CANADA'S INSURANCE AND RISK MAGAZINE. CANADIANUNDERWRITER.CA

# CANADIAN UNDERWRITER

MARCH 2014

A Business Information Group Publication #40069240

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BY GREG MECKBACH

## Movers & Shakers

BY ARASH NASSERI

## Operational Risk

BY ROHAN DIXON


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# CANADIAN UNDERWRITER

**VOL. 81, NO. 3, MARCH 2014**

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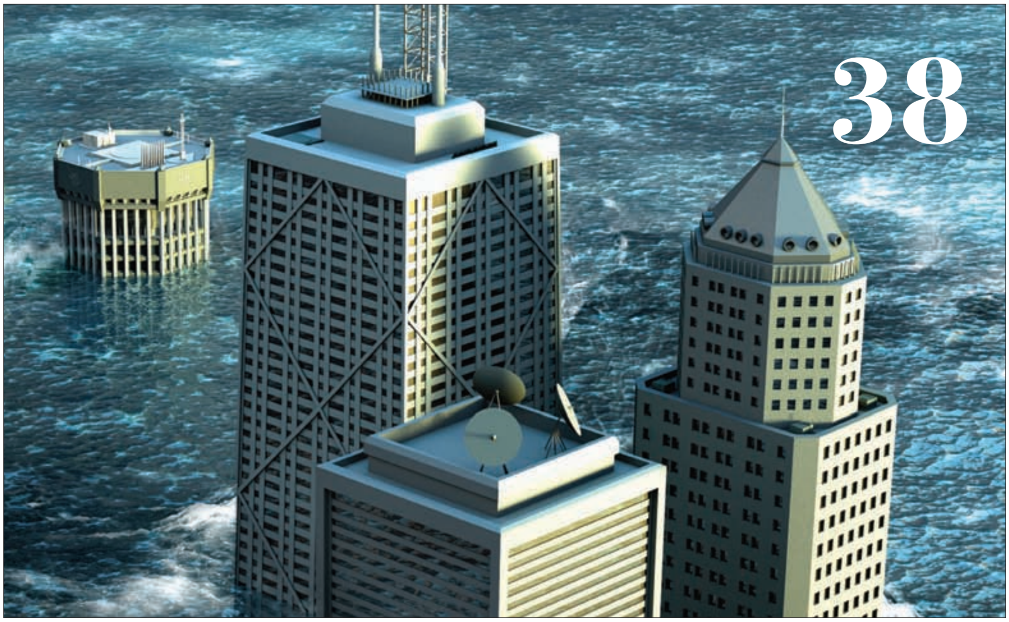

VOL. 81, NO. 3, MARCH 2014

PROFILE

Photo: Andrew Sikorsky



SPECIAL FOCUS



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CANADA'S BEST MANAGED COMPANIES

CARSTAR® Collision & Glass Service

# CU 80 Years *Articles – 1937, 1938, 1939*

## Are Automobile Rating Methods Inadequate, Unscientific, Inequitable and Dangerous?

YES, Said E. S. Russenholt, Publicity Director of the Wawanesa Mutual in a Thesis Which Received Wide Public Attention—NO, Says C. H. Frederickson, Experienced C.U.A. Actuary in This Exclusive Rebuttal

By C. H. FREDERICKSON, F.C.A.S.

**Snap Judgments Are Unwise**

## How to Meet Lloyd's Competition for Provincial and Municipal Business

Many Sound Arguments in Favor of Stock Insurance Companies Have Weight With Government Authorities When Opportunity is Given Agents to State Their Case

**Two Examples**

As examples, the cases of Alberta and Toronto may be quoted. When the fire insurance schedule of the Province of Alberta came up for consideration last year, a representative of Lloyd's leaped in with a proposition for 10 per cent deductible insurance at a cost appreciably less than the figure given by tariff companies for full insurance coverage. Lloyd's got

The surplus which thus has been accumulated over the years is invested almost entirely in Canadian stocks and bonds. About $100,000,000 is on deposit for the protection of Canadian policyholders, this sum made up of first class government bonds

## Armament Brings Industries to Canada

Natural Resources Combine With Natural Advantages to Make This Country Ideal Source of Manufactured War Materials for Britain—Chamberlain Moves Stabilizing Conditions in Europe—Outlook Firmer

By TEMPUS

April 1, 1938

**Influences for Peace**

**Canada's Destiny**

## Jail Terms End $78,093 Attempted Fraud

February 15, 1938

Sentences of Two Years Less a Day and Nine Months Respectively Given Participants in Largest Attempted Insurance Fraud to Reach Criminal Courts in Many Years—An Illustration of the Value of Alert Adjusters and Intelligent Investigators

February 15, 1938

— SERVING CANADA FOR OVER HALF A CENTURY —

## THE DOMINION OF CANADA GENERAL INSURANCE COMPANY

HEAD OFFICE, TORONTO

**ANOTHER SUCCESSFUL YEAR**

| | 1936 | 1937 |
|---|---|---|
| INCOME (Casualty and Fire Depts.) | $1,588,205.75 | $1,765,370.39 |
| INCOME (Life Department) | 378,086.65 | 439,575.79 |
| TOTAL INCOME (Net) | 1,966,292.40 | 2,204,946.18 |
| ASSETS (Book Value) | 4,234,492.07 | 4,647,534.11 |
| Market Value 1937 exceeds Book Value by $91,918.18 | | |
| RESERVES (and all Liabilities) | 2,423,642.07 | 2,759,359.27 |
| CAPITAL (Paid up) | 1,005,300.00 | 1,005,300.00 |
| SURPLUS | 805,550.00 | 882,874.84 |
| SURPLUS SECURITY (to Policyholders) | 1,810,850.00 | 1,888,174.84 |

GEORGE H. GOODERHAM, President — H. W. FALCONER, Managing Director

CANADA'S OLDEST AND STRONGEST MULTIPLE LINE COMPANY

Branches: Montreal, Ottawa, Hamilton, London (Ont.), Winnipeg, Calgary, Vancouver, Kingston (Jamaica), London (Eng.)

## EMPLOYERS REINSURANCE CORPORATION

Condensed Statement as of December 31, 1937

ASSETS — LIABILITIES

KITCHENER-WATERLOO AGENTS PROMOTE A REAL HE-MAN'S PICNIC

## Trucks and Busses Need Insurance

Bankruptcy Has Been Known to Follow Lack of Proper Insurance Protection for Owners Of Commercial Vehicles for Accidents Are Frequent and Court Judgments Heavy

**Truck Judgments**

## Five Year Canada-Wide Automobile Insurance Experience Shows Rising Losses

Published Here for the First Time, Experience Figures for All of Canada Show Losses Exceeded "Break-even" Ratio by 14 Per Cent for Passenger Cars and 10 Per Cent for Commercial Vehicles in Last Statistical Year

## Blue Goose "Follies of 1938" Plays Before Capacity Crowds

STAN SLATER

The Fairy Dancers — HARRY BAILLIE — Motoring in the 90's

Estimated $500,000 Crop Loss Caused by Kootenay Flood

## Exchanges Waver as War Fears Rise

September 1, 1938

Stock Tickers Echo Doubts of European Situation as Armies Manoeuvre—Great Britain and France Take Firm Stand—Business Recovery Continues in North America

By TEMPUS

## European Crisis Unsettling Business

September 15, 1938

American Sentiment Cautious But Improvement Continuing—Bumper Crop Heralds Brighter Outlook in Canada—Gold And Crude Oil Production Expanding Steadily

By TEMPUS

**Expect Negotiations**

**Wheat Crop Estimates**

ONTARIO GANDERS HOLD ANNUAL CHRISTMAS STAG

**Improving**

**Operations Extended**

**Social Get-Together**

**New Office**

**U.S. NOTES**

**SAFETY NOTES**

**Quebec League Recognized**

## FIRE LOSSES OF TOBACCO KILNS AND THEIR PREVENTION

By J. KIRK MACDONALD

Manager, A. K. Macdonald & Company, Insurance Adjusters, London, Ont.

J. KIRK MACDONALD

## Some Legal Decisions Arising Out of the War of 1914-18

November 15, 1939

By DR. C. E. GOLDING

(From Post Magazine and Insurance Monitor, London, England)

**MARINE INSURANCE**

**The Zeeland (1918)**

# CU 80 Years *Covers – 1939, 1941, 1942, 1943*

**80**
1934 - 2014

*December 15, 1939*

## CASUALTY CLAIMS AND WAR IN BRITAIN

From Post Magazine and Insurance Monitor, London

Motor Claims

Burglary and "All Risks"

*February 1, 1941*

## Comprehensive Liability Insurance Policy Introduced in United States

New Policy Gives All-Risks Protection by Insuring Against All Hazards Not Specifically Excluded Instead of Vice-Versa—Offers Fuller Coverage Than Is Possible with Separate Forms

Canadian Underwriter

## EXPLOSIVE AND INCENDIARY BOMBS

Although Few of Us Will Require Information on the Handling of Bombs, Some of the First Principles May Be Well Worth Knowing—Here Is Part of What Ontario Firemen Learn to Combat Sabotage

By W. J. SCOTT, K.C.
Fire Marshal of Ontario

## Insurance Inspectors and the Wartime Battle to Keep Industry Humming

Insurance Men Play a Leading Part in Guarding Factories Against Losses. Here Are Some Facts About Leading Loss Causes as Told to the American Management Association

By H. E. ADAMS

### Publicize These Rules For Home Fire Safety

*June 2, 1941*

## More Boiler Insurance Prospects From Wartime Production Expansion

By THOMAS B. McMATH
Boiler Underwriter, Maryland Casualty Company

*March 15, 1941*

## BUSINESS INTERRUPTION NOT SUFFICIENTLY SOLD

Proper Coverage of Earnings Believed To Be the Exception Rather Than the Rule—Gross Earnings Form Has Big Market

By JAMES DRUMMOND

Payroll Covered Too

Canadian Underwriter

## PREVENT FIRES — HELP WIN THE WAR

Past Efforts of Insurance Men Have Done Much to Reduce Fire Waste in Canada, But a Big Job Remains to be Done. Everyone Should Help Avoid Needless Fire Losses, Since Every Dollar Spent This Way Decreases War Production

Of Thousands

Fires Are Preventable

Canadian Underwriter

## SUPERINTENDENTS MEET IN TORONTO

Many Developments at Busy 24th Annual Conference
MacLatchy of New Brunswick Elected New President

Leading Developments

New Officers

Presidential Address

*October 1, 1941*

## EMERGENCY PREPARATIONS IN CANADA

An Outline of Preparations Against Air Raids Delivered to the International Association of Fire Chiefs at Boston in August

By W. J. SCOTT, K.C.
Fire Marshal of Ontario

Use Existing Machinery

*September 2, 1941*

## THE INSURANCE ADVERTISING PROBLEM

The Public is Over-sold on the Complexity of Insurance and Under-insured. Insurance Advertising Short of Human Interest

By PAUL HOLLISTER

The First Ten

*December 15, 1941*

## INSURANCE ADVERTISING IN WAR TIME

Since Some Forms of Protection are More Important than Ever
The Seller's Market Now is No Reason for Reduced Advertising

By CHAS. R. FRANCIS

*August, 1, 1942*

## WAR INSURANCE PLANS REVIEWED

Insurance of War Risks Provides Difficult Legislative Problems. Progress in Canadian Parliament Slow Because Practical Experience in Britain and U.S. Plans Studied

*July 15, 1942*

## SABOTAGE AND THE HOME FRONT

Spring is the Time for Offensives Both on the Military Front and on the Home Front. The Saboteur is Waiting Poised to Strike. This Offensive Also Must be Met.

Condensed from an Address to the American Management Association

By RAY MURPHY

Tough Fight Ahead

## The Role of Insurance in Wartime

Many People, Even Including Insurance Men, Are Inclined To Forget the Important Wartime Functions of the Fire and Casualty Insurance Business. Here are Some Leading Duties.

By LILLIAN D. MILLAR

Prevention Work

All Down the Line

Board Services

Backbone of Credit


CARTOONS HELP TO BOOST PRODUCTION

*August 2nd, 1943*

Canadian Fire & Casualty Family

## Roll of Honour

On Active Service in the World War

Compiled by "Canadian Underwriter"

Page Six

They Serve That We May Live Secure

*November 16, 1942*

## PROTECTING CANADA'S HEAVY INDUSTRIES IN WAR TIME

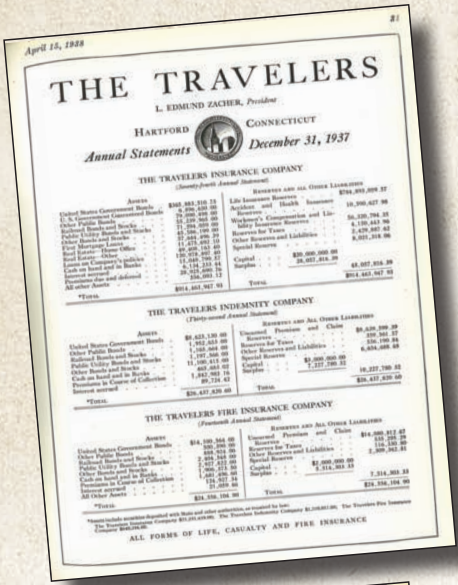
Part I

Congestion of Plants Together With the Need for Temporary Buildings in Many Cases Greatly Enhance Fire Hazards. Many Stages of Construction and Operating Methods Need Careful Supervision.

By F. W. KENDRICK

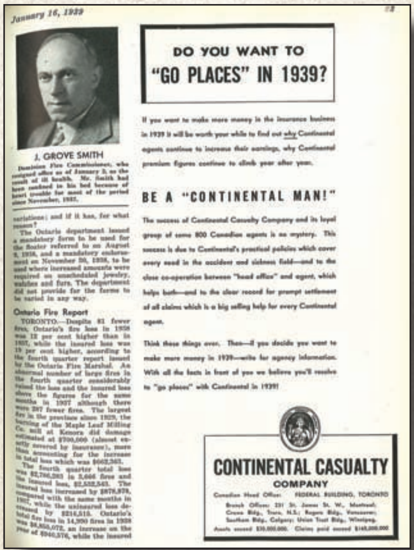
No Smoking?

