many insurers and reinsurers were either unable or unwilling to offer the same level of coverage. With the scarcity of traditional coverage, the market was forced to innovate and seek alternative sources of capacity. Thus, ILS, specifically catastrophe (cat) bonds, emerged as an attractive source of capacity for the industry and a diversifying asset for investors.

After a slow start, the case for ILS strengthened in the wake of the heavy hurricane season of 2005, when hurricanes Katrina, Rita, Wilma, Ophelia and Dennis contributed to a record US$80 billion in insured losses. Once again, re/insurers approached the broader capital markets in response to capacity constraints in the traditional reinsurance market.

Consequently, 32 sponsors issued US$8.5 billion of cat bonds during 2007, the year with the largest amount of newly issued ILS capacity.

Though the following couple of years saw a slight slowdown in new issuance as a result of the financial crisis, the ILS sector for the large part was able to withstand much of the pressure in the broader capital markets during the period, proving that the true foundation of the ILS market remains intact.

Sponsors with increased awareness of credit exposure value the collateralized, multi-year capacity from an alternative source, while investors are attracted to this non-correlated asset class, which offers potentially superior risk-adjusted returns.

AN ATTRACTIVE PROPOSITION

More recently the market has seen an influx of new capital to the space that has further fuelled demand for issuance. Investors appear to be interested in the asset class for its relative value, especially as interest rates remain at historic lows, along with its diversifying qualities given that ILS is largely uncorrelated with other capital markets instruments.

Meanwhile, as the market matures, sponsors can benefit from market innovations, such as the shift in popularity from industry index triggers to indemnity and the introduction of reset notes, both of which allow the sponsor to reduce basis risk and better match its insured portfolio. On the heels of this increased demand, the market has grown to a record US$18.37 billion of outstanding bonds, with the first half of 2013 producing almost US$4 billion in new issuance, the second largest first half since the market began.

While nearly two-thirds of the market offers peak United States wind exposure, non-peak perils such as European windstorm and Japanese earthquake or Canadian earthquake have taken on increased importance. These diversifying perils are instrumental to the dedicated investor base as they allow the portfolio managers to reduce their concentration to U.S. hurricanes.

As the pace of issuance picks up, so does the issuance of diversifying perils. Over the last year, the market has had Turkish, Canadian, Japanese and Mexican earthquake, as well as European, Australian and Mexican Pacific wind bonds to go along with the abundance of U. S. wind issuance.

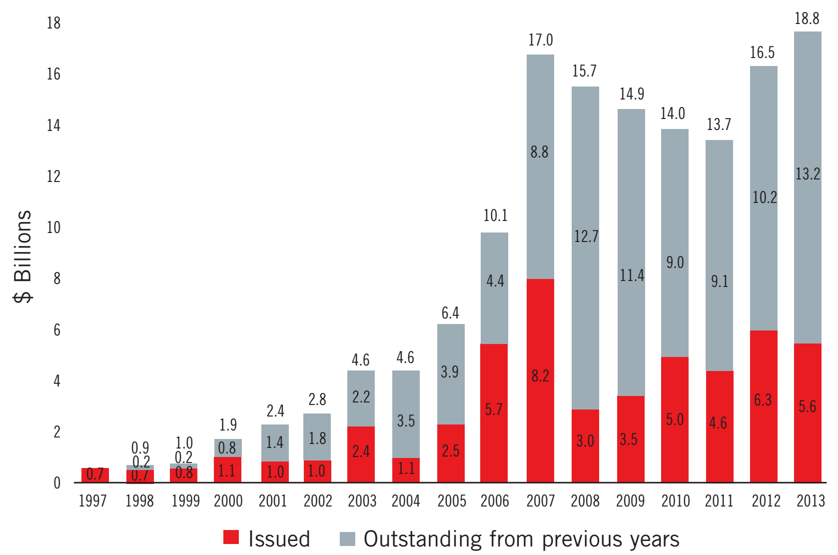
CANADIAN CATASTROPHE APPEAL

One such bond that offered exposure to Canadian earthquake was Lakeside Re III Ltd. Issued late December 2012, the US$270-million offering, underwritten by Swiss Re, provided its sponsor coverage for both U.S. and Canadian earthquake. Since the Lakeside issuance, there have been at least three additional bonds which offered partial exposure to Canadian earthquake, and there is no reason why this trend should not continue.

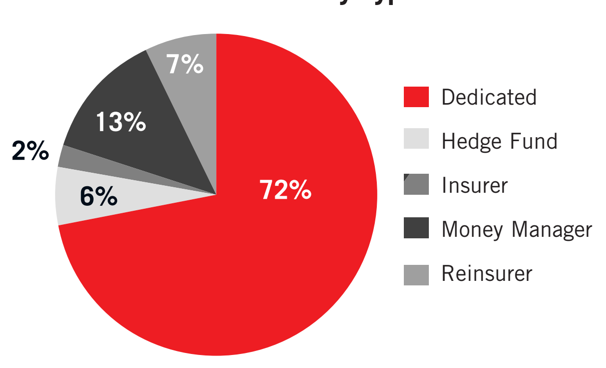
Along with new issuance, secondary trading of cat bonds has also greatly improved since the early days of the market. Swiss Re estimates that approximately US$3 billion to US$4 billion in bonds trade annually on the secondary market. This increased liquidity is another significant factor attracting new investors to the cat bond space.

Since the cat bond markets inception, the innovation, increased transparency, improved coverage for sponsors, and greater funds available to purchase bonds have all helped contribute to the growth and strength of the space. Swiss Re expects to continue to see the catastrophe bond market as a sturdy complement to traditional reinsurance in order to provide potential sponsors with an alternative source of capacity, and investors with a diversifying asset class that continues to evolve and become more mainstream.

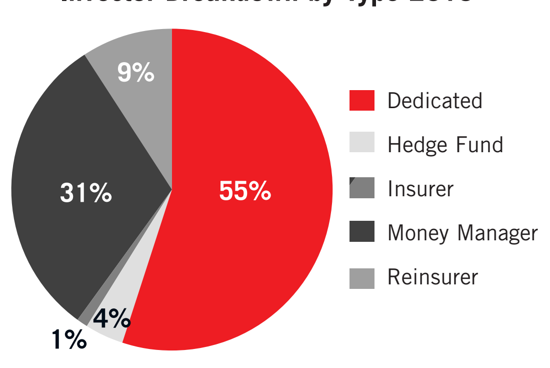
Insurance-Linked Securities: 1997-2013



Investor Breakdown by Type 2012



Investor Breakdown by Type 2013



Cracking the Code

Cheryl Woodburn
Senior Director of Client Services, FICO Canada

Finding the right combination to fight insurance fraud requires a mix of conventional rules-based systems and advanced predictive analytics. Achieving this real-time intelligence on potentially fraudulent claims via sophisticated combinations of rules and analytics is the next frontier of significant bottom-line improvement.

As fraudsters are becoming more sophisticated, insurance providers around the globe are looking for new ways to step up efforts to protect customers and decrease fraud losses. The conventional rules-based approach is easily implemented and adjusted by insurers, but it is also limited because it cannot proactively search for new areas of fraud.

It is, in fact, limited to the rules.

Predictive analytics are becoming more prevalent because they can uncover more fraud and create sophisticated defence methods against unknown schemes that rules do not catch. The optimal fraud-detection approach combines elements of both analytics and rules.

INSURERS ANTICIPATE UPHILL BATTLE

It is widely known to insurers that the industry is losing substantial sums to fraud. Recent statistics from the Coalition Against Insurance Fraud estimate that US$80 billion in fraudulent claims are made annually in the United States. And Canada is no exception.

The Insurance Bureau of Canada has repeatedly estimated insurance crimes cost Canadians several billions of dollars in insurance premiums — with 10% to 15% of insurance premiums being used to cover the cost of fraud.

Consumer awareness of this issue has increased as well, with a Pollara poll issued in March 2012 finding that more than 80% of respondents in Ontario believe insurance fraud is a frequent and regular occurrence.

Research released in September by FICO, a global provider of predictive analytics and decision-management technology, found that one in three North American insurers polled does not

Illustration by Dave Whamond/threeinabox.com

feel adequately protected against fraud. Focusing on insurance claims fraud, the survey revealed that insurers feel most vulnerable in the areas of premium leakage and new applications, when policyholders often underestimate or leave out such information as annual auto mileage that would have an adverse effect on the cost of the policy.

Respondents also said they expect the biggest fraud loss increases to hit personal property, workers' compensation and auto insurance. In terms of fraud by individual policyholders, 58% of surveyed insurers forecast an increase in personal property fraud, 69% forecast an increase in workers' compensation fraud, and 56% forecast a rise in personal auto fraud.

Geographically in Canada, 42% of those surveyed foresee Quebec as being the hardest hit by personal lines fraud, and 39% anticipate Ontario being the hardest hit.

USING ANALYTICS TO BEEF UP BUSINESS RULES

Across all segments, and using various tools, the insurance industry is constantly working to stay ahead of fraudsters. Many companies today are still heavily reliant on business rules-based management systems to fight fraud. These systems test and measure each claim against a predefined set of business rules and examine the claims that look suspicious as a result of their combined scores.

Although traditional rules-based solutions can be effective and relatively easy to implement, they only tackle the tip of the iceberg. Over time, fraudsters can readjust their methods and manipulate the business rules in their favour.

As well, to date, much of the effort to combat fraud has focused on the laborious process of trying to recover money from false claims by investigating suspicious claims after they have been paid. On average, this pay-and-chase approach takes one to two years — and in some cases much longer to recoup payments.

A more effective and efficient method is to identify false claims before they are paid. To do this, leading companies are now supplementing their business rules with sophisticated predictive analytics and link analysis to detect more kinds of fraud, waste and abuse.

Analytics enable the efficient detection of more types of fraud than any other method. The power of an analytic model is that it takes multiple features into account simultaneously, and uses them to identify cases with a very high likelihood of fraud.

Whether in auto, homeowner, property and casualty, health or any other category, predictive analytics make rules-based approaches more dynamic and effective. Analytics can uncover more fraud and create sophisticated defence methods against unknown schemes that rules do not identify — and are among the most transformative methods of increasing speed to detection and improved decision-making.

They can help fight fraud by distinguishing patterns in claims that may point to fraudulent activity, as well as by understanding payers' transactional and relationship data to reveal wider instances of fraud.

In addition, analytics enable the efficient detection of more types of fraud than any other method. The power of an analytic model is that it takes multiple features into account simultaneously, and uses them to identify cases with a very high likelihood of fraud.

For example, an unusually high number of fraudulent accidents or incidents occur very close to the date of inception or expiration of the policy. However, not every claim filed near the inception or expiration date is fraud.

Taking these features into account in an analytic model in combination with multiple dimensions simultaneously can provide an accurate indication of the likelihood of fraud.

Additionally, advanced analytic techniques such as link analysis detect suspicious patterns based on previous claims data. It takes data and considers the larger picture by examining relationships among organizations, people and transactions, or among providers, members and claims. In combatting insurance fraud, link analysis works by flushing out the associated claims or providers who may not always appear to be related in an obvious manner.

WHERE FRAUD DETECTION DELIVERS

There are three key points in the insurance process where a focused assault on fraud using a combination of business rules and analytics can deliver substantial results. These appear below:

- Point of sale (POS) — Avoid doing business with fraudsters and reduce premium leakage by more accurately classifying and pricing risk. Business rules verify that applications are complete and correct, accessing internal and external data sources as necessary. Analytics detect suspicious behaviour patterns and score applications for risk of premium leakage or fraud. Based on scoring thresholds, rules then determine what happens next (e.g., accept, reject or refer to a specific analyst queue).
- First notice of loss (FNOL) through claims adjudication — Avoid paying fraudulent claims, and identify fraudsters and fraud rings. Business rules guide claims representatives and automate online claims-filing applications. Rules-powered intelligent forms ask only for the information required based on the claim and coverage. They access data sources as necessary, invoke analytic models to score the claim for risk of fraud, then recommend or automate actions based on the fraud score. During the adjustment process, rules can monitor claims for suspicious new information and revoke models to re-score claims for fraud risk.
- After payment — Find more fraud while gaining deeper behavioural insights to improve POS and FNOL detection. Analytics examine large volumes of data to detect patterns of fraudulent behaviour not evident in smaller data sets, and discover the complex and often subtle connections pointing to organized fraud rings.

Insurers can benefit greatly by injecting into their rules-driven processes the appropriate type of analytics to address fraud risk at POS. They could subsequently add analytics for fraud detection at FNOL and throughout claims adjudication, and later strengthen their after-payment fraud detection.

GREATER PRECISION EARLIER

To reduce fraud losses, insurers must detect suspicious activity with greater precision at the earliest possible moment. Achieving this real-time intelligence on potentially fraudulent claims via sophisticated combinations of rules and analytics is the next frontier of significant bottom-line improvement in the insurance industry.

How much value analytics can deliver depends on how effectively they are used. The challenge for insurers is to know at what point they are getting the desired return on investment — how much fraud is being uncovered, how much loss avoided and how much time saved.

Establishing the right strategy to reduce fraud stands to dramatically improve the customer experience and increase competitive advantage by potentially enabling insurance providers to lower their costs of doing business and offer more competitive premiums.

Value in Consistency

Peter Hohman
President and CEO,
Insurance Institute
of Canada

The Insurance Institute of Canada recently wrapped up a one-year pilot of its new Instructor Certification Program, an initiative that involved more than 30 instructors. Set to roll out in October, the program seeks to ensure that both excellence and engagement are standardized, regardless of where courses are being delivered across the country.

The Insurance Institute of Canada's Instructor Certification Program — made up of four, three-month-long courses — is designed to promote teaching excellence in Chartered Insurance Professional (CIP) and General Insurance Essentials (GIE) classrooms across the country.

"We have a lot of great instructors, and we want excellence in every CIP classroom," says John McNeil, a learning design and development specialist at the Insurance Institute of Canada. "You should be able to fly to British Columbia or Newfoundland and Labrador, for example, and get a standardized, engaging learning experience. That's what we're looking at."

The program recognizes that teaching insurance is a challenge, and not just because the subject matter can be quite technical. One of the biggest challenges is to break it all down for a diverse audience.

Some students in the CIP program already work in the insurance industry, while others do not; some are learning in the CIP program as mature students, while others are Generation Y Millennials, born between the 1980s and the 2000s; and some people are fluent in one or both of Canada's official languages, while others may be learning French or English as a second language. Beyond those differences, classes may include people who work in different industries altogether.

Classroom diversity means teachers must engage a broad spectrum of learners, each of whom has a preferred method of learning. How should instructors deal with such a broad spectrum of students?

CIP instructor Camille Alexander went through the one-year pilot program, which ended in June. Alexander reports that, among other things, the program taught her how to engage students with different levels of language fluency. For example, she used television as a visual aid to help explain the types of different insurance companies — mutual insurers, stock companies and direct writers.

"'When you are at home watching TV, your assignment this week is to look at how many commercials you see for various insurance companies,'" Alexander recalls telling the class. "The students remember jingles. They remember visuals and the celebrities associated with insurers. They weren't getting it in writing," she reports.

NEW WAY OF LEARNING

The certification program's first course delves into different learning styles and teaching theories, attempting to understand people's brain chemistries and how they learn, whether teaching adults, younger students or those with learning exceptionalities. The program's second course puts the theory into practice and discusses how to build the optimal learning experience.

"The best practice when you are creating a learning experience is to determine what the learning objectives are," suggests Tino Corsetti, senior director of academic programs at the Insurance Institute of Canada. "What does the learner have to learn? What is observable or measurable in terms of the performance or the behaviour that's going to show you that they've learned it?" Corsetti asks.

The second course also addresses best practices for teaching students, something CIP instructor Mike Risi says has helped him ensure that a broad cross-section of his students view his teaching methods positively.

The course reinforces the importance of making it clear to students how instructors have structured the presentation of their course material, adds Enrico Mastrangeli, who has been a CIP instructor for approximately four years.

"There's a transparency and a structure to ensure that there's closure on any learning objectives for that specific chapter. It's opening up another communication line with students," Mastrangeli suggests.

Risi notes that he uses a lot of video when he does presentations or training, and will be doing the same in his

"A lot of people today, when they learn, they want it virtual, real-world and live. If you're teaching the same way you did 30 years ago, it's not going to work in today's environment. To engage the students, instructors have to work harder, work smarter, and we have to let the students teach us as well, because the environment is changing."

CIP course. "I learned that's what the 20-somethings are looking for — they want to see video and multi-media. I've become good at searching YouTube for different things," he says.

On the other hand, Risi points out, "more experienced folks want to be able to share their experiences. That's what you want — getting their involvement, as opposed to just standing up there and preaching to the class. You want to try and make it interactive."

NEED TO ASSESS

As soon as the optimal learning environment has been defined, the third course in the program discusses assessment techniques. How does the instructor assess students' progress? How do students assess their own progress?