# CU 80 Years *Advertisments – 1938, 1939*

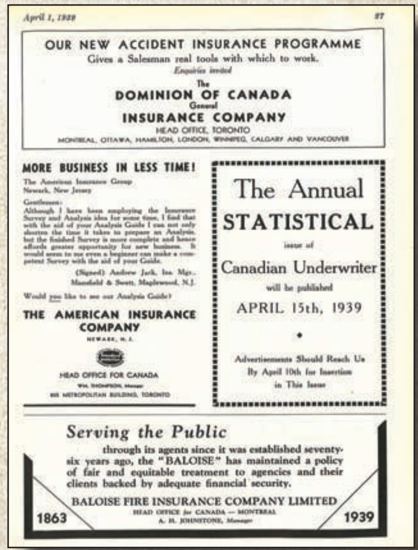


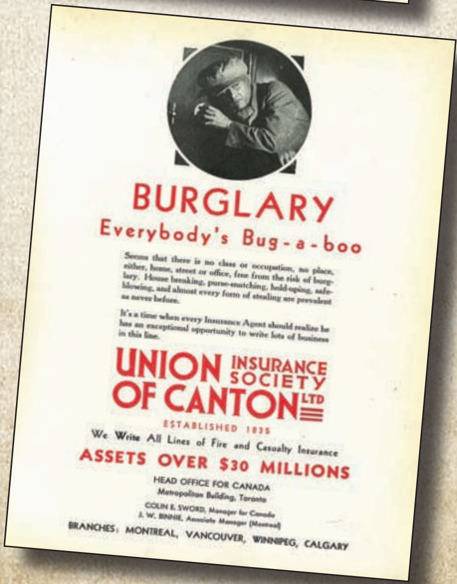






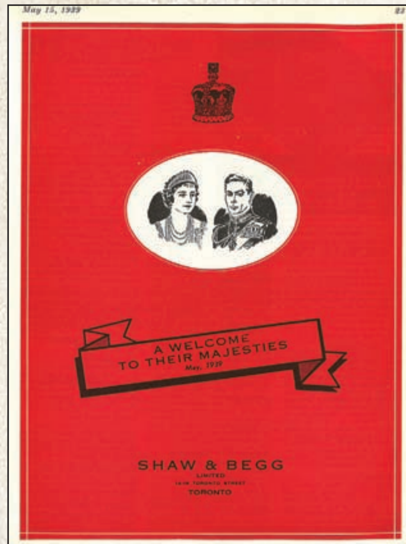


# CU 80 Years *Advertisments – 1939, 1941*

80
1934-2014








# Beauty and the Beast

**Be it ice, rain, snow, wind or a stubborn polar vortex, these events contribute to hefty damages, insured and not.**

Angela Stelmakowich, Editor
astelmakowich@
canadianunderwriter.ca

Heavy snow in Japan that closed many roads, choking off the delivery of goods and parts to about a half-dozen car makers, recently prompted the suspension of operations for as long as several days.

Activity has since resumed, but the event shows how less dramatic events (compared to, say, hurricanes and quakes) can affect business and personal operations.

In December, an ice storm provided parts of Ontario with its own bit of drama, before the unwelcome show travelled eastward into Atlantic Canada to do the same.

The resulting twisted winter wonderland — ice-cloaked tree branches gorgeous up close, but decidedly less attractive as the view widened to take in the damage — will not rival Canada's most expensive natural disasters in terms of insurable losses.

But it will certainly be among the many events at home and elsewhere in 2013 to leave a mark. Be it ice, rain, snow, wind or a stubborn polar vortex, these events contribute to hefty damages, both insured and not.

The ice storm, by one estimate leaving $200 million in claims in its wake, pushed Canada's 2013 insured losses from severe weather beyond the $3-billion mark. The figure from the PSC-Canada Service follows several years when losses were plenty high enough, each year in excess of $1 billion.

The impact of weather-related catastrophe costs were hardly lost on insurers in Canada, including a number of big players that made reference to severe weather's impact in their respective financial results.

And Canada is not alone in feeling the chill. In the United States, for example, the Insurance Information Institute (III) reports that Property Claims Services at Verisk Analytics estimated insured losses from winter storms this year to be more than US$1.5 billion, with about 175,000 claims paid to policyholders to date.

This substantial hit includes just two of the four major winter storms so far.

Though the recent ice storm in Ontario and eastward is a smaller sister to the 1998 event, the holiday-season assault nonetheless left many cold and in the dark for days, all while public services that would normally be winding down for the annual fill of festivities scrambled to meet rather pressing needs.

At the height of the storm, Toronto Hydro reported that about 300,000 customers were without power.

By early January, claims were already being received because of falling ice, trees and branches, as well as flying debris, that damaged homes and vehicles, sewer back-up, frozen or busting pipes, and fridge and freezer losses. There were also some business interruption claims.

The list south of the border this winter is pretty much the same, with III noting that insured losses relate to property damage to homes and buildings from roof collapses, downed tree limbs and power lines, and frozen pipes bursting, along with auto accidents.

Business interruption and supply chain losses are also being reported.

Here at home, Toronto city officials estimated in early January that it could cost more than $75 million to clean up the thousands of downed tree limbs, and to repair and maintain the tree canopy, after the ice storm. By late February, the Ontario government noted it would provide up to $190 million to help municipalities that had requested assistance pay for clean-up and recovery.

Despite severe winter weather causing heavy property damage and business interruption losses in the U.S., A.M. Best reports insurers there will be likely to handle losses. "A.M. Best expects national insurers and reinsurers to have no difficulty in bearing these losses," it notes.

"As often happens in weather-related events, the greatest proportional impact may be on those insurers most concentrated by geography or line of business where the weather took its greatest toll."

The same is expected to hold here at home.

But it cannot be ignored that severe weather is leaving its mark more harshly and frequently of late, something that will increasingly need to be considered should another event, perhaps one not as easily absorbed, occurs.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Booth 1721

# Canadian Market

## IBC SUPPORTS PROPOSALS FOR FLOOD INSURANCE

Ottawa's promise to consult with the insurance industry on a "national approach to residential flood insurance" and start funding projects like flood control infrastructure in 2015, has been well-received by the Insurance Bureau of Canada (IBC).

In the 2014-2015 federal budget February 11, finance minister Jim Flaherty noted the federal government plans to provide $200 million over five years, beginning in 2015-2016, to the National Disaster Mitigation Program. This is in addition to spending plans for the upcoming fiscal year.

"This program will support investments in structural mitigation measures, such as infrastructure to control floods that can reduce the impact of severe natural disasters," note the budget documents. Ottawa also proposes it will consult with the insurance industry, provinces and territories, and other stakeholders to explore options for a national approach to residential flood insurance in Canada and insurance issues arising from natural disasters more generally.

"This is the beginning of a process," Don Forgeron, IBC's president and chief executive officer, says in a press release. "As the insurance industry, we are concerned with adaptation issues and have invested extensively in helping Canadians. We want governments at all levels, the private sector, citizens and community groups to continue to come together on these critical files."

## INTACT TO ACQUIRE P&C INSURER IN NEWFOUNDLAND

Intact Financial Corporation has signed a definitive share purchase agreement to acquire Newfoundland and Labrador-based Metro General Insurance Corporation Limited.

Terms of the transaction were not disclosed, but the deal is expected to close later in 2014 upon receipt of the appropriate regulatory approvals, Intact Financial notes.

Metro General Insurance Corporation is a privately owned property and casualty insurance company specializing in home, auto and liability insurance. It operates across Newfoundland and Labrador and in rural Nova Scotia through a network of 13 brokers.

## COOKE CALLS DESJARDINS ACQUISITION OF STATE FARM A DISTRIBUTION PLAY

Desjardins Group's acquisition of the Canadian operations of State Farm in January is about more than insurance, suggests George Cooke, former chief executive officer of The Dominion.

"It's going to be a play of some kind around combining financial services types of products into one distribution model," Cooke, now president of Martello Associates Consulting, said during a presentation at the AudaVision Toronto 2014 symposium, hosted by Audatex Canada.

"One has to believe that this is a distribution play around financial services, and what you will see coming out of this, post-2015 when the deal is complete and the integration is somewhat under way, is that infrastructure is going to be used to sell more than just auto insurance and home insurance," he said.

Cooke suggested that consolidation will be one of three of the most important trends in the industry.

The Canadian businesses of State Farm include property and casualty, life insurance, mutual fund, loan and living benefits. Among other things, Desjardins General Insurance Group already provides auto, property, pet, motorcycle and recreational vehicle coverage in Ontario, Alberta and Quebec; and owns Western Financial Group Inc.

## REGULATOR OKAYS NEW YORK INSURER TO DIRECTLY WRITE COMMERCIAL LINES

New York-based Starr Companies will begin directly writing a variety of commercial lines in Canada, after receiving regulatory approval from the Office of the Superintendent of Financial Institutions.

A federal order has approved Starr Insurance & Reinsurance Ltd., the company reported in February.

Starr Insurance has established a branch office in Toronto. It has already received a number of provincial licences, including most recently in Ontario, the statement notes.

# Risk

## THIRD OF BUSINESSES REPORT SUBJECT TO ECONOMIC CRIME: PWC

More than one in three Canadian respondents report their businesses were subject to economic crime, and more than one in 10 of those note that economic crime cost their companies more than $5 million, notes a report by PricewaterhouseCoopers LLP.

The Canadian supplement to its *2014 Global Economic Crime Survey* lists cybercrime as one of the top five economic crimes, with 22% of Canadian respondents reporting their firms had been victims. "We have to also consider that a significant percentage of those who did not report cybercrime may have suffered an event — and not even know about it," says Steven Henderson, PwC Canada's national forensic services leader. "The bottom line is that much of the damage created by these attacks is not disclosed."

Fifty-eight percent of Canadian respondents who were victims of economic crime reported they had been subject to asset misappropriation, one in three cited procurement fraud and 14% noted experiencing bribery or corruption.

"It is critical for Canadian companies to ensure they assess their current bribery and corruption risk, and implement a robust anti-bribery and corruption compliance program to address these risks," Henderson advises.

### MOBILE DEVICES VIEWED AS TOP THREAT IN IT SECURITY

IT security professionals are most concerned about their ability to defend against cyber threats from mobile devices, notes new survey results from CyberEdge Group.

Approximately 750 security decision-makers and practitioners in North America and Europe were asked to rank their ability to defend against cyber threats across various platforms, with 1 being the lowest and 5 the highest. Mobile devices, at 2.77, received the lowest marks, followed by laptops, at 2.92, and social media applications, at 2.93. Virtual servers, at 3.64, and physical servers, at 3.63, were deemed most secure.

More than 60% reported being breached in 2013; that figure dropped to about 40% when asked if they expected another breach in 2014.

### MINING URGED NOT TO CUT COSTS AT EXPENSE OF RISK MANAGEMENT: WILLIS

Mining companies looking to lay the foundation for long-term business growth through cost-cutting measures would be well-advised not to do so at the expense of risk management, cautions a new report from Willis Group Holdings.

*Mining Risk Review 2014* warns companies not to be tempted to cut back on risk management outlays to achieve cost reductions. “This could be fundamentally self-defeating as the costs saved are marginal, but leave potentially enormous exposures.”

Behavioural traits that make a mining company resilient include a well-defined system approach to managing the business, with clear key principles — including policy, commitment and leadership; planning; and measurement and evaluation — that permeate the company top to bottom.

## Claims

### INSURED LOSSES THIS WINTER LIKELY AMONG THE FIVE COSTLIEST SINCE 1980

Insured losses from winter storms in the United States this year top $1.5 billion so far, the Insurance Information Institute (III) reports.

That estimate, from Property Claims Services (PCS) at Verisk Analytics, is based on events from January 1 to February 21, with more than 175,000 claims paid to policyholders south of the border. The figures also include only two of four major winter storms to date, notes the III statement.

Losses come from property damage to homes and buildings from roof collapses, downed tree limbs and power lines, frozen pipes bursting, and auto accidents. Business interruption and supply chain losses have also been experienced.

PCS figures show that from 1993 to 2012, winter storms caused roughly $28 billion in insured catastrophe losses (in 2012 dollars), or $1.4 billion annually on average, it adds.

Although this winter will likely be among the top five costliest for insured losses since 1980, losses are still within what has been planned for by insurers, III notes.

## Technology

### WEB TOOL FROM CAA SEEKS TO HELP SENIORS DRIVE MORE SAFELY

CAA South Central Ontario launched a new web tool on the Canadian Automobile Association website in mid-February meant to help senior citizens drive safely.

CAA South Central Ontario notes the tool offers assessment instruments to pinpoint areas of improvement, interactive infographics to show common physical changes that influence driving, and videos containing tips for managing challenging driving conditions.

The web tool offers an interactive online assessment. The assessment helps to test conditions such as leg strength and mobility, vision and reaction times.

### POSITIVE EXPERIENCES FOR DIGITAL INTERACTIONS WITH INSURERS NOT HIGH

Customers worldwide “do not report a high rate of positive experience” when interacting with insurance carriers through “digital channels,” suggests a report released in February by New York City-based Capgemini and Paris-based Efma.

The *World Insurance Report 2014* looks at the financial performance of insurers in various countries, and how customers perceive the quality of their interactions with carriers. More than 15,500 people were surveyed in 30 markets.

With regard to how customers perceive the quality of their service interactions for different products, different channels and at different stages of the life cycle, in Canada, the score dropped from 74.1 in 2012 to 73.7 in 2013. The global average score was 67.5 in 2012 and 69.4 in 2013.

Across the 30 markets, the highest rate of positive experience was through the agent channel. “Despite growing demand for digital channels, customers do not report a high rate of positive experience when using them.”

## Reinsurance

### DISASTERS CAUSED $40 B IN INSURED LOSSES IN 2013: GUY CARPENTER

Guy Carpenter reports that natural and man-made disasters caused insured losses of about $40 billion in 2013, well below the 10-year average of $60 billion.

“Last year will likely be known as the ‘year of the flood,’ with significant global flood events affecting Central Europe, Australia, Canada and the United States,” Julian Alovisi, vice president at Guy Carpenter, comments.

Among other events, Guy Carpenter notes that severe flooding in Southern Alberta (causing insured losses of $2 billion) and flash flooding in the Greater Toronto Area meant Canada experienced its most expensive insured catastrophe loss year on record.

The man-made disasters included a major fire at a microchip factory in China, with reported costs to the reinsurance sector of about $1.3 billion.

# At the Crossroads

Angela Stelmakowich
Editor

## Bev Duthoit and Valerie Barber, co-chairs of the 2014 RIMS Canada Conference, say a changing risk landscape is now simply a business reality.

Changes are afoot in risk management — changes in the role risk managers play, changes in the understanding they need and changes in the ever-expanding, ever-evolving risk landscape.

"We consider changing landscapes to be a business reality in our global marketplace, whether it is technological changes, regulatory, environmental, social or economic," says Bev Duthoit, director of corporate insurance and claims at Manitoba Telecom Services Inc., and co-chair of the 2014 RIMS Canada Conference, the theme of which is Crossroads.

The theme is not only reflective of the changing risk landscape, but also of the city in which the event takes place this September.

Winnipeg, at the centre of Canada, is positioned as one of the strongest economies in Canada, notes Valerie Barber, manager of agency claims and loss prevention for the Province of Manitoba, and conference co-chair.

But the city is no stranger to risk and its related impact. Its history is ripe with a concern on many risk radars today — flooding.

Consider the Red River Floodway — so-called Duff's Ditch, spearheaded by former Manitoba Premier Charles Dufferin Roblin — which, after the devastating 1950 flood, was constructed from 1962 to 1968. Overall, reports the Red River Floodway Expansion Project, the flood caused about $125 million in damages (estimated at $1 billion in today's figures).

Since first used in 1969, the floodway — which during flood periods, diverts part of Red River's flow around Winnipeg to the east before discharging back into the river — has been operated more than 20 times and prevented over $10 billion in flood damages, the project reports.

"I think Winnipeg can be looked to as the model for flood protection of a major city," suggests Duthoit, a past president of the Manitoba RIMS Chapter, who has also served as secretary, treasurer and board member.

### CHANGING NOW

But it is not just about now; it is also about looking to — and being prepared for — the future. "We want to deal with issues that are happening now, as well as looking to the future to see what's coming down the pipe that all of us are going to have to deal with at some point," Duthoit says of conference offerings.

Changes will include shortening some sessions to ensure that delegates have more choice, allowing them to supplement or enhance their existing knowledge.

A very short list of issues risk managers are expected to face in future includes those related to technology, storing information in the cloud and the geopolitical climate.

**Changes will include shortening some sessions to ensure that delegates have more choice, allowing them to supplement or enhance their existing knowledge.**

Citing the last issue, "that can create huge impacts, especially to your supply chain management," notes Barber, past RIMS Manitoba Chapter president, who has also held positions as secretary, treasurer and vice president.

Then, of course, there is the issue of climate change and severe weather. "Across Canada, the winter that we've had this year is creating all kinds of issues not only from a claims perspective with the property damages, but also how do you deal with that? How are you managing it?" Barber asks, adding that the implications are far-reaching.

"Climate change is actually a big one that shows real-time effects," Duthoit notes.

"We have to deal with the climate that we have now, but we also have to prepare and try and understand what the predictions are for what's going to be down the road five, 10 or 25 years. If you're building a new building, you need to consider whether you're all of sudden going to be in a floodplain, even though you weren't in a floodplain 25 years ago."

### CHANGING ROLES

These changes are influencing risk management generally, but also more specifically the role that risk managers are expected to play now and in the future. "The demands on a risk manager are ever-increasing," Duthoit suggests.

With regard to changing risks around technology, for example, a risk manager "has to understand the IT world, the whole focus of storing information in the cloud and the implications that has to each and every business that wants to consider that as an option," she points out.

"You have to know a little bit more about a lot more things," Barber offers.

Photo: Andrew Sikorsky

"Originally, a lot of the focus (of risk managers) was working on the insurance program for the corporation or managing claims," Duthoit reports. "But the business of running an organization requires looking strategically at the whole organization and how things are happening. Typically, that's done by the C-suite of the organization, but I think the risk management position has developed a lot more in terms of supporting the executive by sharing information they come across in their daily jobs."

The risk manager has to keep an open mind, be flexible and "be able to adapt to new ways of thinking about risks, as well as managing them," she says. Barber concurs, adding that it is not only important to be current and engaged, but also to not be afraid to ask questions.

Events that afford networking opportunities allow risk managers to build a base of individuals whose expertise can be tapped, she suggests. "Know what you know, and know what you don't know."

## CHANGING DUTIES

Handling the very big task of serving as conference co-chairs has been welcomed by Duthoit and Barber. The job has been made somewhat easier because, having known one another for some time, the two work well together and share a common vision.

Duthoit and Barber have also been served by past experience — paying and not.

Duthoit, who graduated with a commerce honours degree, began at Aon Reed Stenhouse as a property marketing broker in the early 1980s. While there, she worked in marketing, surety and account management. "That, in my opinion, is the best way to learn a lot about insurance and the insurance business."

Duthoit — who holds CIP, FCIP and Canadian Risk Management (CRM) designations — joined what is now MTS Allstream in the early 1990s, working first in its finance group and later moving back to insurance.

Barber would characterize herself as having fallen into the industry right after finishing an accounting program at Red River College. She began with Canadian Pool Agencies Limited/Pool Insurance Company, a unique situation that provided her an opportunity to work for an insurance agency and an insurance company at the same time.

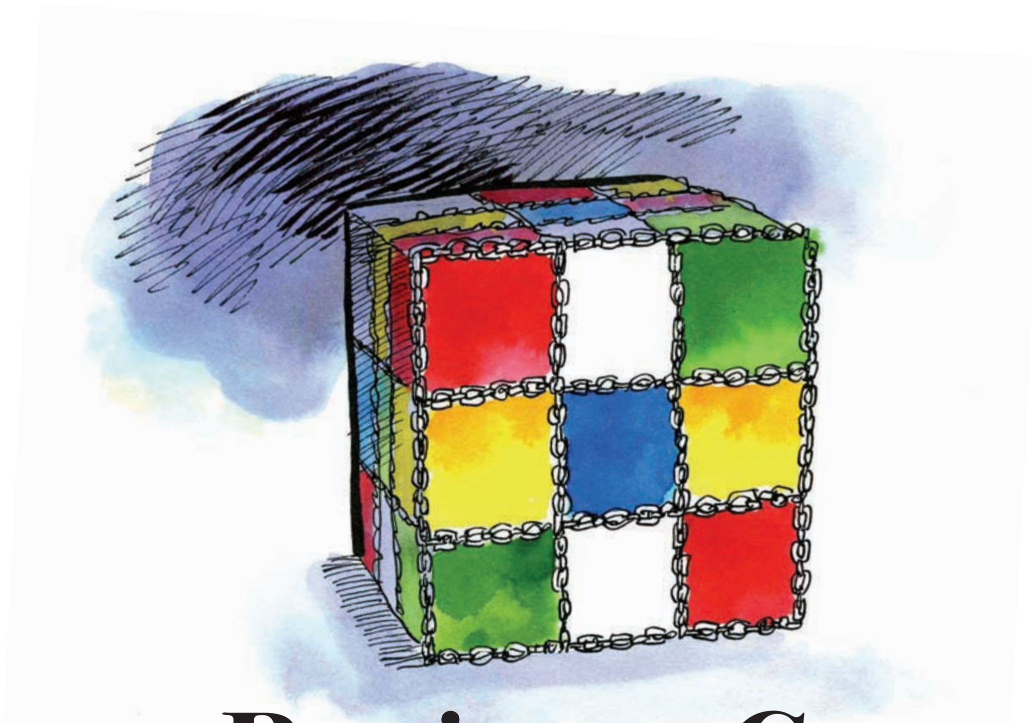
While there, she signed up for what is now the CIP, obtaining her designation, before moving on to independent broker, Hayhurst Elias Dudek Inc., as a claims examiner in 1990 and working her way up to claims manager.

Barber, who among others holds FIIC, CRM and Canadian Institute of Management designations, joined the Manitoba government in 1999.

"The thing I've taken away from my positions with claims is that it gives a unique perspective. It's an opportunity to see what has gone wrong, what you can prevent from happening in the future, and also what has worked."

That perspective is also welcome in risk management. "The risk manager can't know everything about every process, every product, every system within an organization, but their job is to develop information networks within an organization so that they have an opportunity to leverage all of the knowledge out there and focus it into what they're looking to do, which is basically manage the risks of the organization," Duthoit says.

It is helpful if everyone does their part, Barber says. "Ideally, if everybody is a risk manager within their organization, you're more apt to clue in more quickly as to what it is that's missing or where the gaps are."



# Business Case

**Kevin Leong**
Chief Executive Officer & Chief Agent, Canada, Allianz Global Corporate & Specialty

Business risks are becoming increasingly complex. Canadian companies must respond to growing challenges by adopting stronger internal controls, implementing a holistic approach to risk management and determining if business continuity plans are robust enough to adequately address any major interruption.

Allianz Global Corporate & Specialty (AGCS) recently announced the top business risks for 2014, and once again, natural catastrophes and business interruption (BI)/supply chain top the list of risks for Canadian companies. The third annual *Allianz Risk Barometer* surveyed more than 400 corporate insurance experts — including risk consultants, underwriters, senior managers and claims experts — from 33 countries.

The Canadian survey included a dozen risk and insurance professionals who work with over half of the top 100 companies in Canada across all major industries and geographic regions.

The AGCS survey highlights the increasing complexity of business risks, including a combination of new technological-, economic- and regulatory-related risks, potentially creating a systemic threat for businesses. Canadian companies need to respond to these growing challenges through stronger internal controls, combined with a holistic approach to risk management.

## NATURAL CATASTROPHES DOMINATE

It is no surprise that natural catastrophes continue to dominate the top spot in business risks for Canadian companies. The devastating floods in Alberta last June cost insurers $1.74 billion in damages, the Insurance Bureau of Canada has reported. And barely a month later, Toronto experienced unprecedented flooding resulting in insured losses of $940 million.

Globally, Swiss Re reports natural catastrophes accounted for insured losses of approximately $41 billion in 2013 and occupy the number two spot on Allianz's global risk barometer rankings as more countries adjust to this new normal of extreme weather patterns.

As the increase in the number of extreme weather events around the globe demonstrates, climate change is becoming more specific and threatening. Many industry experts would likely

Illustration by Dave Whamond / www.threeinabox.com

agree more needs to be done in terms of prevention, than to rebuild what has been destroyed after each disaster.

The 10 most costly insured catastrophe losses during 2013 were all weather-related events, which offers a stark reminder that volatile weather activity is increasing around the world.

Allianz research shows that insurers have paid out more than $75 billion for damages from extreme weather events globally every year for the last three years alone. In the 1980s, about $16 billion a year was paid out for such claims.

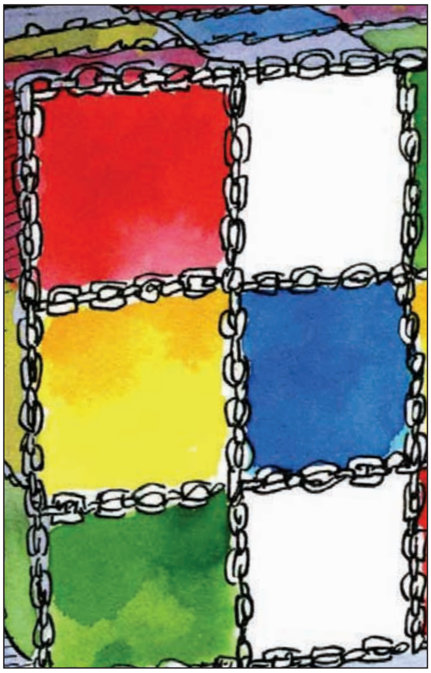
There are four key steps that businesses can implement now to be better prepared for future extreme weather events: update and test emergency preparedness plans; review business contingency plans; understand the company's insurance policy; and know what to prepare for.

## BUSINESS INTERRUPTION A GROWING CONCERN

The second most frequently cited business risk in 2014 for Canadian companies is business interruption and supply chain losses, which account for around 50% to 70% of all insured property losses, as much as $28 billion a year based on 2013 data from AGCS. These risks are ranked number one in the global results, including in the United States, where more than 60% of participants identified them as the top business risk in 2014.

Businesses in Canada are discovering that supply chains are becoming increasingly complex in a globalized world. Any disruption — be it due to natural catastrophes, IT/telecommunication outages, transportation issues, a supplier's bankruptcy or civil unrest — may lead to a snowball effect that can be devastating to their bottom lines.

Business continuity planning is critical and should be part of any risk manager's supplier selection process. But it is no longer enough to have transparency of an organization's most important suppliers; it is also necessary to know how they manage their own supply chains.



**Today's business continuity plans must prepare for an increasing range of risk scenarios, which need to reflect the sometimes hidden knock-on effects. It is critical that companies review their business continuity plans with their insurance partners to ensure they account for different risk scenarios.**

Today's global supply chains work to an ever-tighter set of interdependencies, where "just-in-time" and "lean manufacturing" have become standard practices. This evolution — coupled with an increasing trend among companies to source globally and a rise in disruptive natural catastrophes (often in those areas where new supply capacity has been developed) — has led to growth in BI and contingent BI.

Supply chains have evolved over the past two generations to become increasingly complex. In addition to natural catastrophes, they are also at risk from other perils, like IT or telecommunications outages, transportation network disruptions and civil unrest. As a result, insurers are beginning to put much greater weight on supply chain risk when underwriting large industrial risks.

Business continuity planning should be an integral part of any company's procurement and selection process. However, without adequate data, it is not possible to identify hotspots within a supply chain. Therefore, data transparency between clients and insurers will become an increasingly important part of any supply chain analysis.

## INTERCONNECTIVITY OF RISK INCREASES

While there is a broader range of risks in the 2014 results than in the past, the survey revealed an increased interconnectivity and dependency of different risks. The global risk landscape continues to evolve and is increasingly complex due to the growing interdependency of different industries and processes. This, combined with inadequate internal processes, equates to an increasing need for deployment of holistic, state-of-the art risk management and mitigation strategies.

Today's business continuity plans must prepare for an increasing range of risk scenarios, which need to reflect the sometimes hidden knock-on effects. For example, a natural catastrophe can result in BI, systems failure, power blackouts and a host of other perils.

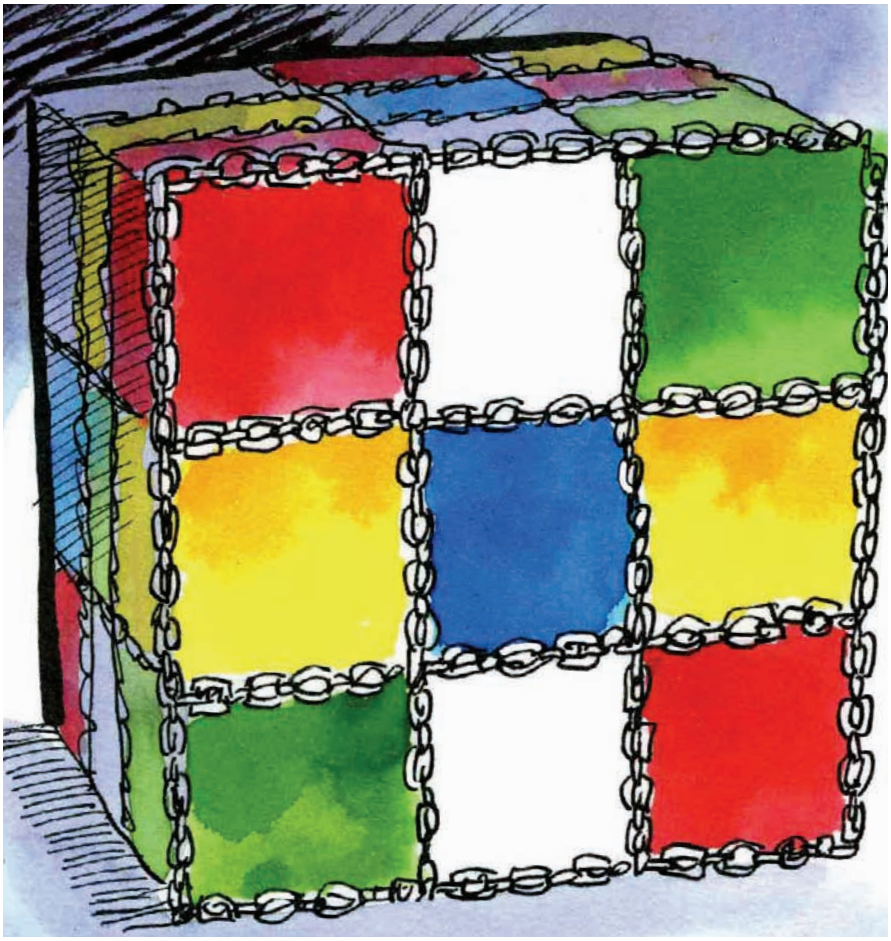
It is critical that companies review their business continuity plans with their insurance partners to ensure they account for different risk scenarios that reflect these hidden incidental effects.

## EMERGING RISKS IN 2014

Cyber and loss of reputation issues were identified as emerging risks on this year's risk barometer, as risk managers worldwide are increasingly on red alert about the threat that such fast-evolving, high-tech perils pose. Cyber risk is the biggest mover in this year's global results, making the top 10 for the first time.

And while cyber crime ranked as the sixth business risk for North and South America, it did not rank in the top 10 in the Canadian results. This may be because the Canadian authorities have not yet implemented the same requirements for companies to have cyber risk coverage as other countries have in place. Allianz expects this to change over the coming months.

Amid rising cyber criminality, IT security is not enough. A comprehensive set of information and network security policies and procedures backed by the board of directors is essential. They also need to be properly implemented, tested and updated on a regular basis to ensure that the risk management approach is adequate.



## RISKS VARY BY INDUSTRY

On a global basis, the 2014 barometer identified some interesting findings on how different industries view business.