"As we take instructors through the program, they are building their own assessment tools," McNeil says. "They are building their own lesson plans. They are building their own mid-term exams. Everything the instructors build will be relevant in their own classrooms," he adds.

The fourth and final course deals with in-class delivery techniques. It discusses attention spans and engagement techniques in both in-class and virtual worlds. This part of the course prepares instructors how to manage a virtual learning environment.

"A lot of people today, when they learn, they want it virtual, real-world and live," Alexander says. "If you're teaching the same way you did 30 years ago, it's not going to work in today's environment. To engage the students, instructors have to work harder, work smarter, and we have to let the students teach us as well, because the environment is changing."

Mastrangeli happened to be part of the one-year pilot at the same time he was teaching a CIP course. Students who had taken classes with him before he completed the certification course could see some tweaks that he had incorporated into his CIP class, he says. "And the feedback was just phenomenal."

Mastrangeli credits the certification program for an increase in the number of his students who passed the national CIP exam with honours standing.

The ultimate goal of the program is to help CIP instructors create an active, motivational learning climate, says McNeil. "Learners want to come and take part," he emphasizes.

"They are personalizing the material, they are able to internalize it, and put it into use at their own industry work settings. They are able to call upon different examples and use the material to solve various different learning problems. The learning is engaging and fun, but they are also critically thinking and learning at higher learning levels," McNeil says.

Overall, a co-design team made up of about 10 to 15 experienced instructors across Canada helped McNeil design the course curriculum. "They were bringing in best practices," related to creating mid-term exams and lesson plans, as well as ensuring content was relevant, he says.

Risi adds that the value of the program extends beyond just teaching in the CIP classrooms. "Some of the things I've implemented by facilitating training at work," he says.

CIP instructors of all stripes who went through the pilot program vouched for its ability to transform the way they thought about teaching. The program is designed to raise the bar for all instructors.

"I've been teaching a long time, and I thought the way I was teaching was great," says Alexander. "I thought I was on the right track, but this program had me totally re-assess myself as an instructor."

Moving Forward With Telematics

David Gallagher
Vice President,
Marketing,
Quindell Solutions

The Insurance Brokers Association of Ontario and Quindell Portfolio have teamed up to bring a telematics solution to IBAO member brokers. The idea is to answer the telematics trend by offering both a customer-centric and broker-driven solution.

In the next several years, the auto insurance landscape will change as insurers move towards using in-car telematics devices to offer a new world of rating and underwriting to consumers. Recognizing this trend, the Insurance Brokers Association of Ontario (IBAO) has entered into a partnership with United Kingdom-based Quindell Portfolio PLC that will allow IBAO to take the lead as a provider for consumers with whom it already has a long-standing business relationship.

Drawing on the strong relationship that IBAO member brokers have with their customers, it is hoped the new partnership will shape the way the market evolves. This teaming is further designed to position brokers and their customers at the heart of usage- and behavioural-based insurance (UBI and BBI), a move expected to provide significant benefits to consumers, brokers and insurers alike.

WHAT IS VEHICLE TELEMATICS?

Vehicle telematics includes four main components. The first consists of an in-car "black box" that captures key vehicle data that is then used in insurance product development and pricing; second, there is a behind-the-scenes interface of services that collect, gather, interpret and present the data to those authorized to use it; third, a variety of models and processes exist that insurers use to develop specific insurance programs and rates; and, last, there is a wide array of web services that can be used for outbound communication with the driver.

Together, these components enable an insurance carrier to easily develop products and pricing to match the driver characteristics of target market segments. Simpler models involve using the data to create UBI models that reflect actual driving data rather than using estimated driving data from an application form. Examples include insurance based on the actual miles driven,


Chubb Creates Certainty.

or the time of day the vehicle is used, which can then easily be extended to where the vehicle is driven. In this way, rating is expanded to better reflect the actual usage of the vehicle based on the actual exposure.

More advanced models extend rating into BBI, where an underwriter can tie specific driving behaviour(s) such as speed driven, hard braking, rapid acceleration and cornering patterns into a rate category. Taken one step further — and into the realm of public policy — brokers can use this information to encourage change in driving patterns.

For example, ingenie, a Quindell customer in the U.K., ties the information collected to programs and actions that actually improve road safety and prevent accidents for its customers. These benefits include free driving lessons and remedial driver education for young drivers. It is this space that IBAO believes its brokers need to own.

Customer benefits are significant, both immediately and over the longer term. In the case of ingenie, it has seen consumer savings on premiums of as much as 70%, with premium savings of 30% being common. Consumers also benefit from changes to their driving skills, which can help reduce the number of accidents and avoid injuries from the outset.

Complementary services can also create additional benefits. For example, in-car devices can be used to unlock doors, perform vehicle diagnostics and alert customers to vehicle problems. As well, it is possible to provide driver feedback.

Telematics provides tremendous benefits for all mainstream drivers, with enhanced opportunities for many unique driver segments.

WHAT ROLE WILL IBAO PLAY?

The IBAO/Quindell partnership represents the first in which a broker association has committed to purchasing a full solution on behalf of its members. The black boxes, network and data management services, and call centre support and activity will all be clearly customer-centric and broker-driven.

The partnership also represents a clear focus on respecting consumer preferences for data privacy and portability — in that the driver data is owned by the driver, not the insurance company. This means that if a driver chooses to switch insurers, the driving data moves with the driver to the new insurer. As a result, the new insurer can use that previous driving data to develop appropriate rates, not start over without that data.

Solutions in other countries, particularly in the United States, have focussed almost entirely on the concept of UBI, applying a discount for sign-up, or a discount based on collecting data for a set timeframe. Many other capabilities are also inherent in the IBAO model.

This means that if one insurer is offering a mileage-based solution while another is offering a time-of-use solution, the broker can match customer needs to both those individual offerings.

The IBAO, through its wholly owned subsidiary Independent Broker Resources Inc. (IBRI), will work in conjunction with multiple insurance carriers, both large and small, including those that could not operate a program themselves because of market or size constraints. The broker will be able to offer drivers the option of telematics-based solutions — or non-telematics-based solutions — underwritten by several insurers that will provide variety in both price and service offerings.

This means that if one insurer is offering a mileage-based solution while another is offering a time-of-use solution, the broker can match customer needs to those individual offerings.

WHAT ROLE WILL QUINDELL PLAY?

Quindell Solutions has partnered with the IBAO through IBRI to provide the in-car devices and also to co-ordinate the network services, including data collection, broker presentation portals and communications to drivers. Quindell will work with the IBAO to deliver a best-in-class value proposition and experience for consumers, and will work with insurers to broaden their offerings to maximize benefits for customers and carriers.

In the U.K., insurers are using Quindell technology to offer programs for young drivers, seniors and other target segments. After the European Court of Justice enacted guidelines to prohibit gender from being used in young driver rates, rates for female drivers soared.

As a result, insurethebox used telematics to launch a new program called "Drive like a girl." Participants saw rate reductions after three months using a variety of rating variables.

In a bid to counter the negative effects of driving while fatigued, including any associated claims, one innovative idea is to grant drivers who travel less than 2.5 hours at a time — or who travel 2.5 hours, then take a 20-minute break — with a larger discount. That allows consumers to govern their behaviour accordingly if they wish to be safer and also receive the larger discount.

WHAT IS THE PLAN FOR CANADA?

With IBAO's planned launch of telematics in 2013, brokers will be signing up and receiving in-car devices to offer to customers. Participation levels are difficult to predict as is the extent of the behavioural-based insurance offerings.

It is likely that insurers will walk before they run, but the recent announcement of a Canadian launch of ingenie is expected to put some pressure on early adoption by mainstream carriers.

IBAO and IBRI are hopeful that together they can form a partnership with ingenie that embraces their knowledge and the strength of broker distribution.

Likely targets will be young drivers under 25, who stand to gain the most from good-driver, safe-driver education and discounts. But low-mileage drivers and seniors can expect to see products and pricing geared to their needs.

In addition, it is probable that through its brokers, insurers will embrace value-added services such as using auto diagnostics in the near future — both to differentiate themselves and to extend the value of telematics.

Stop or Go?

Opinion/Analysis

Arthur Lofsky
Government Relations Consultant,
Insurance Brokers Association of Ontario

There is plenty going on with Ontario auto insurance, including what some regard as the aggressive pledge by the government to reduce premiums an average of 15% over the next two years. But does this preoccupation with speed and mandated reductions produce unrealistic expectations and threaten to, ultimately, make things worse for consumers?

What's going on in Ontario auto insurance? More than one may think.

On August 23, Ontario finance minister Charles Sousa announced details of the government's plan to lower auto insurance rates by 15% on average. The provincial government initially committed to this target over an unspecified period of time as part of its deal with the New Democratic Party to pass the minority Liberals' 2013 budget.

Budget legislation that passed in June 2013 gave the Superintendent of the Financial Services Commission of Ontario (FSCO) the power to set a rate reduction target by regulation and compel insurers to refile to achieve this target. The legislation also expands FSCO's enforcement authority and grants it the power to license health clinics.

All through this process, the Insurance Brokers Association of Ontario (IBAO) has cautioned that rate reductions will take time and must be achieved in a responsible fashion. The rhetoric in government press releases, in IBAO's view, unrealistically raised the public's expectation for across-the-board reductions.

The IBAO wants lower rates for consumers, but representatives continue to believe a 15% premium reduction is aggressive and can only be achieved once the key recommendations of the Auto Insurance Anti-Fraud Task Force are implemented. Mandated reductions without identified cost savings could end up making things worse for consumers as insurers may exit certain segments of the market where they are losing money.

The IBAO was expecting to see progress made in identifying cost savings when the provincial government recently announced its next steps. The announcement did include a specific timeline for the promised rate reduction — 8% on average is the targeted reduction for the first year ending August 15, 2014 and 7% further by

Illustration by Dave Whamond/threeinabox.com

August 15, 2015. In addition, insurers are expected to refile for a 3% to 5% reduction by January 2014. The government believes that this reduction exists in the system arising from the last set of reforms.

What the government announcement did not include was progress on licensing health clinics, regulating the towing industry and implementing a new catastrophic definition. Without progress on these fronts, the two-year timeline for the 15% reduction looks even more challenging. Government representatives have said the government remains committed to moving forward with anti-fraud task force recommendations, such as the licensing of health clinics.

But the IBAO is increasingly concerned the promised changes will not occur in time to coincide with expected premium reductions.

While the two-year timeline announcement was highlighted in the media, what went largely unreported was a detailed policy statement by Sousa to FSCO published in the August 24, 2013 edition of the *Ontario Gazette*. The minister has the power to issue such policy statements, which FSCO "shall have regard to" in making decisions.

Of note to the IBAO is that FSCO is directed to study whether or not insurers are in compliance with the prohibition of credit scoring in auto insurance and to study the mandatory collision-reporting threshold under Ontario's *Highway Traffic Act*. On the first item, the IBAO has raised concerns that credit scoring on home insurance may be subverting the credit ban on auto insurance given that the two products are often sold together with a discount; on the second, the IBAO has suggested that reporting a collision under an increased threshold for minor accidents should not be counted against a driver if that driver does not make a claim. The current threshold is $1,000, a figure that has not been adjusted in many years.

The policy statement also encourages FSCO to implement usage-based insurance, to look at the fairness of the territorial rating system and to explore ways to treat first-time drivers "fairly."

With regard to the latter point, the IBAO believes the "First Chance" system in New Brunswick — which gives new drivers the benefit of the doubt and lower initial premiums — is worthy of exploration for Ontario. Only if a new driver is convicted of a traffic offence or is involved in a collision would his or her rating revert back to the customary low rating of a new driver.

DISPUTE RESOLUTION REVIEW

As part of the August 23 announcement, Sousa reported that the Honourable J. Douglas Cunningham, former associate chief justice of Ontario's Superior Court of Justice, would conduct a review of the province's auto insurance dispute resolution (DR) system. A well-functioning auto insurance DR system is of important interest to the IBAO as it directly affects the 6 million customers who our brokers represent. Broker customers are entitled to timely access to benefits they have purchased.

If there is a dispute between a customer and company in Ontario, either party must first go to mandatory mediation, followed by arbitration, and then the courts if either party is still not satisfied. Both arbitration and mediation are administered by and reside at FSCO. By law, either party is entitled to have mediation within 60 days of applying.

Figures from FSCO show that between 2007 and 2011, applications for mediation soared by 155%, from 14,281 to 36,496. This extraordinary increase resulted in a backlog that grew more than 1,000% from 2,496 cases in 2007 to 29,305 in 2011. By 2011, Ontario's Auditor General in his *2011 Annual Report* noted that mediation resolutions were taking as long as 12 months.

FSCO responded by taking remedial action to reduce and eventually eliminate the mediation backlog, something that was achieved this past August.

Despite that progress, applications for arbitration have skyrocketed during this period. In 2012-2013, 10,510 applications for arbitration were received, a 151% increase from 2010-2011, FSCO reports. The spike in applications seemed to coincide with the new set of auto insurance reforms that took effect September 1, 2010, which focused on tightening rules to fight the abuse of accident benefits (AB), claims for which had soared in the prior few years.

Clearly, Ontario's auto insurance DR system is failing when it cannot provide timely access to dispute resolution, a purpose for which it was originally designed. It is also incredibly expensive to sustain such a lengthy complicated process. And as everyone is well-aware, all Ontario drivers are paying for this through increased premiums.

That is why the IBAO welcomes this long-overdue review, not only so brokers can meet their responsibilities to help customers get the benefits they need, but also, hopefully, to reduce the overall cost of the system.

It is anticipated Justice Cunningham will deliver an interim report to Sousa in October, with a final report to follow in February 2014. The interim report is expected to include recommendations related to whether or not mediation should continue to be mandatory for all Ontario automobile insurance disputes, and what is the best approach to delivering that service.

As one can see, there are many moving parts that need to be addressed and there is no single solution to a better-functioning system. That said, responsible change needs to be the driving factor in order to succeed.

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A.M. Best's
2013 Insurance
Market Briefing:
Canada, Toronto

Stability, with Challenges

Harmeet Singh
Online Editor

Angela Stelmakowich
Editor

Canada's insurance industry is stable, but challenges remain. Consider the ongoing effect of low interest rates, regulatory demands, Ontario auto and, of course, developing technologies.

Toronto again played host to A.M. Best Company's 2013 Insurance Market Briefing - Canada on September 11 in Toronto. Attendees were provided both a look back and a look forward as leading A.M. Best rating analysts discussed the impact of economic conditions and rating trends on insurers in the property/casualty, life and reinsurance segments of Canada's insurance industry.

OUTLOOK STABLE FOR CANADIAN P&C

The Canadian property and casualty insurance industry is recording solid performance, despite several ongoing challenges, says an A.M Best report released in advance of its Canadian briefing.

Last year was the fourth consecutive year that combined ratio improved and net premiums written increased, notes *Best's Special Report: Canada Property/Casualty & Life*. Net underwriting income in 2012 was $1.5 billion compared to $474 million in 2011. It is expected "core performance will continue to benefit from profitability initiatives and the industry will maintain its strong risk-adjusted capitalization."

Nonetheless, there are challenges. For example, in Ontario, while reforms to the auto insurance regulatory environment in 2010 and rate increases have offset rising claims costs to an extent, the province has also seen a deteriorating loss ratio in auto liability. There are also concerns around auto with respect to the Ontario government's promise to reduce insurance rates by an average of 15% over the next two years.

"Although there is no mandate for an across-the-board rate cut, A.M. Best remains concerned about implementation and whether this is the most efficient industry solution, particularly in light of ongoing issues such as: combatting fraud, defining catastrophic impairment and reducing the backlog of claims in mediation," the report says. "Essentially, significant premium reductions without additional reforms under the current system may not be sustainable and may expose the P/C industry to significant capital risk."

Going forward, changing regulatory requirements, the "appropriate development and utilization" of telematics technology for auto insurance, and predictive modelling for risk management will be key issues for the Canadian P&C industry.

UNDERWRITING DISCIPLINE KEY

Underwriting discipline is keeping the outlook for the reinsurance market stable, in the face of downward pressure on pricing and continuing low interest rate challenges, said Scott Mangan, a financial analyst for Caribbean and reinsurance ratings at A.M. Best. Overall, Mangan told attendees, the reinsurance market in Canada is well-capitalized.

On a five-year basis, the reinsurance market has had an average combined ratio of 95.4%, he reported, adding the Canadian reinsurance market marginally outperforms its global counterpart.

Although most reinsurers in Canada remain well-positioned to take on a "mega-cat" event — that being a loss of $100 billion or more — like reinsurers elsewhere, they are still contending with low interest rates that continue to be a challenge on a global scale, Mangan said.

That has been one driver of capital markets entering the reinsurance sector, he noted, citing catastrophe bonds and sidecars as the main vehicles being used.

He suggested, however, that a spike in interest rates does present a risk for the industry. Still, "we believe that reinsurers are well-positioned to handle that if that were to occur."

Another risk is continued downward pressure on pricing, which could squeeze underwriting margins, Mangan said. "Underwriting discipline has been a very important factor," he explained. "As you see capacity increasing, pricing is... being pressured."

Looking to January 1 renewals, he said there could be potentially more focus on terms and conditions than on pricing.

Overall, Mangan said, A.M. Best's ratings outlook for the reinsurance sector is stable. "It's underwriting discipline that is the anchor for the reinsurance market, and if that were to slide, certainly we could see some changes on that regard."

CONSOLIDATION AS ADVANTAGE

Vast consolidation within Canada's property and casualty industry on the carrier side has created some large organizations with a wealth of data that could offer a competitive advantage, said Greg Williams, managing senior financial analyst in A.M Best Company's property/casualty rating division.

Williams told briefing attendees that the Top 10 p&c companies in 2007 accounted for about 58% of direct premiums written, around 68% in 2011 and approximately 73% now. "That gives them access to a considerable wealth of data that they can use and most likely — if they have the systems to support it and integrate the data — will have the ability to create competitive advantages in terms of the data capabilities and pricing segmentations," he said.

"The leveraging of technology, the scale and the efficiency is going to have some implications on the other carriers," said Williams. "Conversely, there are also some opportunities, probably in the niche markets, under certain markets," he added.

Williams said that just like companies are concerned about diversification, brokers are concerned about diversification. "It'll be interesting to see how this shapes up."

Williams's comments reflect the outlook in the special report released before the briefing."In the coming year, insurance companies will continue to face challenges of finding alternative uses of capital and trying to remain competitive through gains in market share. Mergers, acquisitions and consolidation will continue to be instrumental in meeting those challenges and shaping the direction of the Canadian P/C insurance industry," the report states.

"These consolidations not only will test companies' abilities to maintain strong customer relationships, but as these entities grow larger, more complex and perhaps dominant in a segment, they also will test the limits of market share and integration."

During the briefing, Williams noted that consolidation continues not only at the carrier level, but also at the broker level. "Obviously, that creates flux in the competitive environment," he said.

"Just like companies are concerned about diversification, brokers are concerned about diversification," he said. "It'll be interesting to see how this shapes up as technology and data really become the lifeline of auto, especially as it turns more into a commodity product."

Williams said there were no rating downgrades in 2012 through June 2013, reporting that about 85% of rating upgrades were through affirmations. The remaining were upward rate movements, the majority of which were "driven by consolidations," he said.

COMBINED RATIO TO CLIMB SLIGHTLY

The combined ratio for property and casualty insurers in Canada could climb to about 100.0% by the end of the year, depending on catastrophe activity in the fourth quarter, A.M. Best reports.

As has been the case for some time, Ontario auto insurance continues to be of significant interest, particularly since the provincial government has mandated cutting premiums an average of 15% over the next two years. "(The) major impact for us specifically will be Ontario auto," Karen Higgins, vice president of finance for Co-operators General Insurance Company, reported in a video released by A.M. Best following the Canadian briefing.

"We have for the most part priced in, or will by the end of 2013, the requirements of the proposed Ontario reform."

Canada's lack of a public-private flood insurance program also proved a hot topic, churned up once again by devastating and expensive flood events in southern Alberta and in and around Toronto.

There is no hard date when or if such a program will be created, but the federal and some provincial governments are looking at mitigation plans and investing in infrastructure, Craig Harris, lead freelance writer for *Canadian Underwriter*, noted in the video. That said, developing flood risk maps, investing in infrastructure and imposing building restrictions in high-risk flood zones areas are all likely to be necessary for a flood insurance program to move forward, Harris added.

Privacy Pause

Consumers in Canada have shown some reluctance to embrace telematics and surveillance-like technology in their vehicles. In today's age of big and meta data, clandestine electronic eavesdropping by government agencies and juicy revelations of whistleblowers, insurance companies may have to rethink their approach to privacy – if they want customers to buy in. Information is the new currency in rating and underwriting, but the price for entry may be greater disclosure and transparency.

CRAIG HARRIS

While usage-based insurance (UBI) has taken off in several countries, the acceptance of telematics in Canada has been tepid at best. Some insurers, such as Desjardins General Insurance Group through its Ajusto product, have found a way to bring UBI to market; more companies are content to conduct research and tire kick concepts.

One of the main reasons for the slow adoption rate here is consumer privacy. Many are raising alarm bells, or at least waving caution flags, about the intrusive nature of this technology. Articles on the subject in mainstream media invariably use the term "big brother" to invoke Orwellian fears of constant surveillance.

Case in point was an article that appeared in *The Globe and Mail* August 29. "Our private lives began evaporating with the introduction of the mobile phone and now car manufacturers and insurance companies are coming for what's left," wrote Andrew Clark in a column, *Big Brother is Behind the Wheel*. "They call it 'telematics' — a fancy word for spying."

It is not just media naysayers, but lawyers, consumer advocates and, increasingly, insurance brokers, calling for better and clearer rules on the use of telematics. The Insurance Brokers Association of Canada (IBAC) recently approved a "Telematics Principles" position paper for insurance companies that examines implications for consumer protection. In it, IBAC stakes out its position: "Changes in technology must not be allowed to impair consumers' fundamental rights to control, privacy and choice."

NEED FOR CLEAR PROCESS, RULES

Brenda Rose, chair of IBAC's technology committee, says the association is not against telematics, but rather wants to have transparent principles in place for its role in UBI. "In the Canadian marketplace, more and more insurers are looking at telematics and UBI," Rose notes.

"We issued the paper because we want to have clear processes and rules in place before we get too far into this. It is a competitive marketplace and companies are looking for any edge they can get. They will be introducing these products and we want to be clear what the rules are for consumer protection," she explains.

Randy Carroll, chief executive officer of the Insurance Brokers Association of Ontario (IBAO) in Toronto, suggests that UBI could veer into the use of lifestyle rating factors, which is prohibited in Ontario.

"Consumer protection needs to be front and centre when it comes to telematics and, from a regulatory point of view, we can't let protection be overlooked as we move forward in the new world of underwriting," Carroll comments. "If an insurer needs to gather data like speed, kilometres driven, braking and cornering to rate a policy, then that is the only data (it) should get from the consumer," he emphasizes.

Carroll notes the principles outlined in IBAC's paper were used by IBAO's wholly owned subsidiary, Independent Broker Resources Inc. (IBRI), when it announced in mid-September a partnership with United Kingdom-based Quindell Portfolio PLC to offer telematics in Canada. The exclusive five-year agreement will involve Quindell providing the technology and IBRI managing the launch of IBAO's telematics initiatives to its membership base of about 12,000 brokers.

"IBRI and Quindell's partnership will be unique as their telematics model is focused on consumer protection and data privacy," notes a press release from IBAO. "With IBRI and Quindell's telematics product, consumers will truly own their own data and their privacy is protected. Unlike other offerings that are in the market today, the consumer is in control of how they share the data and with whom," the statement adds.

Desjardins Insurance is the only insurer with a UBI offering approved by regulators in Ontario and Quebec. Its Ajusto product (and IntelAuto for customers of its subsidiary, The Personal) was launched in May, which coincided with widespread news of the U.S. National Security Agency's (NSA) warrantless surveillance program, as well as similar electronic eavesdropping initiatives in other countries, including Canada. Desjardins spokesperson Joe Daly reports that the program already has 30,000 UBI customers.

UBI could veer into the use of lifestyle rating factors. "Consumer protection needs to be front and centre when it comes to telematics and, from a regulatory point of view, we can't let protection be overlooked as we move forward in the new world of underwriting," argues IBAO's Randy Carroll.

"We see much greater acceptance and use of usage-based insurance once consumers better understand the benefits and safeguards," Daly notes. "We think the privacy concerns are overblown, particularly with all the information people now make available through cellphone usage and social networks, such as Facebook."

Daly points out that an internal review of the Ajusto program was done to ensure it is in compliance with all privacy legislation, including addressing issues of consent, usage of information and security of data. "Our clients' privacy is extremely important to us," he says. "We have a very transparent approach with the customers, with our terms and conditions available on the website and on paper in the box containing the device."

Privacy regulators have publicly stated the product is in compliance with relevant legislation and have even lauded Desjardins' transparent approach. "We should applaud companies that are offering innovative programs for their customers that are highly respectful of privacy and this one is extremely," Ann Cavoukian, Ontario's information and privacy commissioner, told the *Ottawa Citizen*.

In an interview, Michelle Chibba, director of policy and special projects at the Office of the Information and Privacy Commissioner of Ontario, says the telematics program offered by Desjardins passes the privacy test for two reasons. "First, the program is voluntary and within the control of the individual to make an educated decision," Chibba notes. "The second reason is that the contract is transparent and the privacy issues are outlined upfront. The contract clearly defines how the data will be collected and what it will be used for."

CONCERNS OVER DISCLOSURE

Nevertheless, some consumer advocates and lawyers say the technology and processes behind UBI are not necessarily or thoroughly benign. "One of my main concerns is that the information people share about their driving behaviour can be disclosed to third parties, includ-

ing law enforcement, plaintiff lawyers, Crown attorneys, and so on," says John Lawford, executive director and general counsel with the Public Interest Advocacy Centre (PIAC) in Ottawa.

"If it is a criminal matter, it can certainly be disclosed, but if it is a civil case, lawyers won't have too far to dig to get this information as part of litigation. It will be up to the judge, not the insurance company, to determine if it is producible evidence," Lawford says.

"In privacy legislation, it is not always the rules, but the exceptions," comments Michael Power, a Toronto-based lawyer who is an expert on privacy law. "There are always certain exceptions that can involve the disclosure of personal information. These can be to law enforcement agencies, investigative bodies, but they can also involve rules of procedure in civil litigation, in terms of what is admitted as evidence. Privacy laws were not designed to infringe on things like rules of civil procedure," Power explains.

While no specific case law on private insurer use of UBI exists in Canada, there have been some findings from privacy commissioners at both the federal and provincial levels on employer-employee use of telematics.

Power notes that two findings from the Office of the Privacy Commissioner in Canada, one in 2006 (involving a telecommunications company) and one in 2009 (involving a municipality), essentially reached the same conclusion: that using a device such as a GPS to track a vehicle is not overly privacy invasive; however, routinely evaluating worker performance based on assumptions drawn from GPS information impinges on individual privacy.

A similar conclusion was drawn by Elizabeth Denham, British Columbia's information and privacy commissioner, in a December 2012 decision involving Schindler Elevator Corporation, which installed telematics equipment in its company vehicles. "I am persuaded that Schindler's collection and use of employee personal information for the purposes, and in the manner described above, is reasonable and is authorized under PIPA (*Personal Information Protection Act*)," Denham stated.

"So the use of telematics, within reason, is permissible and reconcilable with Canadian privacy law," notes Power. "However, there is not a lot of specific guidance as to how best to use telematics."

Desjardins' Joe Daly notes that the insurer's program collects information about the car, not necessarily the driver. "It is important to understand that all of the information collected is at the vehicle level, meaning that it is not possible to distinguish individual driving behaviour."

INFORMATION CONSIDERED TO BE PERSONAL

It is the "how" of private insurer telematics usage that concerns brokers. For example, one of the issues raised by IBAC is consumer access to, and control over, personal information. "Consumers have the right to challenge the veracity of information collected about themselves and must be provided the opportunity to correct or stop the collection of information at any time," notes IBAC's telematics principles paper.

"The data collected from telematics programs is considered personal information," Rose says. "Consumers should still have a right to access it, control it and they should be able to take it to a different insurance company. How, exactly, insurance companies develop their rules and contract around this will be the test," she suggests.

Carroll observes that there are other models of information sharing in the insurance industry that should be followed by any telematics solution. "Consumers need to own their data, have access to it, and it needs to be portable," he says. "(This is) no different than how motor vehicle records (MVRs) are handled today; the same system needs to be implemented when it comes to telematics."

In an IBAO newsletter, Carroll cited a June 2013 client alert from U.K. law firm Morrison & Foerster that outlined guiding principles for insurers on the use of telematics. That paper analyzed data protection, policy terms and condition and policy management, encouraging insurers to consider key legal issues, such as third-party provider service arrangements, regulatory compliance, customer policies, promotions and marketing and claims management.

It also noted the Association of British Insurers (ABI) has issued a guide to "ensure that insurers providing telematics-based policies treat customers fairly and protect their data."

Daly says that Desjardins' Ajusto program collects information about the car, not necessarily the driver. "It is important to understand that all of the information collected is at the vehicle level, meaning that it is not possible to distinguish individual driving behaviour," he says. "For example, the device derives the total kilometres the vehicle is driven, not the kilometres driven by each individual driver."

The product will only be used to offer consumer discounts — a provision that the Financial Services Commission

of Ontario (FSCO) required before approving the program, Daly reports. “Your premium won’t go up because of the data collected on driving habits for your vehicle,” he says.

“At renewal, your premium will be calculated as usual, based on the usual insurance rules. If your situation changes, a number of factors can raise your premium (if you have an accident during the year, for example) or lower it (if you move closer to your place of work, for example), but any increase in premium will be completely unrelated to the Ajusto/Intelauto program,” Daly notes.

Lawford says that he is skeptical about insurer promises that they will not use the data for future purposes. “I can’t believe that the insurance company will simply ignore this information,” he observes. “They collect the information, but they may not tell you what they are going to do with it down the road.”

There are other potential scenarios that Lawford cites as potential concerns with telematics, including disagreements with insurers about data interpretation/algorithms, a gradual move to mandatory installations or even possible discrimination of people based on where they drive.

“What happens if I drive to work back and forth along my usual route, but the insurer thinks this is not a good area of the city?” he asks. “Will we see behavioural pricing for auto insurance reinforcing social stereotypes of where people live, where they drive?”

Others say it will be consumers who ultimately weigh the cost-benefit ratio of UBI products. “Telematics is surveillance technology, no doubt,” says Power.

“The real question is the level of acceptance by consumers of this technology. Does a lower premium represent enough of a benefit for consumers? Does that really demonstrate enough value? I think privacy-conscious consumers would expect more from that deal in how that information is collected, used and disclosed, in terms of transparency and even the level of control they have over that information,” he adds.

BIG QUESTIONS, BIG ANSWERS

Privacy concerns around UBI extend to the world of “big data,” particularly if the information collected is aggregated, repurposed and sold or shared to third parties. In its telematics guidance paper, Morrison & Foerster stated: “Given the explosion of ‘big data’ analytics, the more extensive and varied data that can be collected via a telematics device, the more potentially valuable that data will be to insurers and third parties and the more complex compliance issues may be.”

The sharing of data, even if it is “anonymized,” represents a potential stumbling block for any UBI product. One concern is that insurers “look at all this luscious data and say, ‘Wouldn’t it be great if we used it for targeted marketing or reselling to third parties,’” says Michelle Chibba of Ontario’s Office of the Privacy Commissioner.

The sharing of data, even if it is “anonymized,” represents a potential stumbling block for any UBI product.

“One concern we have when organizations collect and have all this data is what we call ‘function creep,’” Chibba says. “They look at all this luscious data and say, ‘Wouldn’t it be great if we used it for targeted marketing or reselling to third parties.’ That is where there would be a problem from our end,” she notes.

“I always say when it comes to privacy, there is a deal,” says Power. “The deal is that consumers agree to share personal information and receive a benefit. The sharing of that information is related to a specific purpose. If that purpose is altered or revised for any reason, that is when you get into trouble,” he adds.

For insurance brokers, the role of big data in telematics and other offerings often poses more questions than answers. “The problem is we don’t know what is possible when it comes to data collection and usage,” Rose says. “What you couldn’t do six months ago, someone has figured out how to do today. The challenge is in creating the rules to protect consumers when we don’t even know what the game is. It is a moving target, especially if you look at data aggregation,” she suggests.

Desjardins states on its Ajusto website that “Collected Data” — vehicle location, time, device disconnections/re-connections, VIN — from the UBI product are subject to specific conditions. The company offers the following assurances: “We will not use the Collected Data to cancel your policy, surcharge your premium or decline your policy renewal. We will not sell Collected Data to any third parties. We will not use Collected Data to your prejudice regarding an insurance claim you have with us or in any claim that is brought against you.”

However, Desjardins also has an agreement with iMetrik Solutions, a wireless solutions provider, which anonymizes this data. “IMetrik can only aggregate this anonymized data and provide third

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"The problem is we don't know what is possible when it comes to data collection and usage," says Brenda Rose of IBAC's technology committee. "What you couldn't do six months ago, someone has figured out how to do today. The challenge is in creating the rules to protect consumers when we don't even know what the game is. It is a moving target."

parties with general information that cannot be linked to a specific vehicle (for example, aggregated traffic volumes)," the insurer states.

Daly confirms that iMetrik can share data with third parties, including but not limited to municipalities and public safety groups. "Since the program is still quite new, it's difficult to anticipate all of the potential uses for this type of anonymized, aggregated data," notes a statement from Desjardins.