- For the manufacturing sector, BI and supply risk is comfortably the major concern, with supply chain in particular deemed to be difficult for manufacturers to manage as a result of global demands for raw materials and competition.
- Legislative change is the top risk in the power and utilities sector, with BI/supply chain risk second and power blackouts third. The risk posed by the latter is increasing. Major power outages in the U.S. caused by weather increased from five to 20 each year during the mid-1990s, to 50 to 135 each year during the past five years. Power quality and blackout issues in the U.S. now cost industrial and commercial companies $132 billion to $209 billion.
- After natural catastrophes, theft, fraud and corruption are the second major concern for the marine and shipping sector. Theft is also a major concern in the transportation sector, with Allianz experts noting that many companies are aware of incidences of internal fraud being perpetrated by staff, but are unsure how to solve or mitigate this issue.
- For the financial services sector, changes in regulation and legislation remain the top concern, reflecting increasing supervisory intervention around the globe following the financial crisis. Cyber crime was also identified as a fast-emerging risk in the sector.

## FOREWARNED IS FOREARMED

Now that it is clear what risks are keeping Canadian executives up at night, what can be done about them?

One of the most crucial first steps is to partner with an insurer with superior capacity who can assess every aspect of an organization's risk exposure. Many carriers have engineers on staff to provide co-ordinated risk surveys and advisory services to match the requirements of the client.

Understanding the intent of the policy is a critical and often overlooked step. During the recent floods in Alberta, many companies assumed that they were covered for flood damage when, in fact, they were not. It is essential to really understand the intent of the policy wording and what is covered.

Having tested business contingency and vendor management plans in place can prevent many of the typical problems a company faces during a crisis. How will the business operate if employees cannot get to the office? Is it known where back-up suppliers are located if primary suppliers cannot deliver?

When Thailand was devastated by floods last year, many companies discovered too late that their back-up suppliers were located in the same region as their primary suppliers. This type of unwelcome surprise can easily be avoided with rigorous planning and testing.

Canadian executives need to ask themselves if their business continuity plans are robust enough to adequately deal with any kind of major business interruption. As has been seen all too often recently, events outside of Canada can greatly impact companies here.

It all comes down to this: success in managing external risks is intrinsically linked to the quality of a business's internal risk management.

# Water Logged

**Canadian Institute of Actuaries**
Research Committee/ Property & Casualty Research Subcommittee

## A mix of environmental, economic and sociological pieces make up a costly puzzle when it comes to water damage risk and the potential effect on Canadian property insurance pricing.

When one peril accounts for at least 40% of all home insurance claims, and the average claim for that peril has risen by well over 100% over 10 years, actuaries tend to focus attention on the problem and work towards a viable solution. The problem? Water damage.

The chart on page 21, based on a presentation by the Insurance Bureau of Canada (IBC), looks at Québec personal property claims and helps illustrate the issue.

The expensive impact of water on Canadian homes and businesses was the subject of a recent Canadian Institute of Actuaries (CIA) report, *Water Damage Risk and Canadian Property Insurance Pricing*, available at http://www.cia-ica.ca/docs/default-source/2014/214020e.pdf.

Water has replaced fire and theft as the largest source of claims costs to Canada's property and casualty insurers. Systematic under-pricing of water damage risk can have a negative impact on the profitability of insurers, and can lead to underwriting decisions that make it more difficult for consumers to purchase personal and commercial property coverage.

### FACTORS TO CONSIDER

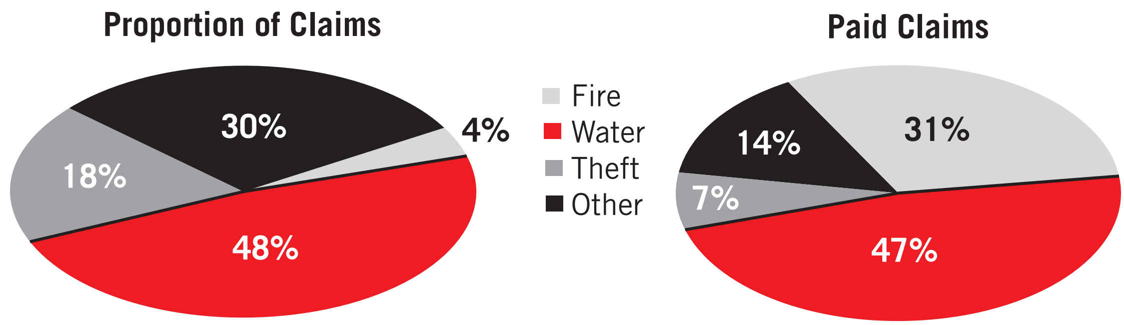
*Looking back may be less helpful in a changing environment* — Currently, actuaries start with historical claims and adjust them for inflation in order to form the basis for the premiums to be charged.

However, the report — which was produced by consulting firm KPMG and involved a literature review, plus questionnaires sent to actuaries, claims professionals, underwriters, regulators and catastrophe modelling firms — found that there are many reasons to believe that historical claims may no longer be predictive of future claims, such as the following:

- climate change;
- aging and inadequate infrastructure;
- lifestyle changes;
- construction-related issues; and
- human behaviour.

Most interviewed actuarial pricing practitioners believe that there is currently too great a reliance on past experience. While historical

## Kind of Loss Distribution for Québec Home Insurance Claims in 2011




Source: based on a presentation by the Insurance Bureau of Canada

claims still include useful information, property and casualty actuaries would like to have access to more reliable external data.

Specifically, actuaries are seeking information on how to adjust historical claims for the effect of weather changes, aging or inadequate infrastructure and lifestyle changes.

*Climate change* — Across Canada, annual mean precipitation has increased by about 12% over the past 50 years. There is evidence that the number of days of heavy precipitation has increased by 1.8 days nationally, a statistically significant change. The increases in these two important factors could be causes of increasing water damage loss for the industry.

*Aging and inadequate infrastructure* — Over the last 15 years, the lion's share of infrastructure investment was for new construction, while renovation and restoration work represented a small slice of the available resources. For example, new construction consistently took up about 80% of investment budgets for highways and roads, leaving just 20% for renovating the road network.

Renovations are required not only for visible assets such as roads and bridges, but also for hidden ones like sewer and wastewater systems. A mix of allowing the deterioration of these assets — through a combination of aging and being operated beyond their planned design life — and not investing in boosting their capacity may increase water damage risk in the event of system failure. When sewers back up, for example, basements will flood.

The responsibility for sanitary and storm sewers rests with municipal governments. However, funding for upgrading or expanding current sewer systems is a matter of joint partnership between the various levels of governments and, sometimes, the private sector.

In Canada, the value of the gross stock of sanitary and storm sewers was the second largest public asset after highways and roads. This stock has been growing at an average annual rate of 1.0% since 2001. However, despite this increase, the average age also continued to climb, reaching its all-time high of 18 years in 2006.

The federal government's Economic Action Plan 2013 proposes to provide federal support of more than $53 billion, including over $47 billion in new funding over 10 years, starting in 2014-2015, for provincial, territorial and municipal infrastructure projects.

The plan provides interesting details of where the money will be spent, but does not provide any evidence that water collectors and sewer systems will be a priority. This investment seems particularly important to mitigate water damage risk following the occurrence of major events such as the Alberta and Toronto floods of 2013. Also, people should remember that another major flooding event happened in 2005 in Toronto.

Interestingly, in its recent budget, the federal government announced a plan to provide $200 million over five years starting in 2015-2016.

"This program will support investments in structural mitigation measures, such as infrastructure to control floods that can reduce the impact of severe natural disasters," notes *The Road to Balance: Creating Jobs and Opportunities*.

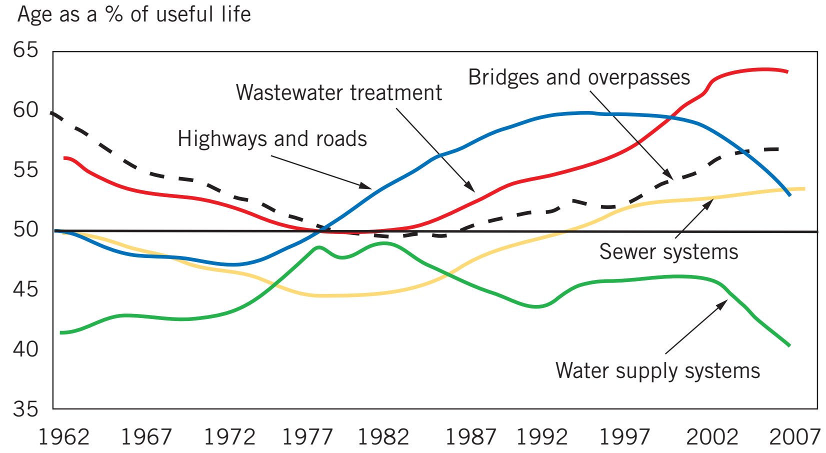
A *Calgary Herald* article the day after the budget reported, "Alberta Finance Minister Doug Horner welcomed Ottawa's interest in examining national flood insurance, but questioned whether enough infrastructure dollars are set to flow the province's way."

And a *Canadian Press* story on February 14 noted municipalities are working on their requests for federal infrastructure funds. The story quotes Daorcey Le Bray, a spokesperson for Calgary mayor Naheed Nenshi, as noting in an e-mail, "The province and the federal government both have roles to play in funding the capital needs of cities. Property tax, alone, doesn't even come close to paying for the infrastructure needs of growing cities (or the maintenance of older cities)."

Will federal funding be sufficient to solve both overland flooding issues and water damage claims arising from urban flooding such as sewer back-up? Time will tell.

*Lifestyle changes* — These include, but

**Useful life expended: highest for water treatment infrastructure (including the age of sewer systems) since 2000**




Source: Statistics Canada, special tabulation, Investment and Capital Stock Division

are not limited to, the following:

- an increased number of people living in condominiums;
- an increased number of finished basements;
- extended periods of time away from home; and
- residents' busy lives, and their attitudes towards prevention.
  - *Condominiums* — There has been tremendous growth in the number of condominium developments in Western Canada and Ontario, particularly in the Greater Toronto Area. Beyond water damage due to issues with the exterior shell of these buildings, rather than having laundry facilities in the basements of these building, many offer in-suite laundry rooms. As well, dishwashers are now common in units. A rupture in a pipe, water seepage or a mechanical malfunction with a machine in one unit can cause serious and costly problems in neighbouring units.
  - *Basement use* — In the past, most homeowners used their basements for storage and laundry facilities. This practice has changed significantly over time, and not in a positive way from the perspective of water damage claims. Families are increasingly using basements as entertainment centres, with expensive furnishings and electronics. As well, basements are often used as rental space, and contain all of the renters' belongings and appliances. Such usage can increase the frequency and severity of claims.
  - *Time away from home* — Another lifestyle change is that people are spending more time away from home. Increasingly, burst pipes and the resultant seepage are not noticed, and, therefore, not repaired, close to the time of their occurrence.
  - *Busy lives* — The last lifestyle change reviewed is a result of increasingly busy lives. Loss prevention and household maintenance are not seen as high priorities. One study reported that "Internet outage and burned-out light bulbs are fixed more immediately than a leaky faucet or broken pipe."

*Construction-related issues* — The CIA report discusses the rapid pace of construction, the age and quality of construction and building codes. Some organizations are calling for changes to the *National Building Code*, supporting the idea that it needs higher standards.

In terms of reducing water damage claims, the Institute for Castastrophic Loss Reduction notes in the report, *Urban Flooding in Canada*, that the changes could include "clarifying requirements for lot grading around homes, requiring back-up systems for sump pumps, clarifying requirements related to connection of foundation drainage to sanitary sewer systems and restricting use of manual devices that are designed to reduce the risk of sewer back-up."

## GOOD PRACTICES

The research paper also identifies six good practices for property and casualty insurers to follow. It recognizes that in some circumstances a best practice has not yet evolved, and "good practices" leave room for improved approaches and methods to be integrated.

These include furthering the mutually beneficial partnership between the industry and cities on IBC's Municipal Risk Assessment Tool (MRAT), identifying and accessing the data required for pricing, and keeping a watchful eye on the development of emerging computer models that would help quantify the risk of water damage.

Some actuaries put a lot of hope on MRAT. This web-based tool allows users to assess the impact of severe weather on urban drainage systems, including the risk level and obtaining a fairly precise location of potential infrastructure failure. They are looking to use the tool as soon as it becomes available to improve their projection accuracy on the water damage risk impact.

## FINALLY...

The CIA report explores what has become an increasingly serious problem for the property and casualty insurance industry, Canadians and governments, and was designed to collect creative ideas that may lead to solutions.

These suggestions came from a variety of sources, some deeply scientific and others not. Some are revolutionary and others build on processes and information currently in play within the industry.

The hope is that readers' curiosity has been piqued, and that a flow of different sources and approaches emerge from sharing this information.

# Policy Wording Rules

A recent ruling by the Court of Appeal for Ontario found that, without appropriate policy language, an excess insurer is not required to equitably contribute to defence costs. By reiterating that policy wording will govern an excess insurer's defence obligation, the decision reaffirms the parties' ability to bargain and to rely on the terms of the policy.

**Michael Teitelbaum**
Partner,
Hughes Amys

The November 2013 decision, *ACE INA Insurance v. Associated Electric & Gas Insurance Limited*, reiterates and reaffirms the Court of Appeal for Ontario's previous decisions on the obligation of an excess insurer to contribute equitably to defence costs. The court upheld the application judge's ruling that the obligation arises from the particular wording of the policy.

## FACTS

An explosion occurred in the electrical vault of a high-rise apartment building in Toronto on July 20, 2008. Two transformers inside the vault were owned and operated by Toronto Hydro Corporation. Five civil actions were commenced following the explosion and the ensuing fire for personal injuries and property damage.

ACE INA Insurance is Toronto Hydro's primary insurer under a comprehensive general liability policy, with limits of $1 million per occurrence. Associated Electric & Gas Insurance Services Limited (AEGIS) is the utility's excess liability insurer, with a limit of $45 million in excess of the primary policy. It is expected that damages will exceed the coverage of the primary insurer if Toronto Hydro is found to be liable for the fire, and the excess insurance coverage through AEGIS will be triggered.

The terms of the primary and excess insurance policies were intentionally quite different. The primary policy contains a "duty to defend" clause and includes unlimited defence costs, which do not detract from the policy limit.

In comparison, the excess insurance policy does not contain a "duty to defend" clause, and the defence costs, which are only payable where there are no other valid and collectible insurance policies responsible, erode the policy limit.

## PARTIES' POSITIONS

Although ACE acknowledged that AEGIS does not have a duty to defend within the terms of its policy, it submitted that based on equitable contribution, AEGIS did have a duty to contribute to the defence costs of the action.

ACE's position was that AEGIS will be responsible for the vast majority of the ultimate liability and, therefore, should share the defence costs. ACE requested that AEGIS pay 50% of those costs, while also offering to give up control of the defence.

AEGIS rejected ACE's proposal on the grounds that it is only responsible for defence costs once the limits of the primary policy have been exhausted.

## DECISION AT FIRST INSTANCE

The application judge applied the Court of Appeal's decisions in *Broadhurst & Ball v. American Home Assurance Co.*, issued in 1990, and *Alie v. Bertrand & Frère Construction Co.*, released in 2002. Equitable contribution, based on these decisions, is triggered when the primary and excess policies cover the same risk.

The policies in the case at bar do not cover the same risk and, consequently, the doctrine of equitable contribution does not apply. Moreover, the AEGIS policy does not include a duty to defend, which precludes the doctrine of equitable contribution.

## ISSUES ON APPEAL

The core issue on appeal was whether or not the principle of equitable contribution extends to cases like this, where the policy of excess insurance does not contain a duty to defend, and defence costs erode the excess policy limit.

ACE relied on the doctrine of equitable contribution, which contemplates that insurance policies taken out on the same risk do not allow double recovery by the insured. Since the insured may claim from either of the policies, but not from both, the law requires that both insurers contribute *pro rata*.