Lawford suggests it is precisely this kind of information that may be of interest to a wide range of organizations, such as government agencies, police and even marketing firms. "Marketers are quite interested in this repackaged information for things like behaviour targeting and location-based ad delivery," he says. "Consumers may not want to be supporting another revenue stream for insurers and their service providers, especially considering it is their information that is being repackaged."

In the brave new world of information sharing, others have expressed concern about how truly "anonymized" or de-identified personal data can be. In particular, data from one source may be made anonymous, but when paired with other existing data sets, it becomes possible to re-identify that data.

"What does the company really mean when it says it has de-identified the data?" Rebecca Herold, a senior consultant with Cutter Consortium, based in Arlington, Massachusetts, asks in a recent paper. "This is a very fuzzy, subjective term. Is such de-identification really removing the ability to point to specific individuals?"

NEED FOR LEGISLATIVE CHANGE

These and other concerns around big data prompted the Office of the Privacy Commissioner of Canada to release a position paper in May 2013 calling for substantial changes to the *Personal Information Protection and Electronic Documents Act*. "As the environment evolves, the risks to privacy continue to grow," the paper notes. "Organizations are using personal information in ways previously unimaginable. While many of these new uses will have the potential to benefit individuals and society, there are risks that personal information may be used in ways that are highly intrusive and offend our sense of privacy."

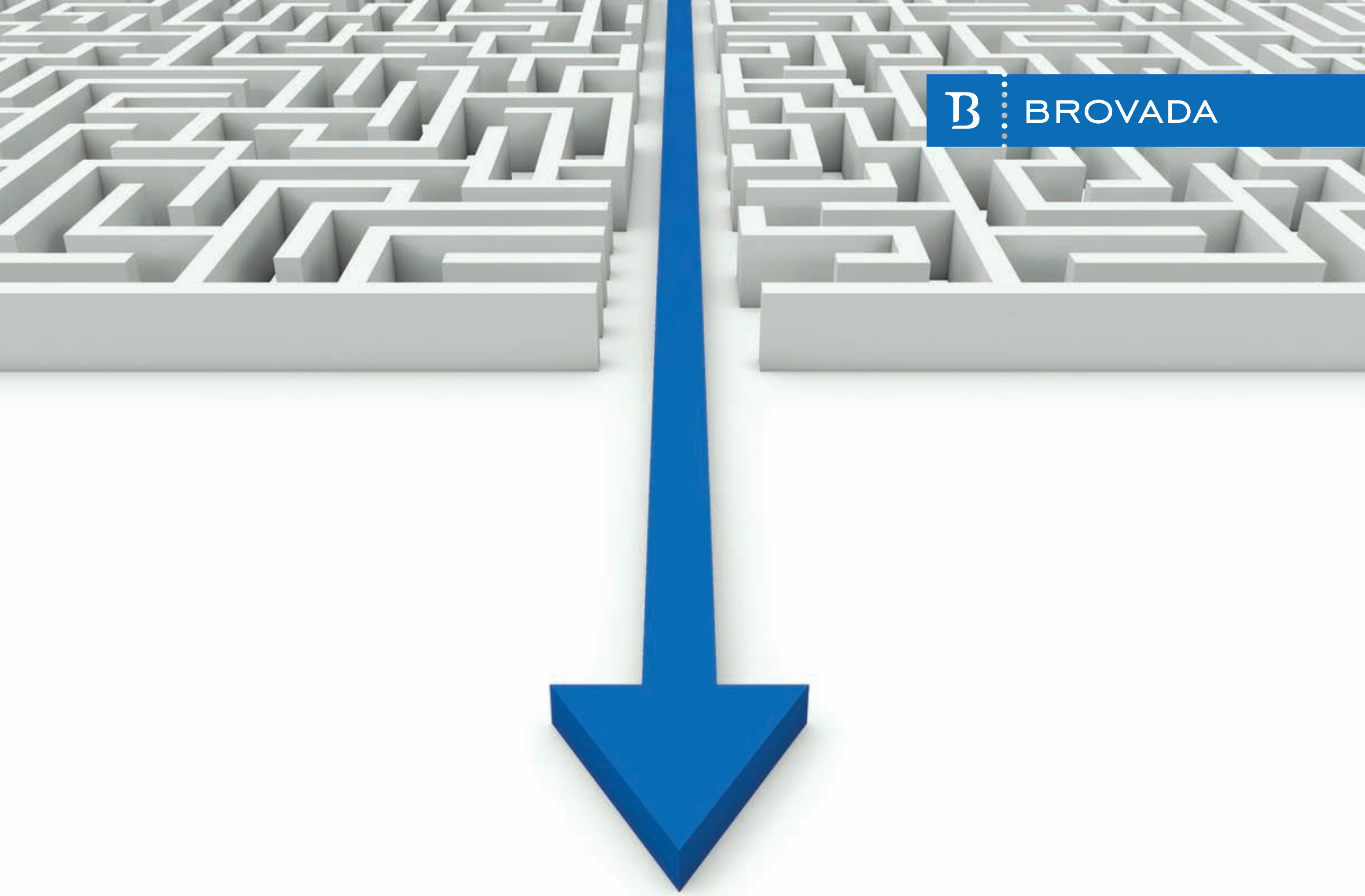
While any wholesale legislative changes will likely take years, Chibba observes that companies continue to have an obligation to their customers, no matter what technology is used. "We say that the ownership of data resides with the individual, and the organization is the custodian of that data," she notes. "In that sense, the organization has responsibility for its practices and for its technology."

That "custodian" role may be expanded as insurers look at other functions and uses associated with telematics. "Further down the road, we anticipate that Canadian providers will bundle other services such as roadside/emergency assistance with their telematics programs — similar to what's now happening in the U.S. and Europe," Daly predicts. "As cars get safer with collision-avoidance systems and better connected through telematics, the impact on the auto insurance industry will be significant."

How insurers collect information, and how transparent they are with the use and aggregation of that data, will be tested by consumers and regulators alike when it comes to telematics and big data.

"As devices like telematics become standard equipment in automobiles, consumer protection will need to evolve and keep pace with the technology it brings," Carroll says. "Consumers will become more comfortable with sharing data over the next few years; we just need to be smart enough not to abuse it. We have witnessed how some industry players abused the use of consumers' credit information and we need to learn from those mistakes and not repeat history in the telematics space," he cautions.

Rose says she has not heard direct feedback to the IBAC telematics principles paper from insurance companies, but is planning to meet with executives about potential UBI offerings in the near future. "We have initially focused on telematics because we know how big that box might be," she concludes. "But stay tuned for big data and predictive analytics."


BROVADA

Knowing the Unknown

Desmond Carroll
Assistant Vice President,
Guy Carpenter Canada

Ice storm, wildfire and flood have all produced costly events in Canada. It used to be that accurately modelling perils such as flood and wildfire for a country like Canada was computationally unfeasible, but today that computational power exists.

The number of natural hazards that threaten insured risks in Canada is extensive. That said, very few of these perils have an industry-accepted catastrophe model.

This raises a number of questions: What motivates the industry to develop a model for a specific peril? How much does the insurance industry's current demand impact the likelihood of development of a new catastrophe model? Which non-modelled peril should be the first to become modelled in Canada?

Three recent catastrophic events illustrate these questions: the 1998 Quebec ice storm, the 2003 Okanagan wildfire, and the 2013 Alberta floods. While all are different events, they each share commonalities. Each event was a national tragedy that resulted in previously unseen losses to the Canadian insurance industry.

The existence of these perils was by no means a surprise to the insurance industry. However, the magnitude of loss from these events was not generally contemplated in companies' disaster scenarios. In each of the aforementioned cases, the natural hazards were largely non-modelled perils at the time of the event.

Despite not being modelled, there is little doubt that the perils of severe winter storm, wildfire and flood were contemplated by insurers before these catastrophic events occurred.

- The Quebec ice storm represented a previously unimaginable extreme for the peril of winter storms, but the hazards of living in a northern climate are well-known to the industry.
- As regards wildfire, across Canada authorities spend $500 million to $1 billion annually combatting this peril. Despite the extraordinary work of the nation's wildfire suppression professionals, the effect of suppression on fires of the scale witnessed in the Okanagan event is minimal and the hazard to insured property persists.

Illustration by Dave Whamond/threeinabox.com

- In terms of flood, Canada has the world's most extensive hydrological network comprising more than 2 million lakes and innumerable rivers and streams. There is a robust history of flood events causing significant damage to insured property in the country.

So, while there did exist an awareness of all these perils prior to significant catastrophic events, they were essentially treated as "known unknowns" in the absence of formal models.

In the wake of each of these events, industry demand for the development of a formal model to characterize risk to an insured portfolio was strong, but the actual response seemingly more lackluster. Of the three perils mentioned previously, only winter storm has received specific modelling attention, and even this was not completed until 2008 (by catastrophe modelling firm RMS).

Given the 10-year period between the event and the release of the model, it is difficult to view this response to market demand for a modelling solution as enthusiastic. It is, therefore, a fair conclusion — given the number of natural catastrophes that have occurred in Canada since 1998 and the lack of models that have been released in response to these events — that any single catastrophic occurrence has nominal influence on the catastrophe models that are subsequently developed.

In fairness to the modelling firms, the development of any catastrophe model that provides an informed view of the risk imposed by a given peril is a difficult undertaking that requires significant resources, financial commitment, extensive research, enormous amounts of data and computational power.

For companies looking to develop Canada-specific models, the hurdles of data and computational processing are usually among the most challenging. The lack of available critical geospatial data sets and historical event information can be incredibly frustrating and can cripple otherwise strong efforts at model development.

Coping with the sheer scale of Canada can also never be understated. With a population rivalling California's, dispersed among an area 24 times larger, it is understandable that some modelling firms simply choose to focus their resources elsewhere. However, industry is starting to see at least some of these obstacles become less daunting for those looking to build models for Canada.

Just a few years ago, the resolution required to accurately model a peril such as flood or wildfire made the task of creating a model for a country like Canada computationally unfeasible.

Today, the computational power exists. However, many of the other challenges linger, making reacting quickly to single events nearly impossible for model developers.

Of the non-modelled natural perils, tsunami, wildfire and flood are commonly cited as having the highest

potential to produce large insured and economic losses in Canada. Following the 2011 Tohoku (Japan) and the 2004 Indonesian tsunamis, many insurers and regulatory bodies began focusing on these perils and made attempts to quantify the exposure that exists in Canada. The largest risk to the country from tsunami would be from tectonic activity along the Pacific Rim, which threatens the Pacific Coast, including the west coast of Vancouver Island.

The key mitigating factor to tsunami risk is the low population density in the most exposed areas; for the City of Vancouver, tsunami risk is considered muted because of the shielding effect of Vancouver Island.

Compared to wildfire or flood, the risk posed to insured value is considered to be significantly lower for this peril. As such, one would expect the tsunami threat to be a lower industry priority than the other non-modelled perils.

Wildfire is a peril that has caused two major losses in the last decade and poses a significant risk to insured values, particularly in the interior of British Columbia and Alberta. The Okanagan and Slave Lake wildfires illustrate the difficulty in suppressing the 3% of wildfires that make up 97% of acreage consumed by wildfires.

The Wildland Urban Interface (WUI) is the transition zone between undeveloped land and developed communities — and it is these areas where the risk is greatest. Efforts such as FireSmart, a government program that aims to mitigate the risk by hardening these WUI communities against wildfire, have proven to be a cost-effective way to diminish the danger. However, widespread adoption of these measures has not been achieved in Canada.

For companies looking to develop Canada-specific models, the hurdles of data and computational processing are usually among the most challenging. The lack of available critical geospatial data sets and historical event information can be incredibly frustrating and can cripple otherwise strong efforts at model development.

Wildfire will continue to pose a meaningful threat to communities that are near the WUI and will continue to prove a difficult peril to effectively mitigate and suppress. As an industry, wildfire is a hazard that is much more on the radar for model development.

At the forefront of many insurance industry professionals' minds is the peril of flood. In a nation with such a high density of rivers and lakes, it should come as no surprise that it ranks as one of the country's most common natural catastrophes. The problem is compounded by the fact that our population centres tend to cluster around the areas where the hazard is highest, and is further complicated by the relationship between overland flood and sewer back-up cover in insurance policies.

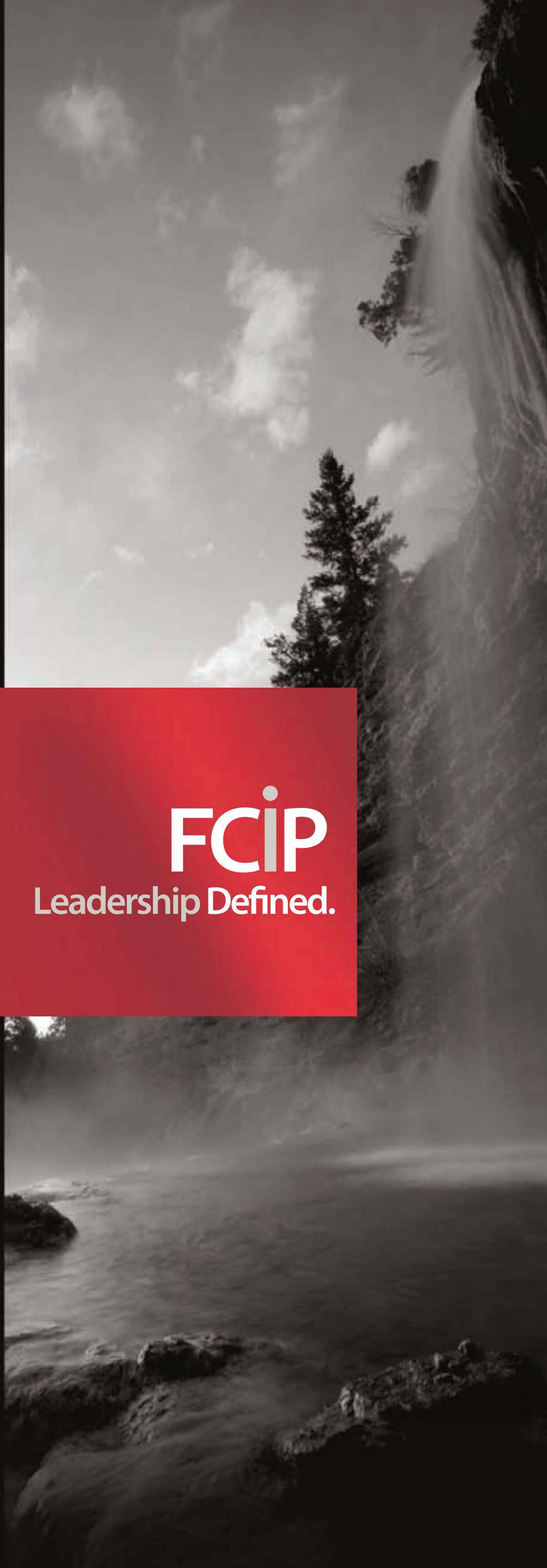
Should overland flood ever be considered as an insured peril for homeowners policies, a viable hazard model is crucial to assist in underwriting the risk, quantifying exposures and better informing reinsurance purchases.

Unfortunately, acknowledging these challenges with building a natural hazard model for Canada, it is not feasible to address all of the currently non-modelled perils concurrently and with equal immediacy. The choice of which peril should be the focus of model builders' scarce resources is, therefore, of immense importance to insurers, as well as to reinsurers, governments, infrastructure decision-makers and even policyholders.

With perfect clairvoyance, industry would pick the next non-modelled peril to create a significant industry event in Canada and devote all attention to understanding it, with the hope of mitigating and managing the impact. However, in practice, retrospective tendencies may prevail.

Regardless, priority will be given to those non-modelled perils that deliver the greatest value to the broadest constituency, while also satisfying whatever incentive exists for those building the models.

Despite the natural bias to place greater emphasis on recent catastrophic events, it is important to step back and consider the decision to model a specific peril — not in the context of which event caused the latest record-breaking loss, but which risk is most likely to be both pervasive and catastrophic in the future.



Feature Players

Robyn Robertson
President and CEO,
Traffic Injury Research Foundation

Vehicle safety features are fast becoming standard equipment on new vehicles. But does a lack of awareness of the features, how they work and what they do threaten to downgrade their potential as crash-prevention tools?

There have been rapid advancements in vehicle safety features in the past decade and these features are increasingly becoming standard equipment on new vehicles. Perhaps more important, the presence of an ever-growing number of safety features has given rise to discussions about the effects of these features on road safety generally, and on auto insurance in particular.

While some proponents suggest the inclusion of new features will substantially reduce road crashes, others are less sure.

To better understand public knowledge, attitudes and opinions about safety features — and how the public interacts with them — the Traffic Injury Research Foundation (TIRF) partnered with the Toyota Canada Foundation (TCF) to undertake a national public opinion poll on this topic in 2011. A follow-up poll was conducted in 2012, with funding from TCF, the Brewers Association of Canada and Aviva Canada.