The 6th edition of E.R. Hardy Ivamy's *General Principles of Insurance Law* sets out the fundamental principles concerning insurers' right of contribution, as follows:

1. all the policies concerned must comprise the same subject matter;
2. all the policies must be effected against the same peril;
3. all the policies must be effected by, or on behalf of, the same assured;
4. all the policies must be in force at the time of the loss;
5. all the policies must be legal contracts of insurance; and
6. no policy must contain any stipulation by which it is excluded from contribution.

The Supreme Court of Canada has previously stated the importance of the insurers' intention as evidenced by the terms of their respective policies in determining whether or not the insurer has excluded liability for risk covered by another policy. As such, the proper means for determining intention is through the express terms of the policy.

The insurer may expressly limit its liability in the policy by contracting out of its obligation. General principles of contract interpretation require that the parties' intentions must be determined. In these instances, the courts must determine the insurers' intentions as evidenced by the terms of their issued policies.

Where overlapping liability policies cover the same risk, the insurers' liability will be found in their respective intentions to limit liability *vis-à-vis* the insured.

*Broadhurst & Ball* was the first in a series of Ontario cases dealing with the duty to defend between primary and excess insurers. In *Broadhurst & Ball*, the primary insurer was subrogated to the insured's right to compel the excess insurer to contribute to defence costs.

The excess policy contained language requiring the excess insurer to defend. The Court of Appeal held that in the circumstances, the principles of "equity and good conscience" required the excess insurer to pay its fair share of defence costs.

Since the excess insurer has greater financial exposure than the primary insurer, it would be unfair to require the primary insurer to bear the entire burden of defending the action.

In *Alie*, the Court of Appeal applied *Broadhurst & Ball* while also highlighting that the obligation to contribute to defence costs flows from either the express language of the policy or from a duty to defend.

The prospect that a claim will surpass the limits of the primary policy is not sufficient to trigger a duty to defend by the excess insurer.

## THE APPEAL DECISION

The court found that based on the decisions in *Broadhurst & Ball*, *Alie* and the 2001 decision, *Trenton Cold Storage Ltd. v. St. Paul Fire and Marine Insurance Co.*, the application judge correctly applied the principle of equitable contribution, which arises only when insurance policies cover the same risk. In the case at hand, the primary and excess insurance policies did not cover the same risk, and as such, the principle did not apply.

The Court of Appeal indicates the same risk is not covered because the excess policy expressly excludes liability for defence costs where it is covered under another policy, and in that sense, each insurer insured different risks. Accordingly, the liability for defence costs did not overlap. The equitable principles are not applicable in this instance as the parties have bargained for specific coverage in their respective policies.

In the result, the court dismissed the appeal and given the language of the AEGIS policy, it was not obliged to contribute equitably to the defence costs.

## COMMENT

The Court of Appeal for Ontario reiterated the principle that the wording of the policy will govern an excess insurer's defence obligation. The decision reaffirms the parties' ability to bargain and to rely on the terms of the policy.

Further to the previous Court of Appeal decisions, this ruling restates that the policy language will govern the obligations as between insurers.

After *Broadhurst & Ball*, it was suggested that contribution towards defence costs might flow as long as the excess policy would be exposed. The *Alie* decision made it clear that this was not the case, and *ACE INA Insurance* restates this.

In order for an excess insurer to be responsible for contribution towards defence costs, there must be concurrent coverage of the same risk and both policies must provide for a defence obligation.

*Many thanks to Rebecca E. Udler, student-at-law in Hughes Amys LLP's Toronto office, for her excellent assistance in the preparation of this article.*

# Preparing for Disaster


Illustration by Dave Whamond / www.threeinabox.com

**Gregor Robinson**
Senior Vice President, Policy & Chief Economist, Insurance Bureau of Canada

Understanding insurance industry conditions today can help Canada be better prepared moving forward. The cost of natural disaster is rising as the global risk landscape evolves. Policy-makers must re-evaluate how they mitigate the financial impact of disasters.

As Canada's property and casualty insurance industry continues to deal with the aftermath of last year's extreme weather events, stakeholders are also looking ahead to how Canada can adapt to these more frequent and damaging natural catastrophes.

The way forward is to first understand the problem. To that end, Insurance Bureau of Canada (IBC) recently published a research paper on the economic and fiscal effects of natural disasters. Drawing on evidence from more than 30 academic and research studies worldwide, the paper shows insurance can lower the economic and fiscal costs of natural disasters, transfer risk from taxpayers and speed recovery.

IBC is currently sharing the paper with Canadian policy-makers in an effort to inform financial planning and risk management decisions in the public and private sectors.

## NUMBER OF DISASTERS, COST PER EVENT INCREASING

In recent years, Canadians have experienced a steady increase in the number of storms, floods, droughts and other extreme weather events. In fact, the average number of natural catastrophes per year has risen 250% since the 1970s. At the same time, populations and economic activity continue to grow in vulnerable cities and regions.

The United Nations estimates that, by 2050, almost 70% of the world's population will reside in cities — many of which are located near coasts, floodplains and fault lines at risk for natural hazards. As a result, disasters now tend to exact higher economic tolls. Indeed, the average yearly economic cost of disasters has quadrupled since the 1980s.

Here in Canada, these trends are clearer than ever. The recent floods in Southern Alberta and in the Greater Toronto Area are a stark reminder of the country's vulnerability. The Alberta floods were the costliest natural disaster in Canadian history and the Toronto floods were the costliest natural disaster in Ontario's history.

The question is not if large catastrophes will occur, but how extensive the damage will be and whether we, as a country, will be prepared.

## LARGE DISASTERS HURT ECONOMIES

Large natural disasters have a negative impact on economic outcomes. A typical disaster lowers gross domestic product (GDP) growth by approximately one percentage point and GDP by about 2%.

However, major catastrophes can have even more pronounced effects. The 1995 Kobe earthquake, for instance, reduced residents' GDP per capita by 13% over the long term.

How quickly an economy rebounds depends on the extent to which losses are contained to avoid contagion to the rest of the economy. After Hurricane Katrina, for example, each dollar in direct losses led to an additional 39 cents in indirect losses.

Natural disasters can also negatively affect public finances and debt sustainability. When a catastrophe strikes, government finances are hurt two ways: tax revenues drop as a result of a reduction in economic activity, while at the same time, public spending increases to pay for emergency relief and reconstruction.

A recent World Bank study found that, on average, disasters lower tax revenues by 10% and raise government spending by 15%, leading to a combined 25% increase in budget deficits.

Governments in Canada are well-aware of the fiscal damage wrought by natural disasters. Over the last 40 years, federal Disaster Financial Assistance Arrangements (DFAA) have more than quadrupled. Annual DFAA spending has jumped from an average of $36 million a year in the 1970s, to $166 million annually in the 2000s, and well over $1 billion a year in the first four years of this decade.

**A recent World Bank study found, on average, disasters lower tax revenues by 10% and raise government spending by 15%, leading to a combined 25% increase in budget deficits.**

The 2013 floods in Southern Alberta and Toronto continue this trend. The floods caused more than $6 billion in damage, cost the federal government $2.8 billion and raised the federal deficit by approximately $2 billion. As the frequency of severe weather increases, the fiscal impact on Canadian governments will also grow.

## THREE STEPS TO A MORE RESILIENT CANADA

How can the country respond to the growing threat of natural catastrophes and strengthen Canada's physical and financial resilience to disaster risk?

1 The first step is comprehensive risk assessment. To this end, actuarial modelling by insurers is a vital complement to traditional risk assessments performed by natural scientists, such as seismologists and climatologists.

A recent example of comprehensive risk assessment is the major study released by IBC this past October on what a major earthquake could cost Canadians. The study — conducted by leading global catastrophe risk modelling firm AIR Worldwide — revealed that a realistically probable 1-in-500-year earthquake could cost Canadians $75 billion in Western Canada and more than $60 billion in Eastern Canada.

In both cases, as much as 85% of total economic losses would not be insured, leaving governments and taxpayers to absorb an extremely large financial burden at the worst possible time. The findings put Canadians in a better position to discuss solutions for the way the country prepares for the financial impact of earthquakes.

2 A second step in mitigating disaster risk is sound financial management. The most effective action that policy-makers can take is to enable and encourage the transfer of disaster risk to the party best able to manage it. This means making sure that most disaster losses are insured. Each dollar of disaster losses paid by insurance is a dollar saved by taxpayers.

Insurers have several advantages in managing disaster risk efficiently. They work with international reinsurance and capital markets to cheaply diversify risk across different locations and investors. They are experts in adjusting and settling claims, which reduces the time and administrative and transaction costs of post-disaster reconstruction and recovery. And while governments typically supply basic relief after a disaster, insurers provide more complete loss compensation, channelling funds to where they are needed most.

Without adequate risk transfer to the private insurance market, there can be only two alternatives. Either Canadians receive no financial aid after a catastrophe, or governments pick up the tab by self-insuring, which is hardly an efficient use of scarce public funds. When governments self-insure, taxpayers bear the full cost of disaster exposure, government spending is diverted from response and recovery to damage compensation, economic growth suffers and public finances are strained.

3 The third and final step toward building disaster resilience is risk reduction or mitigation.

Industry players know that risk reduction works. In the United States, for example, each $1 spent to mitigate flood risk reduced fu-

ture costs by as much as $4. Unfortunately, implementing risk reduction measures is often hindered by a lack of incentives and inertia.

Insurance encourages consumers to reduce their risk — whether through retrofitting their homes, installing backwater valves or even moving out of disaster-prone areas.

By contrast, government-funded disaster relief provides no such incentive. To the contrary, expectations that governments will fund post-disaster reconstruction may encourage consumers to make riskier choices, such as building a home on a floodplain.


## HOW INSURANCE REDUCES GOVERNMENT COSTS

Insurance is a fundamental tool for assessing, managing and mitigating disaster risk. It helps reduce the economic impact of catastrophes in four ways:

1. It transfers risk away from taxpayers, finances that risk more efficiently and encourages consumers to plan ahead to reduce their risk.
2. It allows governments to focus on their core business, which frees up public funds and speeds response and recovery efforts.
3. It allocates reconstruction dollars to properties and businesses that are deemed worthy in that they were valuable enough to insure in the first place.
4. It quickly channels funds to the affected parties, which limits supply chain interruptions and leads to faster reconstruction and the resumption of economic activity.

The research into the relationship between insurance take-up and the macroeconomic impact of disasters is just beginning. However, what is currently available confirms that insurance minimizes costs of natural disasters.

A comprehensive study from the Bank for International Settlements looked at almost 2,500 major natural disasters between 1960 and 2011 in more than 200 jurisdictions.

It showed that the impact of natural disasters is smaller in countries with high levels of insurance take-up.

Study authors found that macroeconomic costs of disasters increase as a result of uninsured losses, while insured losses have little impact — even when controlling for differences in the economic development of countries.

**It is critical that companies review their business continuity plans with their insurance partners to ensure they account for different risk scenarios that reflect hidden knock-on effects.**

The study also demonstrated insured losses increase growth most strongly in the three years following a catastrophe, which is the average length of time for insurance payouts. This suggests that insurance speeds reconstruction efforts.

Reducing the macroeconomic cost of disasters also improves government balance sheets. Immediately after a disaster, governments spend less on reconstruction and relief. And in the medium term, government tax revenues bounce back more swiftly because of faster recovery.

A 2011 study by the World Bank notes countries with lower insurance take-up suffer larger drops in GDP and larger deficit increases than countries with higher insurance take-up.

The researchers concluded "the availability of insurance seems to dampen the impact of disasters by taking some of the losses and helping the government to focus fiscal expenses on the remaining un-hedged risks."

The global risk landscape is evolving. As severe weather increases and populations and economies cluster, the cost of natural disasters will rise. In light of these trends, policy-makers must re-evaluate how they mitigate the financial impact of disasters.

No country can escape the new normal of more frequent and damaging natural catastrophes. As we saw with the recent floods in Southern Alberta and Toronto — which added about $2 billion to the federal deficit — these trends are already hurting Canadians.

Canada should consider the demonstrated benefits of insurance as the country faces the coming storms.

# A night in the French Quarter with celebrity chef

# Chuck Hughes

Photo: Dominque Lafond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# Home Equipment Breakdown

There have been great advances in the capability of home systems, everything from smart appliances to back-up generators and medical equipment. But no system is perfect. What is the best option to protect against any related breakdowns?


**Derrick Hughes**
Vice President, Reinsurance Assumed, The Boiler Inspection and Insurance Company of Canada, part of Munich Re


Systems that keep homes safe, comfortable and efficient have become more complex, expensive and prone to breakdown. With consumers seeking to protect their new investments, insurance that covers the cost of the breakdown of home systems, appliances and electronics provides broad coverage at a much lower cost than extended warranties.

Energy costs, climate change and an aging population are driving home systems today. Appliances can now think, talk and network to help save money on energy, reduce environmental impact and make life easier.

That new washing machine can text a homeowner when a washing cycle is over; a phone app can remotely set the refrigerator to its energy-saving vacation mode; and the dishwasher can let a user know when it is time to run a cleaning maintenance cycle.

The smart appliance market is forecast to grow to US$34.9 billion in the United States alone by 2020, note figures released in early 2013 by Pike Research, part of Navigant's Energy Practice. This amount compares to US$613 million in 2012. Implications for the insurance industry include increasing home values and heightened exposures.

Climate change and severe storms are encouraging many people to install back-up generators, a new, expensive item that requires regular maintenance and safe storage of fuel. The aging population is also making its impact. Seniors opting for in-home care now own medical equipment that monitors blood pressure, promotes circulation and delivers oxygen therapy. This type of machinery is not only expensive, but is equipped with sensitive electronics.

Sensitive electronic controls on appliances and other equipment make them more vulnerable to power surges and electrical breakdown. When systems become interconnected, damage in one machine can impact a home's entire electrical system. A furnace, boiler, air conditioning and owned hot water heater are also subject to electrical and mechanical breakdown.

The question is, what is the best way to cover home systems breakdown?

## FACTS TO CONSIDER

### Typical property policies do not respond to home systems breakdown

Property policies typically exclude loss or damage caused by electrical and mechanical breakdown, as well as the tearing apart, cracking, burning or bulging of a steam or hot water heating system

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or an air-conditioning system.

For example, a gear box in a home chair lift system suffers mechanical failure as a result of stress. Replacing the gear box could cost $1,900, certainly a hefty amount for any senior to pay. The loss is 100% mechanical and not covered by a homeowner's property policy.

### Typical response of manufacturers' warranties

A manufacturer's warranty — in essence, its promise to stand behind its product — is included free in a product's purchase price. Providing repair and/or maintenance for a limited period, the warranty will expire and typically is not renewable. A so-called "limited warranty" may cover only parts and require the consumer to cover shipping.

## EXTENDED WARRANTIES

An extended warranty covers an individual product and is sold at the time of product purchase. The separate and additional cost of an extended warranty distinguishes it from a manufacturer's warranty.

It is "excess" over the manufacturer's warranty, providing repair for a specific period — for example, one, three or five years. It is renewable for multiple years, generally with material rate increases. A typical extended warranty can be quite expensive, at approximately 20% of the product's retail value.

## SERVICE CONTRACTS

A service or maintenance contract, often sold by a contractor, provides periodic maintenance and necessary repairs for specific equipment, such as heating, cooling and plumbing. Only a limited range of parts is covered, and a service contract will not replace complete units if a part is no longer available, or if equipment is no longer repairable.

Warranties and service contracts will not cover consequential losses, such as loss of use or spoilage; or human error, such as faulty installation, operator error or lack of maintenance.