Each poll included questions about six different safety features, including anti-lock braking systems (ABS), traction control (TC), electronic stability control (ESC), brake override, brake assist and electronic brake force distribution (EBFD).

In the 2011 poll, 2,506 Canadians responded to a survey (about two-thirds online; one-third by phone) containing 120 items. The national sample was stratified by province and weighted according to gender and age to avoid bias and to ensure that the sample was representative of the national population. Based on the sample size, results are considered accurate within 2%, 19 times out of 20.

The 2012 poll, for its part, involved a subset of questions about vehicle safety features that were part of a broader survey involving 903 Canadians. The results are considered accurate within 3.3%, 19 times out of 20.

Both polls revealed public knowledge of vehicle safety features is low in relation to most features, with just a few exceptions. The feature most respondents reported being familiar with was ABS. Specifically, 71% agreed or strongly agreed they were familiar with the feature in

Although a majority of Canadians rank safety as a top priority influencing vehicle-purchasing decisions, as features are more rapidly added to vehicles, it will likely become more challenging for drivers to keep pace.

2012 and 80% in 2011, a statistically significant difference. For TC, 50% of respondents agreed or strongly agreed they were familiar with the feature in 2012 and 54% in 2011.

The finding is perhaps not surprising since both features have been around for much longer than some of the others cited in the surveys.

With regard to the remaining safety features, 34% were familiar with ESC in 2012 compared to 31% in 2011; for brake assist, 33% in both 2012 and 2011; for EBFD, 24% in 2012 compared to 31% in 2011 (a significant difference); and for brake override, 22% in 2012 compared to 17% in 2011 (again, a significant difference).

Of some concern, familiarity with ABS and EBFD was actually significantly lower in 2012 than in 2011. More years of data, however, are needed to determine if knowledge of these safety features is improving or not.

The profile of those who agreed or strongly agreed they were familiar with safety features was further investigated. Factors examined included gender, age, the number of kilometres driven in a typical month, urban or rural residence, and whether or not the driver has ever been injured in a motor vehicle collision.

For all six safety features, being male increased the likelihood of agreeing or strongly agreeing there was familiarity with the feature. With regard to ESC, TC and ABS, results indicate having reported driving more kilometres in a typical month also increased the likelihood of reporting being familiar.

Finally, for ESC, TC and brake assist, having ever been injured in a motor vehicle collision increased the reported likelihood of being familiar with these features.

FEATURES OF NOTE

While knowledge and awareness of all safety features is important, there are certain ones that have significant potential to reduce crashes and that target a broader range of driving situations that can occur more frequently.

For example, ESC is an active safety feature to help reduce the number and severity of collisions resulting from a loss of control. The Insurance Institute for Highway Safety in the United States has reported that ESC decreases fatal single-vehicle crash risk by 49%, and fatal multiple vehicle crash risk by 20% for both cars and SUVs. Such findings led Transport Canada to introduce a new *Canada Motor Vehicle Safety Standard* requiring ESC to be installed on most vehicles manufactured after August 31, 2011.

ESC systems, which go by a number of different names, can reduce the danger element in several fairly common driving situations, including the following:

- a large animal appears on the roadway and the driver must take action to avoid a collision;
- inclement weather or poor road conditions make skidding and sliding more likely;
- a driver approaches a curve too quickly, forcing the driver to steer more aggressively;
- the vehicle in front of a driver suddenly changes lanes, forcing the driver to make a quick, evasive move; and
- an unanticipated event forces a driver to swerve quickly.

ESC has been shown to be very effective in providing traction and anti-skid support in situations where, without the feature, control of the vehicle would be lost. This is noteworthy since motor vehicle crashes involving drivers who lose control of their vehicles often have severe consequences, including road departure, collision with objects near the road and rollovers.

ESC is designed to be particularly useful in cases of over- and under-steering (i.e., the vehicle continues to turn beyond the driver's steering input because the rear end is sliding outwards or the vehicle turns less than the driver's steering input because the wheels have insufficient traction).

Although a majority of Canadians rank safety as a top priority influencing vehicle-purchasing decisions, as features are more rapidly added to vehicles, it will likely become more challenging for drivers to keep pace. Their awareness of safety features, how they work and what they are designed to do will be essential to ensure the potential benefits are realized in terms of crash reductions.

BAD BEHAVIOUR

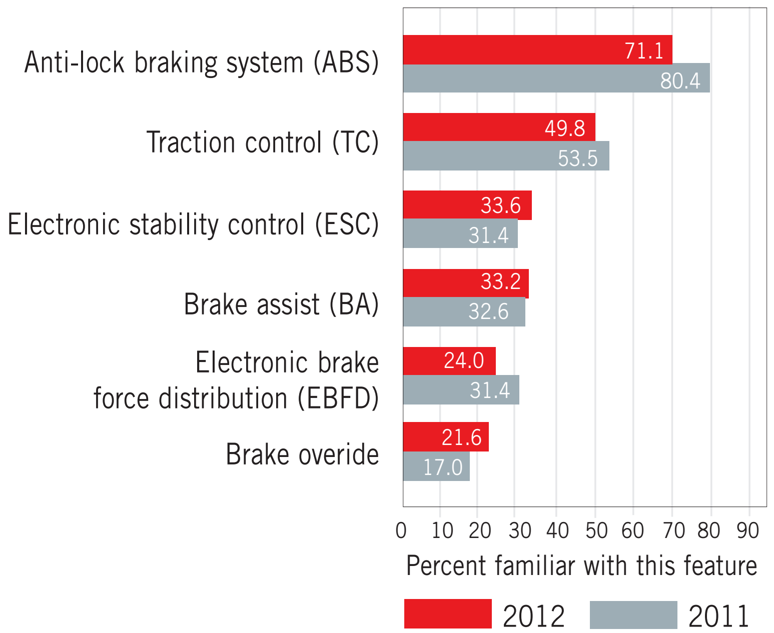
It cannot be overlooked that drivers play an important role in maximizing the protection features can offer. For example, brake assist was developed because studies demonstrated that when making emergency stops, about half of drivers do not press the brake quickly or hard enough to make full use of the vehicle's braking power.

The feature can help drivers come to a stop more quickly by ensuring that the maximum braking power is applied during emergency braking. That said, if the driver is tailgating, following another vehicle too closely or is distracted, he or she will not only have less time to react, but the feature may not be able to function as intended to help avoid a collision.

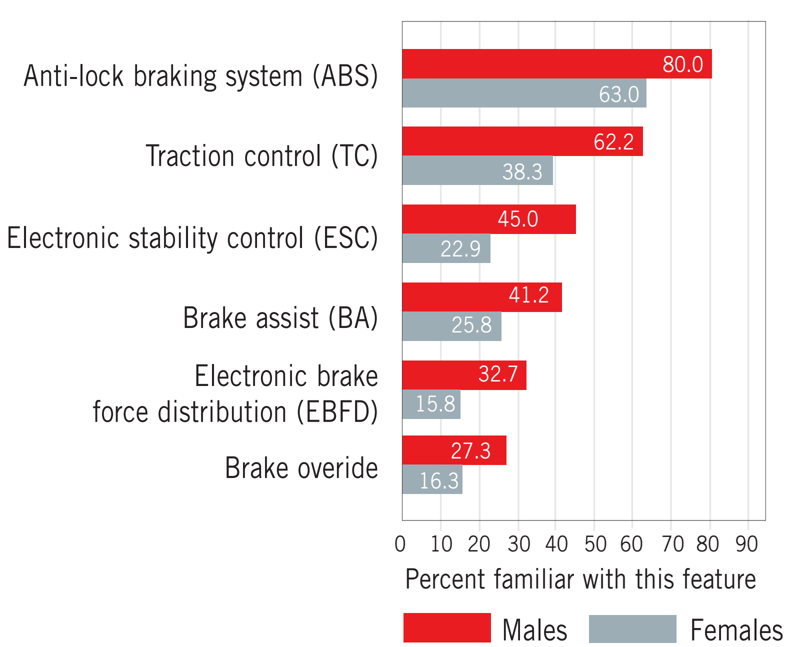
Of concern, the 2011 poll revealed a minority of drivers are more likely to engage in risky driving behaviours as a


EXPERIENCE...

Canadians Familiar With Various Vehicle Safety Features



Profile of Canadians Familiar With Safety Features



result of having safety features on their vehicles. One explanation for this phenomenon is "behavioural adaptation," meaning that some drivers will modify their driving habits in response to new information about traffic and vehicle safety features that they think influences crash risk.

The problematic end result is some drivers may drive less carefully because they believe they are safer.

As evidence of this, when respondents were asked whether or not they would drink and drive if their vehicle was equipped with modern safety features, 7.5% of those polled said they would be likely or very likely to do so, compared to 3.2% who reported that they currently often drink and drive.

Other examples of behavioural adaptation noted in the findings include that 13.1% of drivers said they would be likely to tailgate others if their vehicle had safety features, and 20% responded they would be likely to drive while tired or fatigued if their vehicle had safety features. These self-reported frequency ratings represent telling increases from the number of drivers who currently admit to tailgating or driving while fatigued, namely 8.6% and 16.0%, respectively.

To improve knowledge and awareness among Canadians, TIRF has partnered with the TCF to create BrainonBoard.ca, a web-based program. Also available in French, the program offers information about vehicle safety features, and how to maximize the protection they provide by combining them with safe driving behaviours.

To accrue the potential crash-avoidance benefits of safety features, it is critical that drivers know what safety features are available on their vehicles and what they do. Some organizations have proposed that the need for auto insurance may diminish as a result of advanced vehicle safety features among other factors. But the two polls suggest more work is needed to increase knowledge and awareness among Canadian drivers in order for significant reductions in crashes to become a reality.

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Close to Home

Ryan Michel
Vice President and Chief Risk Officer, Enterprise Risk Management, Allstate Insurance Company of Canada

Condo unit owners may be unwittingly risking their homes. A lack of understanding about home insurance policies can cause homeowners to be under-insured, a situation that should be top of mind for leaders in the industry.

Condo ownership has skyrocketed in metropolitan areas across Canada over the past three decades. Between 1981 and 2006, the number of homeowners who owned condos increased more than five times, the Canada Mortgage and Housing Corporation notes in its September 2012 report, *A Profile of Condominiums in Canada*, 1981-2006. Today, condos are the fastest-growing housing sector in many cities across the country, with new condo builds reaching an all-time high in 2012, adds the *Metropolitan Condo Outlook: Winter* 2013, released by The Conference Board of Canada and Genworth Canada.

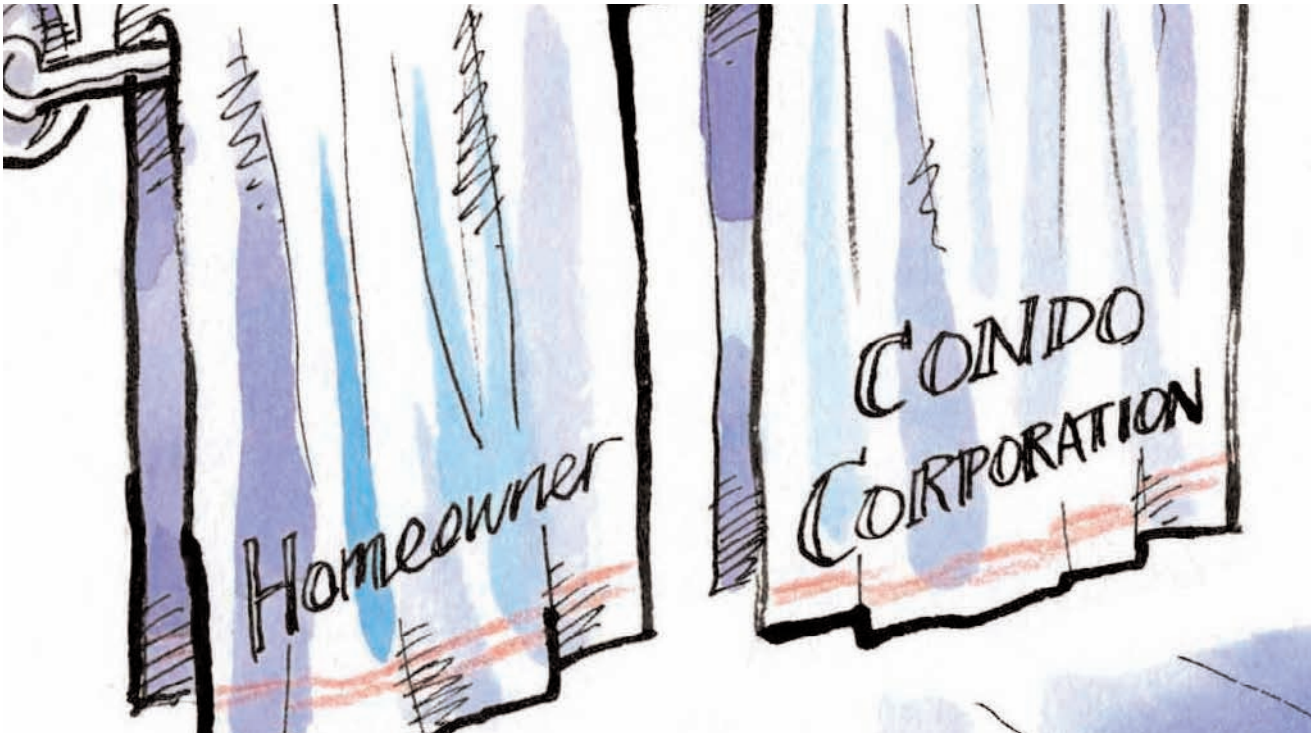
Anyone reading the news about real estate development over the past few years will have noticed that many people in the financial and real estate industries are concerned about overdevelopment of urban areas. Others have been predicting the timing and size of a great burst in the housing market bubble.

One thing that has not been discussed at length is the lack of understanding that owners have about their condo insurance.

Allstate Canada and Abacus Data recently conducted a poll to see what Canadians do and do not know about their insurance. The results show that the majority of people polled across the country are not sure what their condo insurance covers. Below are some findings:

- 61% of Canadian condominium owners taking part in the poll do not know or incorrectly assume their building's insurance will cover damage to another unit from water or fire that originated in their unit;
- 74% of respondents looking to purchase a condo in the next few years do not know what their personal insurance should cover versus what the condo corporation's insurance should cover;
- only 39% of condo owners and 26% of condo buyers polled know that the belongings of a roommate or boarder are not covered under their personal condo insurance policies; and

Illustration by Dave Whamond/threeinabox.com



- 21% of condo owners taking part in the survey are not aware that the condo corporation's insurance is responsible for incidents, such as falling concrete and shattering glass from condominiums.

Not understanding home insurance policies can result in costly repairs and damages that these buyers may not be able to afford. In short, Canadian homeowners' lack of knowledge could cause them to be under-insured and this should be top of mind for leaders in our industry.

QUESTIONS TO ASK

What does this mean?

Condo owners need two types of insurance. One — provided by the condo corporation — covers damage to the building itself and liability in common areas. The other — purchased by the homeowner — covers the contents of his or her home and protects against personal liability.

If condo owners do not have sufficient coverage, if they are not asking the right questions of their condo corporations, or if they do not understand what they are responsible for, then they could be at risk. As industry leaders, it is important to take on the responsibility of educating customers about their insurance and, more specifically, about their condo insurance.

Why do condo owners need two types of insurance?

Customers need to know that there is a difference between insuring a home and insuring a condo. Condo owners are more likely to be directly affected by what happens in their neighbours' units than they may be in a house.

Recently, the trend seems to be condo corporation policies with significantly increased deductibles, a move that places a responsibility on the unit holders beyond what the policy may have traditionally provided.

Allstate Canada's data shows that the most frequent claims made by condo owners are the result of water damage, and the most costly are the result of a fire. It is important for insurance providers to advise their customers to find out what the condo corporation's insurance covers and what their insurance needs to cover.

A decade ago, the big issue in condo insurance was betterments and improvements, and making sure customers had sufficient insurance to replace or repair costly upgrades they may have added to their condos. Recently, the trend seems to be condo corporation policies with significantly increased deductibles, a move that places a responsibility on the unit holders beyond what the policy may have traditionally provided.

Insurers need to make sure that customers are protected in the event their condo corporations assess them with a portion of the deductibles.

A condo owner's personal policy will cover the inside of their unit, their belongings and their liability to others in the building. In some cases, personal condo insurance can also cover the homeowner for unforeseen expenses that result from the condo corporation's coverage coming up short.

How can condo owners avoid getting themselves into trouble?