## HOME EQUIPMENT BREAKDOWN INSURANCE

Another option is home equipment breakdown insurance, which provides broad coverage at a lower cost than purchased warranties. Possible coverages include direct damage caused by the sudden or accidental mechanical or electrical breakdown to any home system, including heating, cooling, appliances and electronics, regardless of the equipment's age.

Unlike warranties and service contracts, the aforementioned damage caused by human error is covered, as is loss of use or additional living expenses if a home becomes uninhabitable, and spoilage of perishable foods resulting from refrigeration breakdown.

Some policies also pay efficiency incentives, as much as 150%, for upgrades to systems that are more energy- and water-efficient or that are environmentally friendly.

Examples of possible losses for which home equipment breakdown insurance could offer protection include a furnace's broken fan/blower, which causes damage to other parts of the furnace, requiring that the whole unit be replaced. Or it may be an air-conditioning compressor that, after operating in an overheated condition for an extended period, fails electrically and must be replaced.

There may also be optional coverage for service lines. This pays for the failure of a homeowner's underground water, sewage, heat, steam or power service line.

Most homeowners are unaware that they own the service lines running from their dwelling to their property's boundary line, for example, outdoor water and sewer piping; or that the cost of repair or replacement of damaged service lines is not covered by property policies. It can cost thousands of dollars to repair an underground sewer pipe that collapses due to a tree root invasion.

### Protecting Against Breakdown

| | Manufacturer's Warranty | Extended Warranty | Sample Home Systems Breakdown Insurance |
|---|---|---|---|
| Price | - included in product cost | - as much as 20% of the product's retail value | - $25 to $100 annually included in homeowner policy premium, based on the value of the home |
| Coverage | - repair or replacement of defective product or part | - product defect; failure to work as designed in normal service | - direct damage caused by sudden and accidental mechanical or electrical breakdown to any home system; repair or replacement of damaged covered equipment |
| Covered equipment | - the single item the warranty was purchased to cover | - the single item, or in the case of a service contract, a pre-defined list of items found in a home | - equipment that is part of the dwelling, private structures and personal property |
| Consequential damages | - not covered | - not covered | - coverage is provided for loss of use and spoilage |
| Restrictions and limits | - does not have to be a full warranty; may be limited<br>- does not guarantee a refund if product is defective<br>- manufacturer may be entitled to try to fix the equipment first | - excludes elemental perils<br>- does not cover the entire unit<br>- does not cover repairs resulting from misuse or failure to properly maintain<br>- no recourse if warranty provider or administrator goes out of business | - excludes perils under homeowner policy<br>- defined policy limit<br>- sub-limits are provided for additional living expense and spoilage |
| Deductible or service charge | - none | - may include a service charge | - follows homeowner policy deductible |

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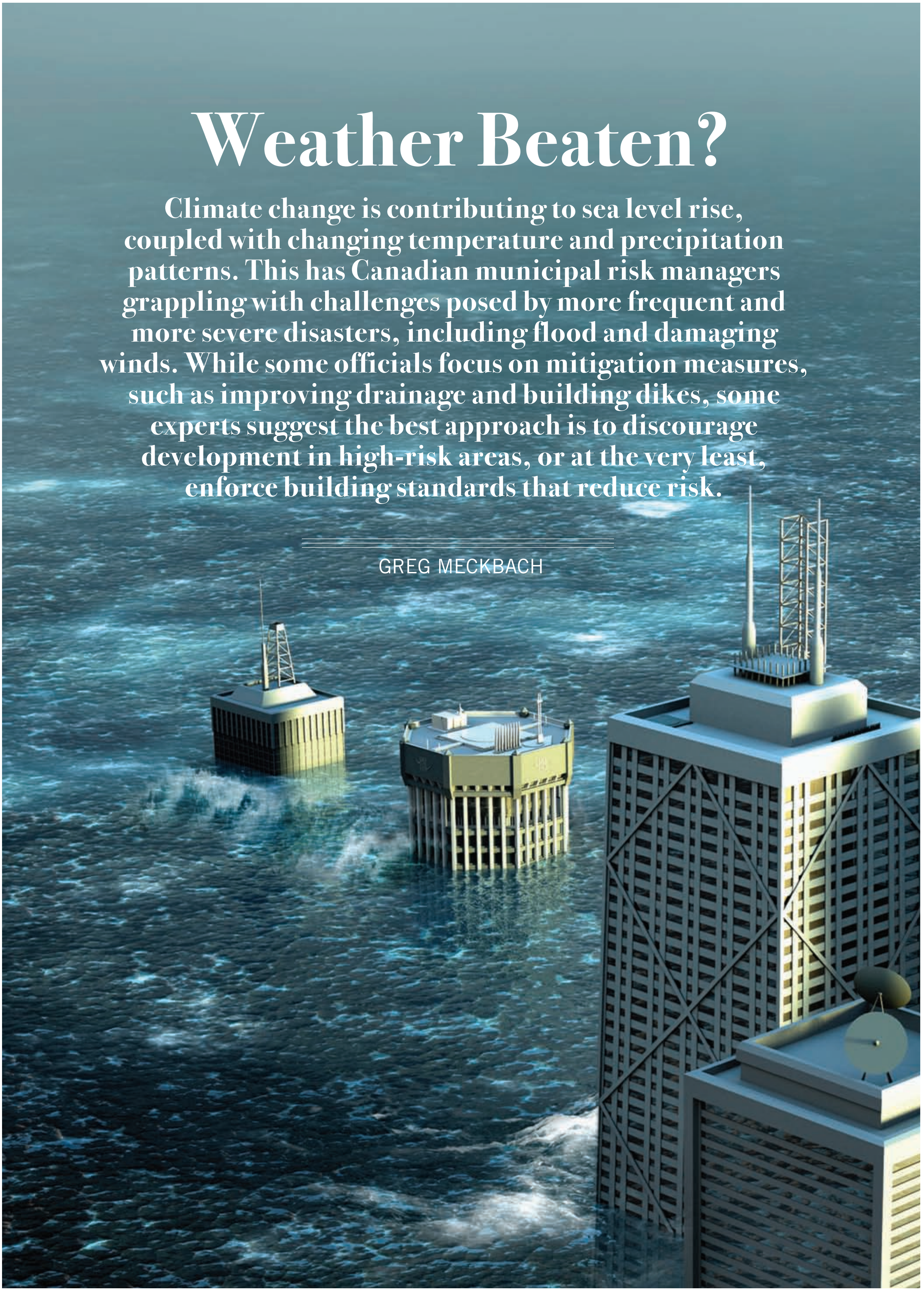
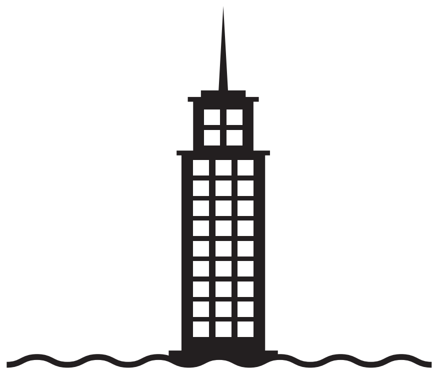


# Weather Beaten?

**Climate change is contributing to sea level rise, coupled with changing temperature and precipitation patterns. This has Canadian municipal risk managers grappling with challenges posed by more frequent and more severe disasters, including flood and damaging winds. While some officials focus on mitigation measures, such as improving drainage and building dikes, some experts suggest the best approach is to discourage development in high-risk areas, or at the very least, enforce building standards that reduce risk.**

GREG MECKBACH



Canadian municipal risk managers face the challenge of dealing with the fallout from a variety of natural hazards, ranging from floods to landslides and wildfires. And experts warn that the double whammy of climate change and a projected rise in sea level is only going to make these hazards more frequent and severe.

Academics studying urban planning contend that local officials can address these challenges by restricting development, while some governments are either contemplating or carrying out billions of dollars worth of major capital projects, such as enlarging sewers, constructing and improving dikes and installing dry ponds to collect excess rainwater. Some risk managers who work for municipalities report their employers are looking to Ottawa for cash, in the wake of the promise from the federal government, in February, of $200 million in disaster mitigation funding.

"We have seen too much of this surface flooding," says Roman Parzei, director of revenue and risk management for the City of Brampton, northwest of Toronto. "So going forward in terms of our infrastructure — especially when we have to either replace it or emplace it in our new subdivisions — we have to realize that maybe the size of the sewers we are putting in need to be enlarged," Parzei says.

In Brampton, it is the urban landscape, not the rivers, that are the problem.

"The rivers are less of a threat than the urban flooding, which is the storm sewers not being able to handle the extreme rains we've been having over the last few years," Parzei notes. "Most of the banks of our rivers have been transformed into parkland, so even if we do have flooding, the rivers are going to overflow into parkland. There are really very few structures that are affected by that," he reports.

Sometimes, however, there is simply too much rainfall for areas not to be affected. Consider July 8, 2013, when the Toronto area received more rain in a single day than the normal amount for the entire month. The deluge, and subsequent flooding, resulted in Canada's third most expensive disaster, when measured by insured losses. That day, more than 126 millimetres of rain fell at Toronto-Pearson International Airport, which is about 10 kilometres southeast of downtown Brampton.

"It was basically over the roads," Parzei says of the rain July 8. Brampton's storm sewers were built for above-average rainfall "but they are not built for the kind of extreme rains that have been happening lately, and with all the pavement that we put everywhere — driveways and roads and parking lots — the water has nowhere else to go," he points out.

## NATIONAL DISASTER MITIGATION PROGRAM

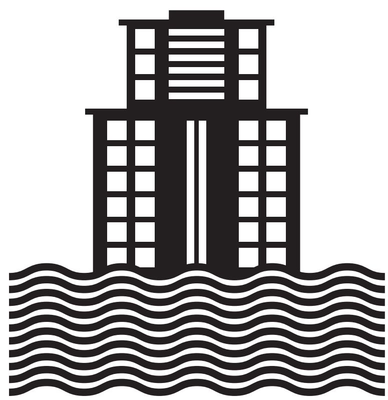
"In the end, you are basically going back to the same well — the taxpayer," says Alain Normand, manager of Brampton's emergency management office. Asked whether the City of Brampton plans to seek funding from upper levels of government, Normand replies, "That's the $100 million question."

The City of Edmonton is also weighing whether or not to ask the federal government for some help on the flooding challenge. "There were a couple of funding strategies released in the latest federal budget that the city is going to avail itself of once the details come out," says Don Marshall, director of risk management for the city, alluding to the proposed National Disaster Mitigation Program (NDMP).

That program was announced February 13 when the ruling Conservatives released the federal budget for the 2014-2015 fiscal year. Under the NDMP, the federal government is promising to provide $200 million over five years, starting in the 2015-2016 fiscal year.

"This program will support investments in structural mitigation measures, such as infrastructure to control floods that can reduce the impact of severe natural disasters," Ottawa promises in the budget document. "The costs of projects will be shared with provinces and territories."

In 2006, the City of Edmonton had identified 43 zones at risk of flooding, and approved $146 million for flood prevention measures. "They are building things like dry ponds, for example, so if there is excess surface water — if you get these severe events — the water goes into them," Marshall reports. "The water is released gradually after the event, so you don't get the flooding."



**"So going forward in terms of our infrastructure – especially when we have to either replace it or emplace it in our new subdivisions – we have to realize that maybe the size of the sewers we are putting in need to be enlarged," says the City of Brampton's Roman Parzei.**

Marshall suggests the city witnessed "quite a few sewer back-ups" in the summer of 2013. As a result, city officials are "doing a more comprehensive review right now just to see what else they need to do" to deal with the problem, he adds. "Some of this work is going to cost a lot of money as well."

The North Saskatchewan River — which runs through Edmonton — crests in the spring after severe weather events, and overland flooding is "fairly significant" in some of the city's neighbourhoods, Marshall points out, but adds that the greatest concern in the city is severe weather.

"Basically, the sewers were designed years ago and we have found that, with climate change, we get a lot more severe events," he reports. "They are in localized areas, and quite often the sewers cannot handle the sudden influx and then you get a lot of sewer back-ups."

All that water can bring about an additional challenge for city officials: an increase in subrogated claims from property insurers.

"Three or four years ago, it was fairly unusual for an insurer to put us on notice, but that has become almost routine now," Marshall says. "After almost every sewer back-up event, we typically get three or four insurers that put us on notice for their subrogated interests."

## RAINFALL UPS VULNERABILITY

Marshall believes climate change "has made a difference" in the vulnerability of Edmonton to natural hazards.

"Certainly the forecasting we are seeing for the Edmonton area over the next 50 years — it is going to get progressively worse," he says. "They are prognosticating that the average mean temperature will continue to rise and I am anticipating that will create more problems as we progress."

Similar predications are being made for the Toronto area. The paper, *Toronto's Future Weather and Climate Driver Study: Outcomes Report*, projects climate patterns for the Toronto area in 2040-2049. Prepared by SENES Consultants Ltd. and commissioned by the City of Toronto's

environment office, the report was submitted to city council before the July 8, 2013 rainstorm. SENES included a chart comparing actual weather in 2000-2009 to the weather patterns projected from 2040 through 2049. For example, the maximum amount of rain in one day, in 2000-2009, was 66 millimetres, but that amount is projected to increase to 166 millimetres by 2040-2049. The average temperature is predicted to increase by 4.4 degrees Celsius by 2040-2049 in Toronto, while the maximum hourly wind speed is predicted to drop from 92 kilometres/hour to 48 km/h.

Despite the drop, wind is still an issue on the radar of municipal risk managers. "We are at the tail end of the Ontario tornado alley," Parzei says from Brampton. An F4 tornado hit Barrie, north of Toronto, on May 31, 1985, killing 12, while a less severe tornado hit Vaughan, also north of Toronto, on August 20, 2009. That day, Environment Canada reported at least 18 tornadoes in Ontario.

"That was just right next door to us," Parzei says of the Vaughan tornado. "Five minutes earlier and it would have been in Brampton."

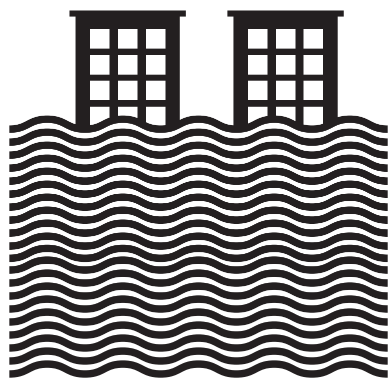
And storms are becoming more severe, he says. "The question becomes, are we prepared to handle this stuff on a more frequent basis?"

## BILLION-DOLLAR PROBLEM

In Toronto, city officials are preparing to address the risk of more frequent and severe weather. Ongoing efforts include the Basement Flooding Protection Program, which is meant to improve the sewer system and overland drainage routes. The program includes a subsidy for homeowners "to install flood protection devices, including a backwater valve, a sump pump and pipe severance and capping of the home's storm sewer or external weeping tile connection."

In its 10-year capital budget and plan submitted to city council last December, Toronto Water recommended that the city approve a total of $962 million in funding towards the program over 10 years.

"Retrofitting an area to accommodate the higher level of storm drainage and overland flow controls in existing, fully developed areas present the most significant challenge in terms of cost, scheduling and disruption to the local communities," Toronto Water notes in its analysis of its capital spending plan. "To date, $91.0 million has been spent to upgrade over 1,300 kilometres of storm and sanitary sewers, build two surface storage ponds, and build one underground storm storage tank to meet the enhanced level of service requirements required under the Basement Flooding Protection Program," the analysis notes.