Although the answers to several important questions about insurance could save people from headaches and unforeseen expenses when purchasing a condo, many Canadians do not know what they should ask. For example, consider the following survey results:

- When purchasing a condo, only 34% of Canadian condo owners and 45% of buyers polled asked the condominium corporation if it had recently increased its requirement for what should be covered by a condo owner's personal insurance. After a high number of a certain type of claim, the building may no longer be eligible for a particular type of coverage, and so the onus may fall on the owners.
- Only 32% of owners and 48% of buyers taking part in the survey asked if the condo corporation had ever raised the deductible on their insurance. Knowing the condo corporation's deductible — which may have been increased to save premium costs — is critical in obtaining adequate personal condo coverage.
- Only 22% of owners and 44% of buyers who responded asked if the cost of their condo corporation's insurance premiums have ever gone down. Prospective buyers should be wary of any buildings with large deductibles and a high number of claims made in recent years, which could indicate the building's ability to be insured could be in jeopardy.

INSURERS CAN TAKE THE LEAD

To reduce the threat of being underinsured, insurance providers can explain what is not covered under regular contents coverage. Each condo corporation will have a unique insurance policy and it is important that condo owners are made aware no two buildings are alike.

Condo owners are encouraged to take an inventory of all their belongings. Doing this as they determine the limits for their coverage will ensure they are adequately covered. A common cause of under-insurance is the customer not realizing the total value of all belongings.

Homeowners need to be made aware of whether or not their items in storage, their car in the underground or their bicycle outside are covered by the condo corporation's insurance policy or their personal insurance policy. If condo owners plan to rent their home, they should also ensure tenants have insurance to cover their personal items.

Condo buyers should be reminded that not all people involved in the real estate process will understand the complexities of condo insurance. Asking for advice and information from professionals who do not work in the insurance industry is not recommended.

Current and future buyers should seek advice from people with specialized insurance expertise, not just those who may be familiar with the home-buying process.

As well, prospective condo owners should be sure to include the cost of home insurance in their home-buying budget and take a look into the financial health of the building in which they are interested.

So Far,

So Close

What is the deal with small business insurance and the direct channel? While personal lines insurance has served as the face of the changing distribution landscape to date, opportunities exist for innovative commercial carriers to leverage the online channel to their competitive advantage.

James Colaço
Senior Manager, Monitor Deloitte, and Leader in Deloitte's P&C Insurance Practice

In the past decade, the overwhelming rise of online channels has changed the distribution landscape of personal lines insurance, while commercial insurance products are still largely sold through intermediaries, seemingly immune to the sweeping trend of direct distribution.

But the landscape is slowly changing. In the next five to eight years, indicators are that there will be an opportunity for innovative commercial carriers to leverage online channels to target young, tech-savvy small business entrepreneurs with commoditized "micro" commercial products.

Independent brokers have traditionally controlled the distribution of property and casualty (p&c) insurance products.

The dominance, however, is fading steadily. In Canada, independent brokers' substantial market share of 62% in personal lines premiums written in 2012 has also been their all-time low, due to a steady decrease of 0.5%, year-over-year, for the past 22 years.

The rise of the alternative distribution channel is mainly attributed to the advancements in online technology, combined with a significant shift in consumers' preferences and expectations. The shift is expected to accelerate as the Generation Y and Millennial consumers are replacing the Baby Boomers and the Generation X in the insurance market.

However, the change has not affected all lines of business equally. In personal lines — and specifically personal auto — where products are highly commoditized, online distribution is fast becoming the prevalent method of purchase.

In sharp contrast, in commercial lines, the combination of complexity of insurance products and the diversity of consumers' needs has accentuated brokers' value proposition as the trusted insurance advisor. Consequently, independent brokers distribute 96.3% and 73% of commercial insurance products in Canada and in the United States, respectively.

To foresee the future of the commercial insurance market, the banking industry may be viewed as a viable case study. More than a decade ago, commercial banking served small businesses through commercial banking channels. This meant that, in some cases, entrepreneurs would make the trip to visit large mahogany-lined banking offices to apply for a working capital loan. However, innovative banks discovered that their small business portfolio can be better-served using the retail banking operating model.

The paradigm shift occurred as banks realized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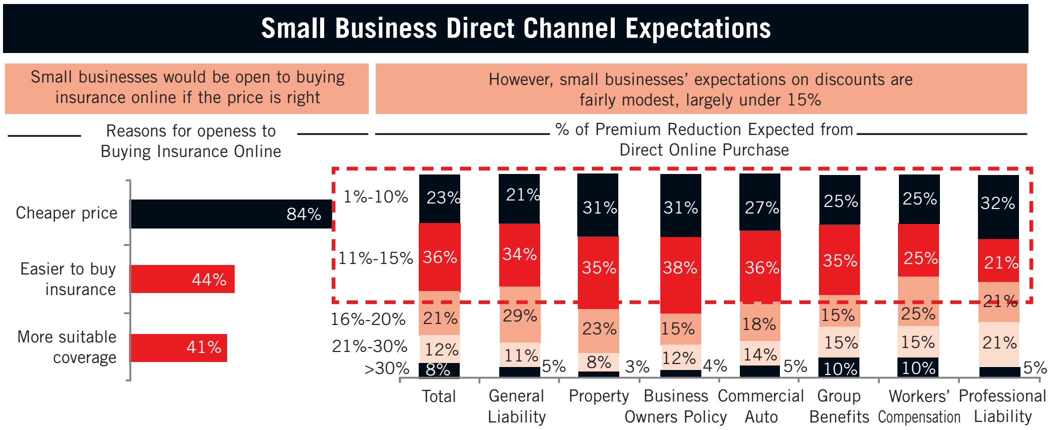


the transaction intensity and relationship preference of small businesses were closer matched to behaviours and preferences of retail customers, rather than larger commercial accounts. For example, small business owners were increasingly supplementing the branch channel with telephone, ABM and Internet banking — much like retail consumers.

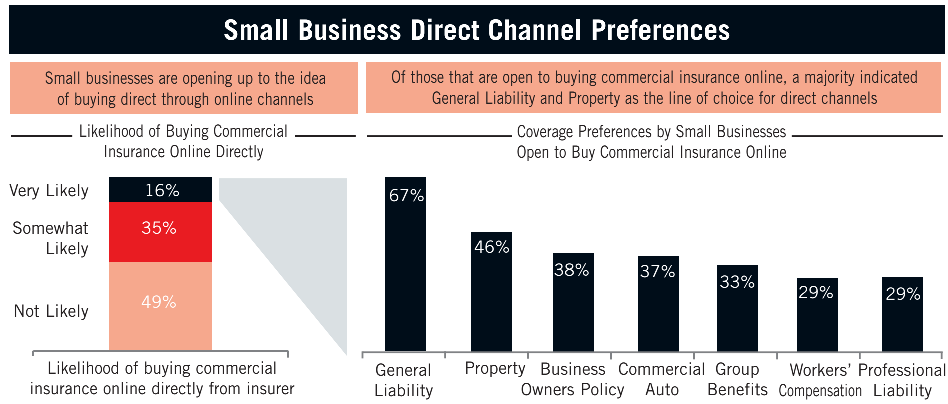
As a result of realizing this demand for direct access, banks started to serve small businesses in a markedly different fashion. Small businesses were provided with online and mobile access, as well as in-branch service through dedicated small business advisors.

The back office operation was also modified such that small business transactions were serviced with retail banking infrastructure.

In addition, recent innovations such as mobile apps, social media networks, and new options for transactions (e.g., short message service, text payments and mobile swipe payments) were developed to cater to this segment.

In the United Kingdom, for example, a large high street bank has introduced a successful Business Internet Banking application, which was optimized for tablets and smartphones. The capabilities of this application include bill payments, foreign currency account balances, and balance and statements for the commercial card.

The track record of the banking indus-

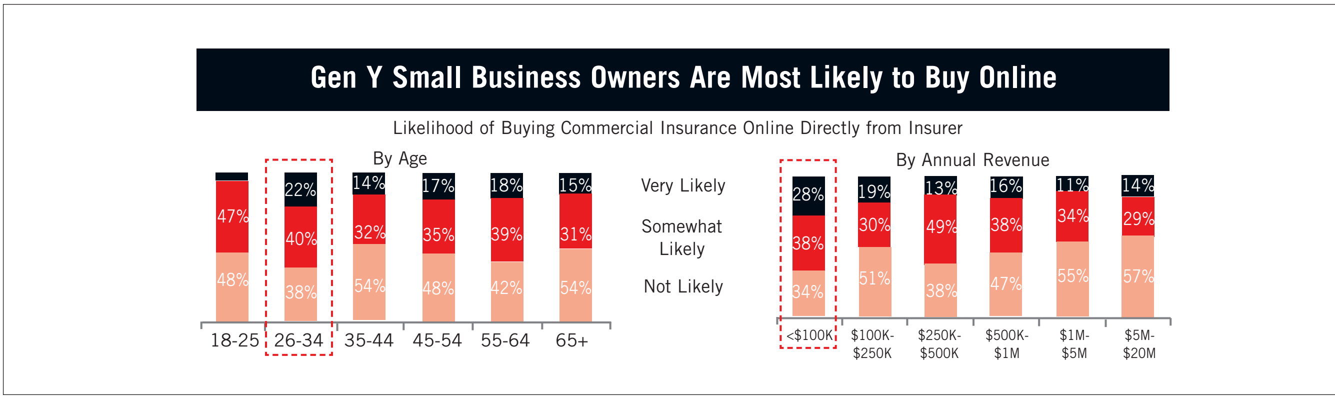


try is a positive gauge that the same can potentially be achieved in the insurance industry. Experience indicates that the global insurance industry follows banking by a lag of five to 10 years. Hence the change, although not imminent, may be on the horizon.

Deloitte has studied the U.S. market for signals of change in small business owners' appetite for buying insurance online. A recent survey based on 751 small business owners in the U.S. found that there is a sizeable segment willing to use the direct channel for buying insurance products. Further, the study revealed the likelihood of interest is hinged on three factors: the size of the business, the age of the business owner, and the type of the required insurance products.

The findings illustrate that more than half of the respondents are open to the idea of buying through online channels, with 16% reporting "very likely" and 35% "somewhat likely" to buy commercial insurance online. Of those, a majority indicated general liability, commercial property and the packaged Business Owners Policy, commonly referred to as BOP in the U.S., are the top three products of choice to purchase directly.

In terms of business characteristics, the study found that small businesses run by younger entrepreneurs are more likely to buy insurance online. More than 60% of young small business owner respondents aged 26 to 34 indicated



interest in buying directly, whereas the comparable ratio for their older counterparts is about 50%.

In terms of revenue size, findings show that small businesses with less than $100,000 in annual revenue are significantly more likely to buy insurance directly — 28% of smaller businesses with less than $100,000 annual revenue reported being "very likely" to buy insurance directly, compared to about 15% for small businesses with $100,000 to $5 million annual revenue.

Further, 84% of respondents indicated a "cheaper price" is the major reason that they are willing to buy small business insurance online. However, their expectations on discounts are fairly modest, largely under 15%.

The results of the U.S. survey, Deloitte believes, is applicable to the Canadian market. The structure of insurance distribution in the U.S. has striking similarities to that of Canada, in that the significant majority of commercial insurance products are distributed through independent brokers and the market share of direct online channel is low (7.3% of p&c products in the U.S. are distributed online in 2011).

Moreover, Deloitte's research shows that both Canada and U.S. markets are composed of nearly the same percentage of small businesses. Defined as having fewer than 100 employees, small businesses constitute 98% and 99% of the U.S. and Canadian markets, respectively. For micro businesses — defined as having four or fewer employees — the percentages are 55% for Canada and 56% for the U.S.

However, there are differences that need to be acknowledged: there is a "technological maturity gap" of five to 10 years between leading Canadian and U.S. insurers. Moreover, there exists a higher degree of risk aversion among the business owners on the northern side of the border.

Deloitte's *Business Attitudes Survey* of 2011 shows that not only do more Canadian business owners fall into a "risk avoiders" category, Canadian "risk avoiders" are significantly less likely to plan to increase revenues from innovation than their U.S. counterparts. This would suggest technology adoption rates that lag those of U.S. small businesses.

As a result, both the attitude of the market and the reaction of the insurers can be expected to follow that of the U.S., albeit with a sizeable delay.

It should be noted that despite the small business market's positive attitude toward direct channels, the survey also revealed significant barriers that may hold many small business owners back. Lack of trust is the major one.

About two-thirds of surveyed small businesses indicated they do not trust an insurance company to deal with them fairly. Some other concerns include not receiving enough individual services, failing to properly assess the financial stability of insurers, not having an advocate in case of claims, and not having time to shop on their own.

All of these reasons suggest that the broker value proposition as trusted insurance advisors resonates strongly with small businesses.

However, some innovative insurers have already attempted to bridge the barriers, successfully. In the U.S., for example, one insurer has already launched a professional liability product through its website. This carrier offers real-time online quoting and purchasing of the policy, as well as online claims reporting capabilities. In addition, it has strengthened its presence in the social media space in order to engage customers and create value through providing relevant data to small business owners.

Another indicator of change is the move by some leading commercial carriers to offer commoditized small business products through E-aggregators, both in Europe and in North America. This may indicate an acknowledgement of small business owners' changing preferences, as well as willingness of insurers to test this emerging opportunity before committing to the up-front investment required to build proprietary capabilities.

Deloitte's perspective is that there is a growing segment of small business owners who are ready to embrace the online channel for their commercial insurance needs in Canada. Research shows that micro businesses and young entrepreneurs are inclined toward direct channels, provided that part of the distribution savings is passed on to them in the form of lower premiums.

Although it may take five to eight years for small business buying preferences to change and for commercial carriers to build the required capabilities (e.g., product design, infrastructure, business model), winning companies, looking to differentiate in this highly competitive yet profitable space, should and will invest ahead of the pack and focus on this opportunity to succeed.

The author wishes to thank Mehrad Ahari, senior consultant, Monitor Deloitte, for his help with researching this article.

Restoring Value

Greg Meckbach
Associate Editor

As homeowners put more money into their basements, including equipping these spaces with finer finishes and electronics, water damage is becoming more expensive. Restoration contractors, however, say that if they can get to a property soon enough, most damage can be repaired and heavy losses avoided.

When residential properties are damaged by water, most losses can be repaired if they are dealt with quickly enough. That said, things like wood paneling, fibreboard and other man-made products are more vulnerable to water damage than natural materials, some restoration contractors say.

"There really aren't many losses that are not repairable," Michael Flatt, co-founder and chief executive officer of First General Services, says of residential water damage claims. "The only time you wouldn't want to repair something is when the cost of repairing it is more than replacing it."

In the 30 years that Flatt has been in the property restoration business, he estimates that fewer than 1% of residential property claims are total losses.

Natural products — such as stone, tile and hardwood flooring — "are a lot more resistant and resilient" to water damage, says Sean Hobson, senior vice-president of sales at FirstOnSite Restoration. "Man-made products are a lot less," Hobson notes, adding that man-made products which are not as resistant to water damage include paneling, laminate flooring, underlay and medium-density fibreboard (MDF).

"It is extremely heavy, but once it gets wet, it swells up like sponge," Hobson says of MDF — which, essentially, is manufactured by gluing together small particles of wood. "Often times, if you can't get to it quickly enough, it has to be replaced. But most times, if we get to stuff fast enough, we can restore it."

Of course, there are exceptions. Consider what happened last June in Alberta, after flooding caused what Property Claim Services Canada estimates will be the most expensive natural disaster in Canadian history — at $1.7 billion — when measured by insured property losses.

Illustration by Dave Whamond/threeinabox.com

"You get total losses from things such as, in Calgary, overland flooding," Hobson says, reporting that total losses in overland flooding can occur when there is hydrostatic pressure around a foundation or when the water level gets so high that it affects more than one floor.

"If you throw in the conditions we had in Alberta — the mud and eight feet of water with sand and silt in it — you're pretty much ripping and tearing everything out," says Jeff Hall, regional manager for Eastern Canada at On Side Restoration Services. "Even electrical and mechanical systems are gone, at that point," Hall says.

In Alberta, brokers from Western Financial Group spent a lot of time discussing policy wordings — such as the definition of a two-foot and four-foot waterline — with policyholders, says Teresa Bristow, the brokerage's executive vice president.

Bristow suggests, however, that brokers also need to speak with policyholders before a catastrophe. "Having those discussions with our customers in advance of the claim — so that they understand the level of coverage they have, what is excluded and what is restricted — is very important."

It is also important to move quickly to a property with water damage because that can make the difference between a repairable and a total loss, restoration contractors suggest.

"Speed solves all problems," Flatt says. "If you get your policyholders to report a claim promptly, especially if it's water, there should be nothing preventing you from saving the home. If you get to the home quickly and you find a lot of issues, that will tell you that something has been happening for some time and there's going to be an issue with coverage," he adds.

MOULD COUNTER

As one example, Flatt points out that if a restoration contractor responds to a water damage call the same day and finds a lot of mould, "that would imply that something has happened before, because mould doesn't grow that quickly."

Mould will usually start to grow after about 48 hours, "especially if there is little to no movement of that water," says Hobson. "Typically, the first few hours are the most critical time. If it happens to be clean water, and it's sitting for 48 hours, it's starting to draw up the dirt, the sediments of the room it's sitting in. It could be from the furniture, it could be from the concrete, it could be from the carpet. Within a very short time frame — 24 hours or less — it starts to switch over to that dirty water appearance."