**"Basically, the sewers were designed years ago and we have found that, with climate change, we get a lot more severe events," reports Don Marshall of the City of Edmonton. "They are in localized areas, and quite often the sewers cannot handle the sudden influx and then you get a lot of sewer back-ups."**

Adds Toronto Water, "Storm drainage improvements are being made to provide protection from a 1-in-100-year return frequency storm event, up from the current 1-in-2 to 1-in-5-year return frequency storm... where feasible, as part of the City's Climate Change Adaptation Strategy."

## $10-BILLION BILL

The "general opinion," from "everyone who studies natural hazards and climate change," is that natural hazards will become more frequent and more severe, says Mark Stevens, an assistant professor at the University of British Columbia's school of community and regional planning. Stevens, a former municipal planner from Oregon, currently studies government land-use planning, growth management and natural hazard mitigation.

Stevens cautions that one projected consequence of climate change will be a rise in sea levels, and one Canadian urban area facing this threat is Vancouver.

The cost of protecting Vancouver and its suburbs is estimated in the billions. In 2012, British Columbia's Ministry of Forests, Lands and Natural Resource Operations published a report in which it estimated the cost of providing flood protection in the Fraser Delta, if the sea level were to rise one metre by 2100, as predicted. Although the estimate is slightly shy of $10 billion, *Cost of Adaptation: Sea Dikes & Alternative Strategies* only covered the area between the Pacific Ocean and the Port Mann Bridge, where the Trans-Canada Highway crosses the Fraser River, about 35 kilometres east of downtown Vancouver. As such, the estimate does not account for protecting parts of the City of Surrey upstream from the Port Mann Bridge, or municipalities farther east.

The area downstream and west of the Port Mann Bridge encompasses 250 kilometres of shoreline and dikes, and the total estimated cost of flood protection is $9.47 billion, the report states. Of that amount, $880 million would be

required for structural flood protection, $1.58 billion for property acquisition and $3.25 billion to "achieve seismic resilience," it adds.

"The conclusions and costs are still valid," Neil Peters, British Columbia's provincial inspector of dikes, says of the report. "There certainly have been a number of new studies and initiatives that have started since then, but we do not have the conclusions and findings from those yet."

In an interview, Peters reports that the province is "now doing a study on how sea level rise would affect the Fraser River flood levels upstream of Port Mann Bridge."

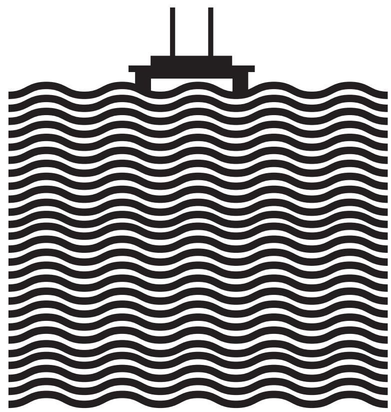
Dikes "have a long history of use within the Fraser Valley and are the most common form of structural flood protection," notes *The Cost of Adaptation: Sea Dikes & Alternative Strategies*. Both the upgrading of existing dikes and construction of new dikes "are potential options to protect against sea level rise," the report adds. Other options cited by the study include retreating from or avoiding certain areas.

"For coastal communities, sea level rise is a permanent change and at this point, it's the planning implications that are the most difficult," Peters suggests. "It's not that immediately we are going to have more serious floods, but it's the long-term planning implications that are critical, in terms of future development and how it is set out so that it can be protected, so it can be sustainable. To me that is the issue with sea level rise."

The study estimates "deep soil mixing" — meant to protect dikes in the event of an earthquake — could cost $2.2 billion. An earthquake, Peters suggests, could cause a river bank to collapse.

"The seismic design involves improving the ground under the location where the dike is," he explains. "This cost actually relates to just a few of the dikes where they are located right along the river bank."

But Peters warns that with climate change, "it is fairly clear from the science that there will be more flood potential" from streams draining from the mountains into the Fraser River. "It is not clear at all, at this point, what the impact of climate change could be on actual peak floods in the Fraser River itself, because it's such a large stream and it drains such a complicated geography," he adds.



**"Retrofitting an area to accommodate the higher level of storm drainage and overland flow controls in existing, fully developed areas present the most significant challenge in terms of cost, scheduling and disruption to the local communities," Toronto Water reports.**

That said, climate change will make communities north of downtown Vancouver more susceptible to natural hazards, suggests Dorit Mason, director of the North Shore Emergency Management Office (NSEMO), an inter-municipal agency of the City of North Vancouver, the District of North Vancouver and the District of West Vancouver. NSEMO has identified several natural hazards within the three municipalities it serves.

"Although we think about earthquake, and we certainly need to be prepared for that, we also have climate change impacts that we need to be considering over the next while as well," Mason says.

Based on reports she has read, she notes that by 2050, the "potential impacts" of climate change "include things like snow pack that is decreased as a result of the warming, high-intensity rainfall events, which could increase the frequency and magnitude of river flooding, and storm surge events."

On top of that, drier summers could increase wildfire risk in the Vancouver area, Mason adds. There are more people in the woods, and "more people doing activities that could cause fires in the woods and so we have to be prepared to respond together to events such as wildfire risk," she cautions.

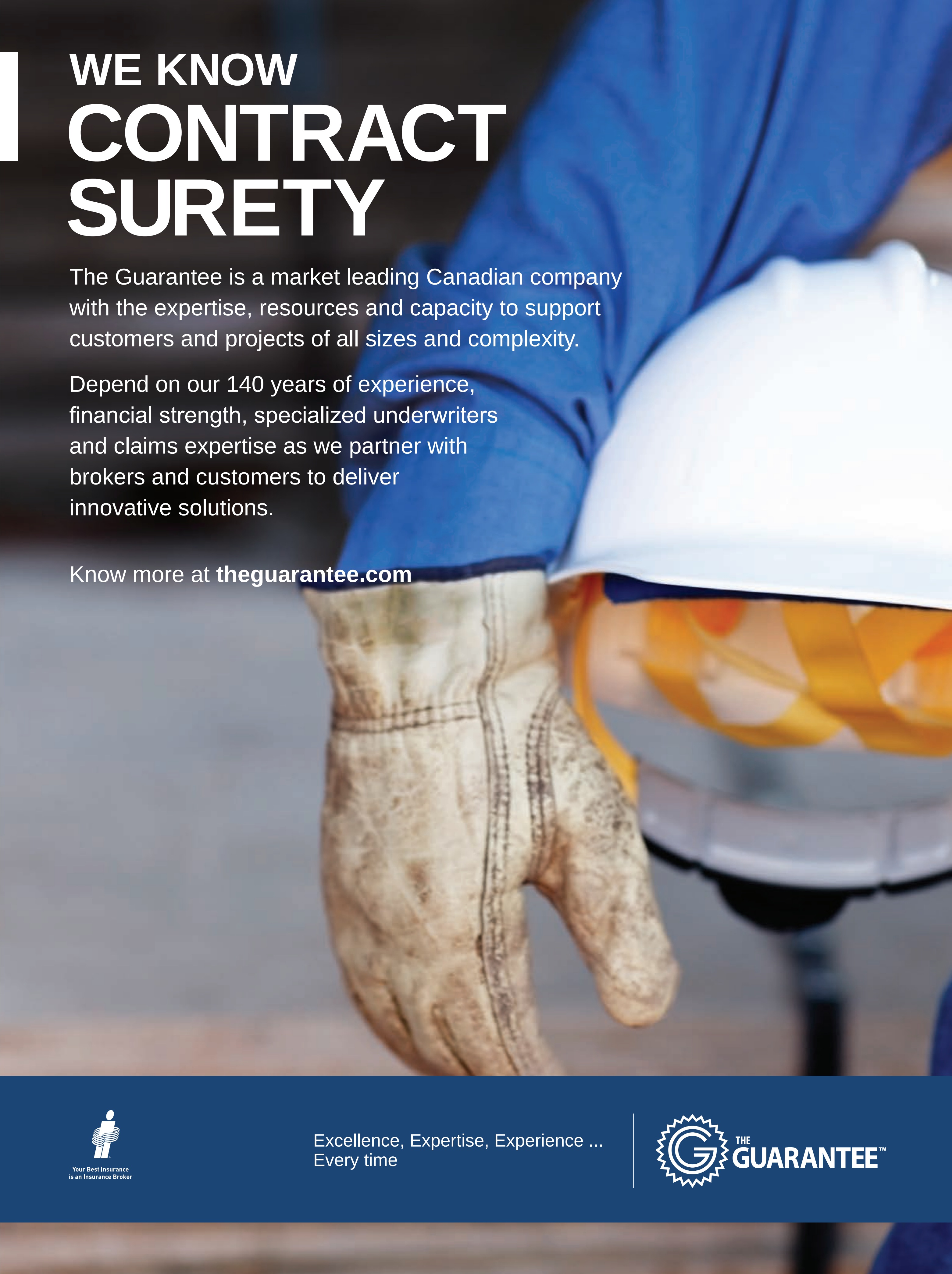
Another hazard to municipalities north of Vancouver is debris flows, "which is a form of channelized landslide, so it eventually comes down the channel of a steep mountain creek, and it usually occurs when there is wet weather and abundant debris, logs, rocks, soil, etc.," Mason reports.

These landslides can reach speeds of 40 km/h, she says, adding that both the district and the city of North Vancouver are responding to this challenge by installing nets, which are designed to catch debris and stop it from destroying homes or injuring people.

In addition, the District of North Vancouver is working on "development permit areas" for creek hazard, slope hazard and wildfire hazard. This means builders could be prohibited from developing, "or you would have to do specific things for you to be able to develop in those areas," Mason explains.

## STRUCTURAL APPROACHES

Bylaws prohibiting development in areas prone to such hazards are known as "non-structural" approaches, Stevens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**The district and the City of North Vancouver are responding to the challenge of debris flows, a form of channelized landslide by installing nets, which are designed to catch debris and stop it from destroying homes or injuring people, notes Dorit Mason of the North Shore Emergency Management Office.**

says, while "structural" approaches to flood hazard include such things as dams and dikes.

"Over time, society in general, in particular researchers, have come around to some of the limitations and weaknesses in the structural approach and some of the advantages of the non-structural approaches, such as land-use planning that actually identifies the hazardous areas and then tries to steer the development away from those areas to safer locations," Stevens says.

Stevens recently co-wrote a paper — *Multi-Level Governance of Flood Hazards: The Case of Municipal Flood Bylaws in British Columbia, Canada* — which was published in the February 2014 issue of *Natural Hazards Review*. His fellow author was Stephen Hanschka, floodplain manager for Clackamas County near Portland, Oregon.

Hanschka and Stevens analyzed the content of 55 municipal bylaws in British Columbia to determine "the extent to which they are consistent with the guidelines and other best practices" in managing flood risk.

"In most cases, they say things like, 'If you are building in this area, you have to do these certain things,'" Stevens relays. For example, some municipalities will require buildings to be elevated, or that buildings be set back a certain distance from waterways.

In general, he notes, municipal bylaws in British Columbia "require builders to do things to reduce risk, but they don't generally go so far as to actually prohibit development."

By comparison, Stevens says that in the United States, municipalities must enforce development standards that would reduce flood risk if they want to join the National Flood Insurance Program (NFIP). Under the program, coverage is written by private-sector insurers, but the rates do not differ among carriers and agents. In some cases, the premiums are subsidized. Only properties in municipalities participating in NFIP are eligible for coverage.

Canada has no such program, but that could change. The federal government announced February 13, in its budget documents, that it plans to "consult with the insurance industry, provinces and territories, and other stakeholders to explore options for a national approach to residential flood insurance in Canada and insurance issues arising from natural disasters more generally."

It is not clear if such a program would require development restrictions similar to those imposed south of the border by NFIP.

However, most researchers "are on board with the idea that in order to be eligible for disaster assistance, you should be doing something to actually reduce risk at the local level," Stevens suggests.

"Municipalities and other levels of government have a lot of problems they have to deal with, and historically speaking, natural hazards have kind of been at the bottom of the list," he points out. "Governments tend to care more about economic development and issues like crime and education and so forth, so natural hazards have sort of taken a back seat."

# A Matter of Time

Earthquakes happen in Canada all the time, but most are either too slight to cause damage or occur in remote and sparsely populated areas. But it is only a matter of time before a really significant earthquake strikes one of the major concentrations of insured property found today in highly developed areas.

**Arash Nasseri**
Senior Engineer, Research and Modelling, AIR Worldwide

At about 9 p.m. on January 26, 1700, the largest earthquake known to have struck Canada occurred off the west coast of North America. A massive "megathrust" earthquake with an estimated magnitude of 8.7 to 9.2 ruptured some 1,000 kilometres of the Cascadia Subduction Zone, from California to Vancouver Island.

The ground shook so violently — and for so long — on Vancouver Island that homes were destroyed and people could not stand. The quake caused ground along the coast of Vancouver Island to permanently drop around one and a half metres and triggered extensive landslides. It also unleashed a tremendous tsunami that struck Japan a few hours later with waves two to three metres high.

## A BETTER UNDERSTANDING

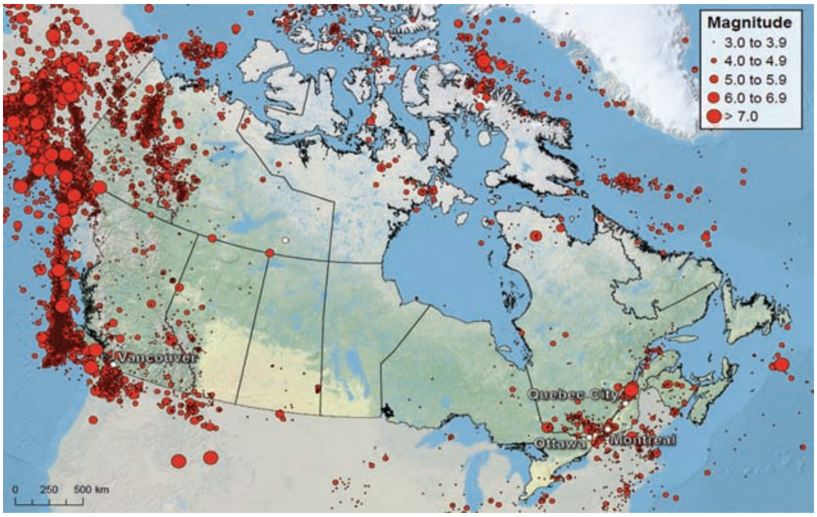
Vivid memories of the 1700 Cascadia earthquake are preserved in the oral traditions of Vancouver Island's First Nations peoples, and the event left clear geological evidence, but it is not part of modern Canada's historical experience. It occurred before European settlers reached the area and is only documented in Japanese records of a mysterious tsunami.

Only recently have these accounts been associated with the actual Cascadia event, enabling its date and magnitude to be estimated.

Not that long ago, few believed that the Cascadia Subduction Zone was capable of producing extreme earthquakes, but the last few decades of research has added enormously to understanding of seismicity in Canada. It is now known that M9.0 or greater quakes sporadically rupture the entire length of the subduction zone, with an average return period of 500 years or longer. Recent findings indicate more frequent ruptures of smaller magnitude earthquakes (down to M8) in the southern part of the subduction zone.

The region in which the 1700 Cascadia earthquake occurred is part of the Pacific Rim, around which about 81% of the world's largest earthquakes occur. Canada's segment of this so-called "Ring of Fire" generates the majority of the country's earthquakes, but there is a second seismic hotspot along the Ottawa and St. Lawrence valleys. Quakes are less frequent here than on the west coast, and less powerful, yet large and damaging events have occurred in the past and are likely to do so again in the future. Natural Resources Canada suggests there is at least a 5% to 15% chance that a strong earthquake will strike here in the next 50 years.