Flatt notes that if a restoration contractor responds to a water damage call the same day and discovers a lot of mould, "that would imply that something has happened before, because mould doesn't grow that quickly."

A build-up of mould could mean the difference between a repairable loss and a total loss.

"If mould gets into all these nooks and crannies and cavities because water sits in the home for a period of time, sometimes it's more effective to tear the house down than to save it," Flatt says.

For appliances, Hobson notes, these can normally be repaired, "as long as people don't turn them on when they are sitting in the water."

Flatt says that First General Services aims to get workers to water damage claims within two hours if emergency services are required. "If it's a conventional claim where you don't need any emergency services, we're going to aim for within the day," he says.

Brokers, for their part, can advise clients as to whether or not a claim would be covered and what the deductibles are, Flatt says. Brokers can also make recommendations to policyholders on what they can do to prevent water damage before an incident occurs, adds Greg Robertson, vice-president and commercial producer with R. Robertson Insurance Brokers Ltd. in Toronto.

"Installing sump back-up batteries," is one example, Robertson notes. Extending the downspouts on driveways and backyards, getting the water away from the house, checking on the basement frequently, making sure to clean out eavestroughs to prevent water from pouring over the sides, and checking the grading around property are all things that can be done, he advises.

One of the biggest incidents that Robertson Insurance Brokers dealt with in the Toronto area was the aftermath of the July 8 deluge. Published reports indicate that 126 millimetres of rain fell at Toronto Pearson International Airport that day, while Environment Canada records suggest the normal rainfall for the entire month of July is 74.4 mm.

PCS Canada's preliminary estimate of insured property losses from the rain event is $850 million — greater than the 2011 wildfire in Slave Lake, Alberta and the August 2005 rainstorm in Toronto.

"As these storms continue to get more and more sudden and violent, this is going to continue," Robertson says of exposure to water. "As long as basements move away from rumpus rooms of the '60s and '70s — where you had inexpensive wall boarding and inexpensive carpet and inexpensive furniture — to these basements that are starting at $30,000 and going up to $100,000, these are the changes that are causing this rapid change in the insurance industry," he adds.

TECH*Ready*

Jim Charron
Practice Leader,
Technology,
Middle Markets
Commercial,
Zurich North America

Middle-sized Canadian software companies are accounting for much of the recent growth in the information and technology communications sector. Knowledgeable brokers and insurers can work together to customize solutions that address tech companies' complete pictures of risk.

The booming tech industry in Canada is generating more than revenue for the country's economy. It is also generating risk exposures — exposures that can be minimized, however, with appropriate risk management and insurance expertise.

Since 2007, Canada's information and technology communications industries have accounted for 7.5% of the Canadian GDP growth, notes a report released by Industry Canada in March. Further, between 2007 and 2011, the information and technology communications sector grew faster than the Canadian economy overall, adds the same report.

Interestingly, middle-sized Canadian software companies are accounting for much of that growth, thanks to few barriers to entry and minimal start-up costs. Despite this growth, though, the middle market seems to be underserved by forward-thinking global insurance coverage that addresses today's and tomorrow's risks, as well as companies' current and future business models and offerings.

RISKS REGARDLESS OF SIZE

From Zurich Canada's perspective, this is a real problem considering that middle-market tech companies ultimately face the same risks that larger entities face, like data security and privacy breaches, global competition, supply chain disruption and reputation damage should their businesses be unable to deliver promised products or services. More specifically, tech companies are especially worried about certain risks.

Cloud Computing

Operating in the cloud is all the rage in today's business climate. Companies from every sector, including technology, are moving their data from on-site servers to the cloud for storage. This elicits multiple risks.

First, the question of who is responsible for the data (the tech company or the cloud provider) might arise if a data breach or other event occurs. Uncertainties regarding the cloud's security and its ability to stave off the hacking of personal information also warrants extra protection if businesses do not want their reputations damaged in the event of a security breach.

Big Data

More data is being collected now than ever before. Big data is currently a $15-billion industry, expected to grow to $45 billion in the next five years.

Within all that unstructured data, is some intellectual property, personal information, maybe even some embarrassing commentary. Should that data be hacked and leaked, the negative implications for a company's reputation could be enormous. Further, companies could find themselves out of compliance with varying provincial and international regulations as to how such data may be collected and used.

Mobile Technology

Because of mobile devices, more people have seamless access to data than ever before. As a result, technology companies' IT departments have to protect their businesses beyond the bricks and mortar locations where they work.

Not only is it difficult for IT to keep up with all the evolving systems and devices used by their companies, insurance policies have not necessarily kept pace with the evolution in mobile technology either. Policies might neglect to cover breaches stemming from smartphones or tablets.

And while executives at mid-size and large tech companies have similar worries keeping them up at night, mid-size companies might be even more vulnerable to such exposures since they often operate with fewer resources to solely manage their risks.

Those vulnerabilities make it that much more critical for tech companies and their brokers to ensure adequate risk management practices and insurance are in place to protect them from all the emerging risks they face on a daily basis.

Such protection does not come in the form of standard insurance policies, though. Instead, Canadian technology companies need specialty insurance offerings that protect their reputations from risks involving cloud computing, mobile device usage, big data applications, and more.

Brokers will differentiate themselves if they take the time to understand the needs, goals, emerging exposures and emerging business models of tech companies. Brokers should be contemplative, aiming to be providers of long-term solutions, not just current insurance products.

Tech companies would benefit from general liability coverage, including coverage for their own Internet and multimedia services; errors and omissions (E&O) and media liability policy endorsements that include first- and third-party coverages for privacy and security; and property coverage endorsements that incorporate original information property, research and development, and electronic vandalism coverage.

Zurich has tried to reflect these issues as part of its September release of a new suite of insurance solutions geared at the needs of mid-size technology companies. The suite, which includes more than 20 technology risk coverages based on the industry's risk profile, seeks to ensure a holistic and comprehensive global insurance program.

THINK GLOBAL

International coverage is seen as beneficial to tech companies. That coverage should encourage compliance with global licensing laws and regulations; offer local property, general liability and E&O compliance coverages for international operations; and provide cross-border U.S. coverage.

Finding such coverage necessitates enlisting knowledgeable brokers and insurers to customize solutions that specifically address tech companies' complete pictures of risk.

Brokers will differentiate themselves if they take the time to understand tech companies' needs and goals, as well as how these emerging exposures and emerging business models are presenting new risks. Brokers should be contemplative, aiming to be providers of long-term solutions, not just current insurance products.

Brokers should also be collaborating with insurers that are well-acquainted with the evolving nature of the technology industry, including current trends and emerging risks. Quality insurers will review technology clients' risks in the context of their unique business goals and develop seamless insurance solutions that are carefully tailored to their risk tolerance.

Brokers' technology clients will see tremendous benefit from aligning with a well-respected insurer that helps them understand exposures, identify vulnerabilities, hazards and triggers, and predict the probability of a data loss. Such insurers will allow organizations to focus more on pursuing their business.

The tech world is a competitive environment. Any disruption or shortcoming provides competitors an opportunity to earn more solid footing in the marketplace. As such, technology companies need robust risk management programs and proper insurance coverage that drive business resiliency, reduce total cost of risk, achieve business goals and maximize growth opportunities.

(Embracing Change)

2013
National Insurance
Conference of Canada
(Gatineau, Quebec)

Harmeet Singh
Online Editor

Greg Meckbach
Associate Editor

Angela Stelmakowich
Editor

It has been a dramatic year for the property and casualty insurance industry. Recent developments and events provide a hint of what may be coming more frequently and more intensely in future.

Attendees of the 7th annual National Insurance Conference of Canada (NICC), held September 22 to 24 in Gatineau, Quebec, were treated to a mix of fact and opinion. Issues on the radar included everything from overland flood to supply chain risks and earthquake modelling.

SOLID DATA KEY TO FLOOD INSURANCE

Development of a viable flood insurance program in Canada demands that insurers have conversations with policyholders and clearly outline what homeowner policies cover, Kathy Bardswick, president and chief executive officer or The Co-operators, suggested during a panel discussion at NICC.

The home insurance product has become a commodity where consumers have an expectation that everything is covered, Bardswick said.

Policyholders, for their part, must make more deliberate decisions on their policies, she said. "The ideal that we should be working toward is helping the consumer make the appropriate risk management decisions that they need to make."

Encouraging homeowners to take effective risk mitigation measures, as well as discouraging rebuilding in high-risk flood zones, should be a focus of the insurance industry, noted fellow panelist, Guy Vézina, senior vice president of general insurance at TD Insurance.

"It's a challenge right now to make the insurance affordable," Vézina said. "The only solution to me is prevention."

Vézina reported that approximately half of the structures destroyed in the Calgary flooding in June were built after 2005 — another year in which Alberta was slammed by severe flooding.

Still, people chose to build their homes in a floodplain, something that must stop, he said. Part of the problem is that many consumers likely do not know they are, in fact, in a floodplain.

The insurance industry would also benefit from more information. Bardswick said that the industry needs to invest in data, an investment that will not be cheap, but is clearly necessary.

EARTHQUAKE MODEL COMING TO CANADA

Catastrophe modelling firm AIR Worldwide plans to launch an earthquake risk model for Canada in 2014, after having completed a study commissioned by the Insurance Bureau of Canada (IBC).

Next June, the firm is scheduled to release its earthquake model for Canada, including risk in

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We look forward to seeing you June 11 to June 15, 2014 in London, Ontario

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British Columbia and Eastern Canada, David Lalonde, senior vice president of consulting and client services for AIR, told *Canadian Underwriter* during NICC.

The model will look at fire spread risk, will have an updated tsunami model, will include an updated liquefaction model, and will have an earthquake-triggered landslide model, Lalonde reported. Beyond that, the offering includes improved data resolution and uses the latest soil maps from the Canadian Geological Survey.

"What's unique about Canada is that the location of the population is along the border of the United States," he said. That means a large event at home could have a particular impact for companies writing business internationally and for some reinsurance companies.

Gregor Robinson, IBC's senior vice president of policy and chief economist, provided NICC attendees with the highlights of the commissioned study, which will be released at the end of October.

The study, based on a one in 500 year return period, the regulatory standard for which insurers in Canada must be capitalized, looks at the impact on the industry of a 9.0-magnitude event off the coast of British Columbia, and a 7.1-magnitude quake near Quebec City.

In the Western scenario, the quake would hit 75 kilometres off the coast of British Columbia in the Cascadia subduction zone in late July and be felt as far away as 400 kilometres. It would create long, seismic waves that would be especially damaging to tall buildings.

Robinson said shaking would account for 82% of the total direct losses from the event. Combined with landslides, liquefaction would account for roughly 10% of total direct losses, he added.

Robinson reported the scenario would also lead to a tsunami that would generate waves of about two metres once they reached Victoria, and slightly less for Vancouver. The tsunami would account for about 7% of total direct losses.

Overall, such an event would have an extreme impact on supply chains and the overall Canadian economy, as roads, pipelines and airports would all be affected, Robinson said.

IMPACTS ON AUTO INSURANCE

The insurance industry should encourage consumers to use available tools to become better drivers as vehicle and road technology evolves and becomes mainstream, NICC attendees were told.

Barriers to more automation in vehicles are now largely political rather than technological, noted Craig Weber, chief executive officer of Celent.

Collision-avoidance features, lane-changing support and warnings, and external cameras are becoming more mainstream in vehicles, he said during a panel session on the future of auto insurance. The features, along with telematics technology and automated enforcement, all have implications for the auto insurance industry and should play into the future strategies of auto insurers, he added.

In the Western scenario, a magnitude-9.0 quake would strike 75 kilometres off the coast of British Columbia, creating long, seismic waves that would be especially damaging to tall buildings.

Robyn Robertson, president and CEO of the Traffic Injury Research Foundation, noted, however, that many Canadians may not be at the point where they fully understand how current vehicle safety features work. Drivers "don't really seem to get that the way they drive is going to influence how well those features work," Robertson reported.

Michel Laurin, president and chief operating officer for Industrial Alliance Auto and Home Insurance, suggested use of telematics technology may be a way to encourage drivers to improve behaviour.

SUPPLY CHAIN GAINING PROFILE

Two out of three companies recently surveyed by Deloitte reported they have a supply chain risk management program, Kelly Marchese, principal of supply chain and manufacturing at Deloitte, said during a presentation at the NICC.

Noting that supply chains are now so complex, "it's that much more challenging to manage those supply chains," Marchese said. "Anything from natural disasters to human rights violations have an impact on supply chains, counterfeiting and quality failures — the list goes on and on."

Citing past catastrophic events in Thailand and Japan, Linda Conrad, director of strategic business risk management at Zurich Financial Services, told attendees that many supply chain losses were uninsured. "There's some person that has to pay for that and it may be because they didn't understand what their true exposure was."

INJECTION OF YOUTH

Young people will be a key part of the insurance industry's own destiny, Peter Hohman, president and CEO of the Insurance Institute of Canada, told attendees of the NICC.

Through its Career Connections program, which targets young people, the institute has connected with more than 800,000 students (about half a million in high school and 300,000 in university and college) in the past five years, Hohman reported. Young people are being sought to help "organizations recruit that essential younger demographic to ensure there is a pipeline of future talent entering our industry."

Demographic research undertaken by the institute in 2007 showed an under-representation of those aged 32 and younger working in insurance. However, the 2012 study indicated those aged 17 to 32 rose from 12% to 27%.

That said, once people enter the profession "the need for investment in their skills development is essential."

Canadians want their insurance professionals to be qualified and educated, suggest findings from a poll commissioned by the institute earlier this year.

In all, 82% of respondents agreed an insurance professional who has received an education in their field is more likely to give a comprehensive and qualified quote for an insurance policy, and 90% said that they would better trust an insurance professional with up-to-date credentials, Hohman reported.

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Clear Language Essential

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A recent case out of Ontario, involving the duty of a homeowners' insurer to defend a contribution claim, illustrates the importance of carefully selecting the language used in insurance policies to make clear what is included and/or excluded. The alternative may be interpretation by the courts to the best of their abilities.

In *Bawden v. Wawanesa Mutual Insurance Co.*, Justice Mary Anne Sanderson of Ontario's Superior Court of Justice found that a homeowners' insurer had a duty to defend a contribution claim against the parents of a minor plaintiff who was injured by a motorist. While indicating that the decision was a difficult one to reach, Justice Sanderson held in March 2013 that a defence was available because the language of the "family member exclusion clause" did not clearly and unequivocally restrict the extent and scope of the coverage in the event of *an indirect claim by a third party* for contribution and indemnity.

The defendant motorist had sued the parents of the plaintiff for contribution and indemnity for their alleged failure to supervise their daughter in the operation of her bicycle. The parents subsequently sued Wawanesa Mutual Insurance Company when the insurer refused to defend them because of a policy exclusion in their homeowners' policy.

The homeowner insureds submitted that "Coverage E" of the policy applied, which stated that the homeowners were insured for claims made against them for bodily injury arising out of their personal activities. They argued that Wawanesa, therefore, had a duty to defend them under the policy, unless the exclusion clause described below limited the scope of that coverage.

The policy contained the following exclusion:

> You are not insured for claims made or actions brought against you for:
> …
> (3) bodily injury to you or to any person residing in your household other than a residence employee.

Wawanesa conceded that but for the fact that the insureds' daughter resided in their household, the claims made against them would have

In reviewing the policy as a whole, the court in *Bawden* noted that the words "arising out of" were repeatedly used in other exclusions. Wawanesa was aware of the distinction between arising out of bodily injury and for bodily injury because the insurer made that distinction repeatedly in many of the other exclusion clauses in the policy.

been covered under the policy, as their training and supervision of their daughter in the use of her bicycle qualified as "personal activities."

CASES CITED

In *Progressive Homes Ltd. v. Lombard General Insurance Co. of Canada*, a ruling issued in 2010, the Supreme Court of Canada reiterated that coverage provisions are to be interpreted broadly and exclusion clauses narrowly. Furthermore, the focus should be on the language of the policy read as a whole.

In *Bawden*, Justice Sanderson found that in following these principles, the wording of the exclusion is consistent with an intent to exclude only direct claims between or among family members and to leave coverage for indirect claims by third parties against household members intact.

By contrast, in *Quick v. MacKenzie*, a 1997 ruling by the Court of Appeal for Ontario, the exclusion clause referred to claims made against the insureds arising from bodily injury to their daughter. The words "arising from" were used in both the coverage provision and the exclusion provision. Ontario's appeal court found that the exclusion, therefore, clearly covered indirect claims.

In *Bawden*, the words "arising from" were left out of the exclusion. As such, the exclusion did not clearly cover indirect claims. Furthermore, unlike in *Desormeaux v. Dominion of Canada General Insurance Co.*, handed down last year by the Ontario Superior Court of Justice, the wording of the exclusion clause did not clearly link the scope of the exclusion clause to the extent of coverage.

Justice Sanderson also considered the reasoning of the dissent in *Rabas v. Claim Management Services, Inc.*, a ruling by the Court of Appeals of Wisconsin in 1996. The court stated the following:

"Although an exclusion properly aimed at contribution claims does not have to contain the word 'indirect' to be viable, the exclusion must contain some language which tells the reasonable insured that contribution claims are not covered."

Justice Sanderson observed that there are policy reasons to warrant making a distinction between direct and indirect claims. In the 2004 decision, *Wawanesa Mutual Insurance Co. v. Hewson*, Saskatchewan's Court of Appeal noted that exclusions clauses are intended to prevent collusive claims by members of the insured's family and household.

In reviewing the policy as a whole, the court in *Bawden* noted that the words "arising out of" were repeatedly used in other exclusions. As such, in drafting the policy, Wawanesa was aware of the distinction between "arising out of… bodily injury" and "for bodily injury" because the insurer made that distinction repeatedly in many of the other exclusion clauses in the policy.

The court, therefore, found that the wording of the exclusion clause was consistent with an intent to exclude only direct claims, thereby preserving coverage for indirect claims. Justice Sanderson noted this interpretation recognizes "an insurer's apparent intent to protect against collusion between and among family members, but would not in the absence of a clear intent to exclude indirect claims, not deprive [sic] family members of insurance protection for indirect claims for bodily injury arising from their actions brought against them by third parties."

COMMENT

This case again demonstrates the importance of carefully selecting the language used in insurance policies. Insurers must prudently choose the language they employ when drafting policies to make sure that what is meant to be included and/or excluded is clear.

As can be seen from the contrasting wording between policies, and even within the policy at issue, discussed by Justice Sanderson in *Bawden*, litigation may ensue, leaving policies to be interpreted by the courts to the best of their abilities, which may not align with what the policy drafters ultimately intended.

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1


2


10a


10b

1 Aviva plc has announced Maurice Tulloch [1], current chief executive officer of Aviva Canada, is the new CEO of Aviva U.K. & Ireland General Insurance, subject to regulatory approval. Tulloch joined Aviva in 1992 and was appointed CEO of the Canadian business in 2009. Greg Somerville, executive vice president of broker distribution for Aviva Canada, will lead the Canadian business while a search for Tulloch's replacement is under way. Robin Spencer, who was CEO of U.K. & Ireland General Insurance, is leaving the group at the end of October.

2 Western Financial Group Inc. has acquired Prestige Insurance Brokers Inc. of North Battleford, Saskatchewan. Originally known as Lewchuk Insurance, Prestige becomes Western Financial's 24th wholly owned location in Saskatchewan. Keith Bossaer [2], owner and general manager of Prestige, "will remain in his leadership role to guide the Prestige team through the Western transition," notes a statement from Western Financial.

3 AIR Worldwide has announced its Touchstone software will now include the ability to account for catastrophe and non-catastrophe risk in a single platform. By adding non-cat analytics, companies will be able to analyze their risk of property exposure using the same exposure data input for catastrophe modelling, AIR Worldwide notes. Touchstone will now include information from Verisk Analytics Inc., AIR Worldwide's parent firm, such as ISO advisory prospective loss costs and ISO's Commercial Property Size-of-Loss Database, as well as non-cat information for both insurance and reinsurance pricing analysis. Non-catastrophe risk could include fire, lightning, explosion, vandalism, sprinkler leakage, fallen trees and wind.

4 George Cooke [4], former chief executive officer of The Dominion of Canada General Insurance Company, has been named the first-ever independent chair of the Ontario Municipal Employees Retirement System (OMERS) Administrative Corporation (OAC). Rick Miller, current OAC board chair, will remain on the board until December 31, 2013. Cooke's appointment took effect October 1. Over his two decades at The Dominion, Cooke also was both an executive vice president and director of E-L Financial Corporation, the insurer's parent company. He has served as a director of the Insurance Bureau of Canada and the Property and Casualty Insurance Corporation, as well as on Ontario's Auto Insurance Anti-Fraud Task Force.

5 Economical Insurance of Waterloo, Ontario is integrating the management of its personal lines business in British Columbia under Family Insurance Solutions, a wholly owned subsidiary. As of September, the distribution, underwriting and policy administration for Economical's personal auto and property insurance were brought under Family Insurance. "Given the large number of broker partners we have in B.C., we will be implementing this conversion on a staggered basis," Harry Kloosterhuis [5], president of Family Insurance Solutions, says in a statement. "We will be communicating with each broker three months before their conversion date to facilitate a seamless transition to our easy-to-use policy distribution system that issues policies in real time. We expect to have all our broker partners writing personal insurance business in B.C. with Family by September 2014," Kloosterhuis adds.

6 The Regroupement des cabinets de courtage d'assurance du Québec (RCCAQ) recently announced it has appointed Guy Parent [6] as executive director, replacing Isabelle Perreault, who held the position for the past three years. Parent has managed non-profit organizations in the university and professional sectors, notes a statement from RCCAQ. His appointment took effect September 3, 2013. RCCAQ represents 4,500 brokers working in 615 firms and branch offices throughout Quebec.


4


5


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10c


10d


10e

7 Opta Information Intelligence's iClarify services have been integrated directly into the Applied CQ Rating Services system under the Applied ITV brand. The latest version of iClarify offers replacement cost values while automatically uploading verified construction features and property valuations directly into the Centre for Study of Insurance Operations habitational application, Opta notes in a press release. That data is immediately stored for Applied brokers within their respective brokerage management system and is then uploaded to the chosen underwriting company selected by the broker, the company adds. Opta claims that Applied ITV with iClarify will reduce the home valuation process from about 15 minutes to two minutes.

8 Lloyd's syndicate AEGIS London has launched a claims service for Canadian coverholders, in partnership with disaster restoration firm FirstOnSite. The offering, which rolled out as a pilot in Canada, allows for "rapid collection and transmission of information directly from the scene of a loss to a dedicated, specialist office-based claims examiner," AEGIS notes in a statement. The FirstOnSite team uses tablet technology to transmit inspection reports, photographs and project management information from the loss scene to the examiner. The system supports rapid decision-making and allows immediate efforts to mitigate damages, often without the need for an intermediate field adjuster report.

9 Mitchell International Inc. has announced the general availability of its RepairCenter Reputation Manager package. It adds online customer satisfaction surveys, and reporting and analytics technology for repair shops to identify steps in their process that can be improved, notes a press release from Mitchell. The product gathers data from open-ended survey questions and "social media chatter," producing a Customer Sentiment Dashboard. It will also include the Repair-Center Web Status tool, which allows shops to communicate the status of a repair to customers via an online web portal, e-mail or text message.

10 The CIP Society, comprised of graduates of the Insurance Institute of Canada's Chartered Insurance Professional (CIP) and Fellow Chartered Insurance Professional (FCIP) programs, has named its five National Leadership Award honourees for 2013. Those honoured as established leaders are Ginny Bannerman [10a], vice president, finance west at Intact Insurance, and James Cameron [10b], president of Cameron and Associates. The category is designed to recognize CIP Society members who "have achieved sustained success through their demonstrated leadership qualities and the significant impact they have made on their organization, their community and the industry." The emerging leaders category recognizes members who, through early achievements and successes, are seen as emerging leaders within their organization or the industry. The honourees for 2013 are Anne-Marie Deschênes [10c], marketer, medium to large-sized companies at Aon Risk Solutions; Lindsay Mackenzie [10d], commercial lines manager at Intact Insurance; and Tammie Norn [10e], CEO of ProFormance Group Inc.

QRIMA, RIMS Québec Chapter hosted their **annual golf tournament** on August 12. This event has been held for over 30 years at the prestigious Hudson, Québec's Whitlock Golf & Country Club. This year's tournament was won by the foursome of Daniel Desjardins, Keith Jones, Pierre-Alexandre Lussier and Glenn Lucas. Among the guest who came from across Canada to this annual happening, three honorary members of RIMS were present, Diane Wolfson, Brian Hammond and Marc Darby.

See all photos from this event at www.canadianunderwriter.ca/gallery

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WICC Ottawa held its **3rd Annual 'Drive for Hope' Golf Tournament** on Monday August 19, at the Camelot Golf & Country Club in Cumberland, Ontario. Foursome's competed in the day-long event that included complimentary use of driving range, putting greens and pro staff; box lunch; dinner; silent auction as well as prizes and raffles. Leave a little extra room here for possible cheque for $10,000 was donated copy when actual copy arrives.

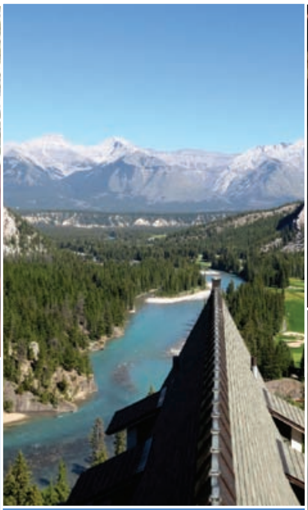
On September 9, **Western Financial Group** hosted its **12th annual Fall Classic Golf Tournament** in support of the Western Communities Foundation (WCF). The event was held just outside of Calgary at Heritage Pointe Golf and Country Club in DeWinton, Alberta. WCF's mission is to give back to the communities in which we live and work through a variety of charitable programs that focus on public health, education and recreation.




Red River Mutual donated $5,000 to the **Children's Hospital Foundation** for their "be my hero" capital campaign. This campaign enables the Manitoba Institute of Child Health to provide world-class pediatric research. Dr. Nathan E. Wiseman, Pediatric General Surgeon said, "There is nothing that tugs at your heart more than a sick child. Children are so innocent – any condition or illness they have is no fault of their own, yet they have to suffer the consequences – and trust and rely on adults to help them. They need us."

Pictured is Red River Mutual Vice President of Finance, Geoff Branson, presenting a $5,000 cheque to the President & CEO of The Children's Hospital Foundation, Lawrence Prout.

The **Canadian Independent Adjusters' Association (CIAA)** held its **29th Annual General Meeting and Conference** in beautiful Banff, Alberta at the Fairmont Banff Springs Hotel from Sept. 12-15. More than 100 attendees joined together for a packed trade show, education sessions, social events and the member meeting. The President's Banquet & Ball saw Marie Gallagher of Granite Claims Solutions take over the reins as president of CIAA for the 2013-14 year. She succeeds outgoing president John Seyler.



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Sensational jazz crooner Sophie Milman entertained a crowd of insurance industry professionals at La Maquette Restaurant in Toronto on September 12. The **'Evening of Jazz'** was presented by **CKR Global Investigations** and **Beard Winter LLP.** Guest's had the pleasure to enjoy an evening of a live jazz, fine cocktails and delectable hors d'oeuvres.














GALLERY

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A.M. Best Company's 2013 Insurance Market Briefing - Canada was held in Toronto on September 11. More than 250 insurance executives attended to hear A.M. Best rating analysts discuss the impact of current economic conditions and rating trends on members of the insurance industry in Canada. Attendees heard panelists discuss Canadian life, property and casualty and reinsurance.

APPOINTMENT

Karen Barkley

Elliott Special Risks (A Markel International company), is pleased to announce that Karen Barkley has joined the company as Deputy President and Chief Underwriting Officer.

Karen began her insurance career in the claims department at Zurich Insurance Company in Ottawa in 1977, later transferring to Commercial Underwriting in Toronto. Continuing in the underwriting field with Markel and experiencing life as a broker with Chris Steer Insurance Brokers. She has held various underwriting and management positions at AIG and CIGNA Insurance Company of Canada. Karen was the President of ACE INA Insurance prior to venturing into the equity and ownership of an independent wholesale brokerage firm Specialty Risk Underwriters Inc.

Karen brings with her, vast underwriting and management experience and she values staff as the team behind a company. She is respected throughout the industry for her commitment to continuous learning, development and education. Karen holds the designations of CIP, CRM, MBA, and is also the immediate Past Chair of the Insurance Institute of Canada. She has also served on the boards of ACE INA Insurance & ACE INA Life Insurance.

Elliott Special Risks (ESR) is a specialist insurer. With offices in Montreal, Toronto, Calgary & Vancouver, it was purchased in 2009 by Markel International Insurance Company Limited (MIICL), a London based specialty property and casualty insurer. MIICL is a subsidiary of Markel Corporation of Richmond, Va., U.S., and writes business either through Syndicate 3000 at Lloyd's or through MIICL. Markel Corporation is rated A (Excellent) by A.M. Best and A (Strong) by Standard & Poor's.

www.elliottsr.com

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A Markel International company

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The **Toronto Insurance Women's Association (TIWA)** held its **September dinner meeting** on September 17 at the Hyatt Regency Hotel (King Street) in Toronto. Special guest speaker was Stuart Knight who delivered an intimate and interactive presentation on The Art of Powerful Conversation, focusing on the importance of face-to-face communication, and bringing the human factor back to the office, in an age where technology plays such a prominent role. Knight is the author of You Should Have Asked – the Art of Powerful Conversation, and strongly believes that the daily interaction we have with one another, will strengthen the bond we have with our customers.






GALLERY

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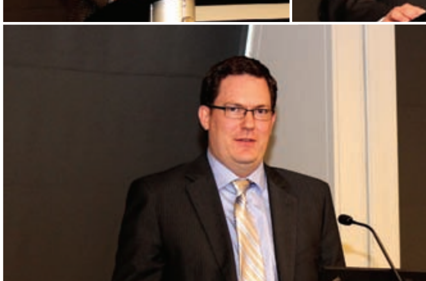
The **Institute for Catastrophic Loss Reduction (ICLR)** hosted an **Urban/Basement Flooding Symposium** on September 19, bringing together representatives of the insurance industry and municipalities. Held at The Board of Trade in Toronto, more than 140 stakeholders learned about the causes and complexities of urban/basement flooding, mitigative best practices, how various municipalities have dealt with the increased frequency of floods. Presentations discussed the application of household-level measures and infrastructure measures to reduce risk in new and existing homes and subdivisions, as well as innovative Low-Impact Development programs and the impacts of climate change on urban sewer infrastructure.



Maltman Group International hosted the **Maltman Cup** golf tournament, pitting 12 insurance professionals from across Canada against 12 from England in a Ryder Cup style format over a 3 day period, September 4-8. Played out of Charlottetown, PEI, the first day was a practice day at the Eagles Glenn of Cavendish course, the second day was the team event at the Dundarave golf course and the third day was the singles event played at The Links at Crowbush Cove. Those participating from Canada included 4 adjusters, 3 lawyers, 3 MGA's and 2 independent Insurance consultants. From the English side there were 5 Lloyd's brokers, 6 Underwriters and 1 MGA (Canadian playing for the English). This year's event was won by the English.

ADVERTISERS' INDEX

Recently via Twitter, **Worden Insurance Brokers** of Oshawa challenged **Gifford Associates Insurance Brokers** of Ottawa to raise **food donations** for The Salvation Army of Oshawa and The Ottawa Food Bank in a challenge titled, ***"The Insurance Can Count Challenge!"***. This good-natured rivalry took place during the month of August, a time when food donations are traditionally low during the summer holidays. Unfortunately, hunger never takes a vacation. With great enthusiasm both brokerages, in their rookie food drives, did quite well. Worden collected 230 cans/food items; Gifford collected 789. But the real winners are the hard-working organizations serving those in need. The dueling brokers acknowledge the important role social media played in promoting this cause and connecting the insurance industry with the community at large. Rumor has it a rematch is on for next year!

ARC Group Canada held its **2013 Annual Seminar & Cocktail Reception** at the St. Andrews Club & Conference Centre in Toronto on September 19. This year's seminar saw a panel of experts present on the topic of 'Defending Brain Injury Claims' including speakers: Dr. Charles Tator, Neurosurgeon, Toronto Western Hospital; Dr. Grant Iverson, Ph.D, Harvard Medical School; Ms. Laurie Walker, Executive VP, Granite Claims Solutions; David Cameron, Burchells LLP, ARC Group - Nova Scotia Affiliate; panel moderated by Ronald Silverson, Gasco Goodhue St-Germain LLP, ARC Group - Quebec Affiliate. Attendees had the chance to network and discuss the activities of the day at a cocktail reception after the event.

















See all photos from this event at www.canadianunderwriter.ca/gallery















GALLERY

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The **Insurance Brokers Association of Canada (IBAC)** held it **92nd Annual General Meeting** at the Sheraton Hotel Newfoundland in historic, joyful and screech-worthy St. John's on September 19-21. Attendees networked and took part in social functions that ranged from viewing the stark beauty of Cape Spear, the easternmost point in North America, tasting the goodness of a Newfoundland kitchen party meal and hearing music steeped in tradition and wit. Ken Meyers was welcomed as IBAC's new president, emphasizing the need for brokers to take hold of opportunities before them, while past executive members were honoured.