## Historical Earthquakes




Source: AIR Worldwide and Geological Survey of Canada

### GROWING EXPOSURE

Canada is no stranger to earthquakes — they happen all the time — but most are too slight to cause damage or occur in remote and sparsely populated areas. From a geological perspective, a very brief span of time has elapsed since European settlers arrived on the east coast in the 1500s. Canada has since developed into one of the largest advanced economies in the world, and its growing exposure has contributed to escalating insured losses from a wide range of natural catastrophes.

The damaging earthquakes that the country has experienced in the past, although each was considered destructive and costly at the time, impacted a comparatively small population and a limited range of property — much of which was uninsured. Modern Canada has experienced nothing on the scale of the 1700 Cascadia earthquake and has yet to be impacted by the full range of possible seismic events.

Despite Canada's vast area, approximately 80% of its 35 million inhabitants live within 150 kilometres of the United States border. About half of these people live in the conurbations of the Lower Mainland of British Columbia and the Québec City-Windsor corridor. A report published by the Institute for Catastrophic Loss Reduction notes that the intersection of these two major concentrations of exposure with the country's most earthquake-prone regions accounts for 75% of Canada's seismic vulnerability.

**Canada has since developed into one of the largest advanced economies in the world, and its growing exposure has contributed to escalating insured losses from a wide range of natural catastrophes.**

Massive offshore quakes like that of the 1700 event happen very rarely, but less powerful inland temblors are more frequent. Because they can occur close to urban areas, they are considered by many to be more hazardous.

A really significant earthquake has yet to strike one of the major concentrations of insured property found today in the highly developed areas around Vancouver, Montreal and Québec City. It is only a matter of time before one does.

### SHAKE, RATTLE AND A ROLL CALL OF SUB-PERILS

While ground-shaking is the principal cause of insured loss arising from earthquake events, it is far from being the only one. The devastating earthquakes that struck Japan (M9.0 in 2011), Chile (M8.8 in 2010) and New Zealand (M7.0 in 2010 and M6.1 in 2011) dramatically highlighted the major losses that can be associated with the sub-perils of tsunami, fire following, landslide and liquefaction. Each of these sub-perils is capable of contributing significantly to earthquake-related losses in Canada.

The Cascadia earthquake of 1700 demonstrates that large subduction zone earthquakes can generate powerful tsunamis. The damage these cause can be significant at coastal locations, which feature exposure at low elevation.

The presence of coastal flood defences, such as seawalls, can significantly reduce tsunami damage if they are of sufficient height and remain structurally sound during the tsunami.

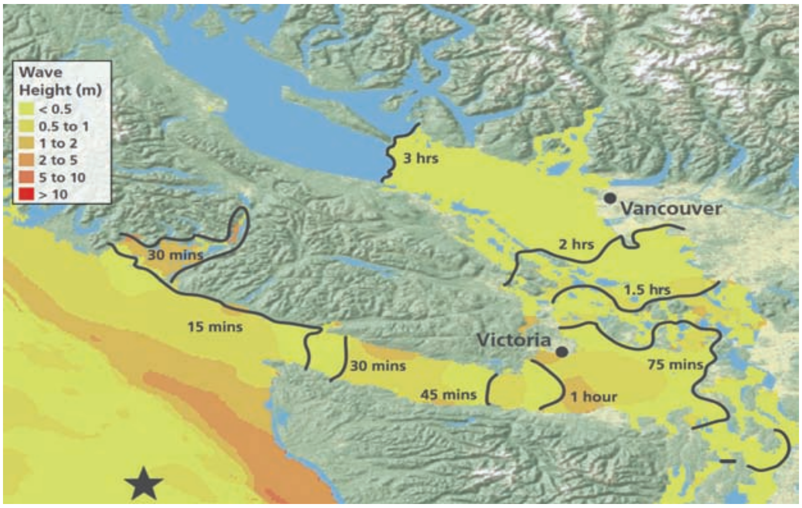
Despite the shelter provided by Vancouver Island, low-lying coastal areas in the vicinity of Vancouver are at risk.

Outbreaks of fire often follow earthquakes because of overturned household appliances and damage to electrical wiring, power lines and gas pipelines. Earthquake damage to roads and water distribution pipelines may significantly hamper fire suppression efforts, and wind conditions may cause relatively small fires in areas of dense development to spread from structure to structure and grow into a conflagration.

To take an extreme example, the fires that engulfed San Francisco in 1906 caused more death and destruction than the earthquake that preceded them.

Earthquake-triggered landslides place infrastructure, homes and other exposures in Canada's mountainous regions — such as the Southern Coast Mountains of British Columbia and southern parts of Vancouver Island — at risk and have a direct impact on the social and economic life of the hazard region. If an earthquake were to strike, landslide damage to power lines and pipelines

**Timeline and wave height for a simulated tsunami passing Vancouver Island**




Source: AIR Worldwide

**Liquefaction damage from the 2010 earthquake in Christchurch**

Source: AIR Worldwide

would have far-reaching effects, even if other structures escape serious damage. Blocked roads or railroads can have a considerable impact on business interruption.

Liquefaction occurs when violent ground-shaking causes water-saturated soils to lose their strength, which can cause buildings to suddenly tilt or even topple over. Buried utility lines, pipelines and ducts can rupture or surface.

Liquefaction is more likely in areas with loose coarse-grained soils that have poor drainage. An example would be loose sands, which are found along riverbeds, beaches, dunes and other areas where sands have accumulated.

A prime example is the Fraser River Delta area in Vancouver, where the municipality of Richmond, in particular, is susceptible to damage from liquefaction.

## OWN YOUR RISK

If the 1700 Cascadia earthquake were to happen today, it would cause tens of billions of dollars in insured losses. Greater knowledge of Canada's seismic activity and a deeper appreciation of the extent of exposure in harm's way have contributed to a heightened awareness of the risk and questions about the insurance industry's preparedness for extreme earthquake events.

In 2013, the Insurance Bureau of Canada, in partnership with catastrophe risk modelling company AIR Worldwide, published a study that found the country is not sufficiently prepared for the financial impact of large earthquake striking a major metropolitan area.

Canada's insurance regulators are likewise concerned. The Office of the Superintendent of Financial Institutions recently updated its *Guideline B-9: Earthquake Exposure Sound Practices*, which lays out principles that insurance companies are expected to follow in managing their earthquake risk. A key requirement for compliance is for companies to demonstrate prudent use of earthquake models in calculating their probable maximum losses (PMLs) and a thorough understanding of modelling methodologies and uncertainties.

Probabilistic modelling is critical for preparing for low-frequency, high-severity events. Models enable not just the estimation of potential losses, but also inform exposure accumulation management, actuarially sound ratemaking, portfolio management and reinsurance purchasing.

A comprehensive view of earthquake risk requires the most up-to-date understanding of seismicity and building vulnerability in Canada, and the ability to model all earthquake-related perils: ground-shaking, tsunami, fire following, landslide and liquefaction.

It is only a matter of time before the next big earthquake strikes, but companies can improve their risk management practices now to prepare for the inevitable.

*On January 23, Canadian Underwriter and AIR Worldwide hosted a free live webinar presentation,* Canada Earthquake Risk: From Science to Compliance. *The webinar is archived for free on-demand viewing at the following address: http://bit.ly/CanadaEarthquakeRiskWebinar.*


# Soft Landing

**Rohan Dixon**
Chief Broking Officer,
Aon Risk Solutions

Understanding and managing operational risks will be key to success in 2014, suggests a new outlook from Aon Risk Solutions. Organizations are advised to test the strength of their existing programs and develop risk management practices to lower their total cost of risk.

Looking ahead to 2014, it is expected that Canadians will see unprecedented continuation of the soft market cycle, with the exception being catastrophe-exposed property. After 10 years of providing improving terms to policyholders, some insurers are now finding it difficult to continue to better their offerings.

The prolonged soft market environment has led insurance professionals to speculate as to whether the traditional views of the underwriting cycle can continue or if a new model will emerge. Aon Risk Solutions recommends that organizations test the strength of their existing programs, benchmarking against their peers and ensure they proactively develop risk management practices to lower their total cost of risk.

Policyholders can expect that things will not change drastically in 2014. Still, a prudent approach to risk transfer is recommended, since the market can change almost overnight.

## FACTORS IMPACTING THE MARKET

### Financial and economic drivers

Continuing to drive competition for policyholder business, the insurance industry remains well capitalized with a Q3 2013 Minimum Capital Test ratio of 275.23%, well above the required 150% threshold, and strengthened since the end of 2012 when the ratio stood at 243.44%.

In November 2013, the Bank of Canada announced it plans to maintain current interest rate levels for the foreseeable future. Given that insurers generate significant revenue from investing the premiums written until they are required to pay claims, the prevailing low interest rate environment will have a depressive effect on insurer profitability.

Aon *Benfield's 2013 Insurance Risk Study* highlights that for the past 10 accident years, the Canadian property and casualty market has achieved a 98% combined ratio with insurers between the 25th and 75th percentile reporting a combined ratio of 92% to 103%. With investment returns strained by low interest rates, insurers must look to improve their financial results by increasing their underwriting profit, either by writing more policyholder risks, or by tightening underwriting guidelines (thereby reducing claims losses) or both.

Illustration by Dave Whamond / www.threeinabox.com

Where insurers need to generate revenue from underwriting results, this will manifest itself in a more stringent underwriting philosophy, possibly requiring more detailed information — ensuring that the premiums quoted are adequate based on the risks to be insured.

## CATASTROPHE EVENTS

2013 saw some of the largest natural catastrophe events in Canadian history with the June flooding of the Bow River in Calgary, which was shortly followed by the Toronto rains. While losses from these events were severe, it is important for Canadians to know that primary insurers and reinsurers have been able to absorb these losses, leaving available capacity relatively unchanged and the Canadian insurance marketplace comparatively unaltered.

Policyholders are also encouraged to look at the bigger picture when it comes to catastrophe losses. Globally, catastrophic events during 2013 were below the 10-year average on both an economic and insured loss basis. Economic losses for this period were US$192 billion, which is four percent below the 10-year average and is comprised of insured losses totalling US$45 billion — 22% below the average.

As was experienced in Canada, flood was the costliest event type, with 35% of the 296 separate events resultant from flooding.

While these events are likely to shift underwriting discipline around the flood peril, policyholders should be reassured that their overall impact will not be significant enough to alter the marketplace. The insurance market would need to see a prolonged trend of large non-catastrophe losses and a decline in the availability of surplus capital to shift to a hard market environment.

However, it is also important to note that catastrophic events have trended upwards over the last half a century, with 2013 becoming the sixth costliest year, globally, since 2000 and the seventh costliest since 1950. That means more damage from severe weather has been experienced in the last 15 years than in the last 60.

## LEGAL AND REGULATORY NEWS

Highlighting the evolving focus towards not just transferring risk, but managing it in order to reduce expenses and disruptions in operations, the Office of the Superintendent of Financial Institutions introduced the Own Risk and Solvency Assessment (ORSA) for insurers operating in Canada. Following from the Solvency II Directive in the European Union, the framework will provide a more effective means for insurers and regulators to assess insurance risk and the capital requirements from a proactive, rather than retroactive, basis — supporting good governance and promoting risk awareness. Essentially, ORSA is an element of an overall enterprise risk management framework that will help formalize existing processes and will become a global standard practice that changes and evolves over time.


## COVERAGE TRENDS

Up until now, most insurers in Canada were including flood coverage in their commercial property policies without a surcharge or modified terms for policyholders with a greater risk of flood loss. Most insurers did not realize or understand the level of flood risk a given policyholder presented, nor the flood risk they were insuring on an aggregated basis. Even now, flood maps are only available to most insurers through local conservation areas. As of the end of 2013, there continues to be no recognized flood risk model available to insurers.

With regards to the property line, and given the events of 2013, insurers are looking to restrict capacity or increase the deductible for flood coverage if the property to be insured is in a known flood zone.

Similarly, the earthquake peril has experienced this trend, though policyholders with a positive risk profile can expect stability in the marketplace.

One trend that is working in favour of policyholders is that Canada continues to attract global insurers to invest to achieve premium and profitability growth. Providing that all legal requirements are met, there are no restrictions on foreign investment by insurers in Canada.

As a result, there have been many entrants to the Canadian insurance marketplace in recent years, with several starting operations — including HDI-Gerling Industrie Versicherung AG, Starr Indemnity & Liability Company and Allied World Assurance Company Limited. It is new entrants like these that are driving competition amongst the established firms, which are trying to maintain or grow their market share.

With these new markets entering the fold, capacity remains high within the liability marketplace, driving competition amongst insurers willing to negotiate on price or coverage. Given the competitive nature of the market, it is suggested that organizations take advantage of relatively low pricing and increase program limits. This can be as simple as asking your broker to benchmark program limits against a peer set to determine adequate liability limits for your operations.

**Even now, flood maps are only available to most insurers through local conservation areas. As of the end of 2013, there continues to be no recognized flood risk model available to insurers.**

## PROACTIVE MEASURES

Aon Risk Solutions advises clients to be proactive in their approach to risk, so they will be in a stronger position to negotiate broader terms and more competitive pricing than their peers. Consideration should be given to the following:

- *Insurance to value*
  Determine that the business is insured for replacement cost as most property policies are written on this basis, which is the cost to replace an asset with material of like kind and quality in the event of a loss. In the event of a partial loss, if not insured to full value, a business may share in the loss via the co-insurance clause in the policy.
- *Enterprise risk management*
  Partner with a broker to develop an overall risk management program for the business, one that considers all risk management techniques.

Looking ahead, insurers are expected to demonstrate underwriting discipline. Accordingly, it is important to prepare and provide more robust information to meet their underwriting requirements, allowing the insurer to provide the best terms possible.

While improved pricing and coverage terms may be available for policyholders who can demonstrate their risk is best-in-class, pricing and terms are expected to remain stable for policyholders with low losses.

As insurers become more selective in deploying their capital, especially in catastrophe-exposure areas, underwriters will focus on policyholders who strive to adhere to a risk management process.

# Beyond Fire

**Doug McPhie**
Partner & Canadian Insurance Leader, EY

## For property and casualty insurers today, "risk" is a lot more than a four-letter word. By leveraging technology and focusing on the customer, an understanding of new and emerging risks can serve as a means for insurers to position themselves for growth going forward.

Everyone in insurance has heard the "Creation" story, how the industry grew from the ashes of The Great Fire of London — an event that destroyed most of the historic city back in 1666. Today, property and casualty insurers are some of the oldest and most established companies in Canada, and the world.

For years, the industry has served to safeguard businesses and individuals, allowing them to take the risks necessary to grow and prosper. But these days, while p&c insurers still work to help businesses and individuals flourish, they certainly have a lot more to think about than simply protecting against the risk of fire.

The 2014 *EY Canadian property and casualty insurance outlook* urges insurers to understand and focus on new and emerging risks — from unpredictable weather and catastrophes to digital technology to regulatory and accounting changes — to successfully position themselves for growth going forward.

### UNPREDICTABLE WEATHER AND CATASTROPHES

It is no secret that unpredictable weather is on the rise. Last year was a record claim year for Canadian insurers, as the industry was literally turned upside down as a result of a series of significant catastrophes in this country. From flooding in Alberta to ice storms in Southern Ontario that stretched right through to Eastern Canada, the industry saw it all.

And looking just below the surface of these disasters, the reality is worse. The current infrastructure cannot handle these events. Roads, power lines and trees are causing even more issues for homes and businesses, and, unfortunately, there is no easy fix.

For insurers, the confusion surrounding what was covered after the Alberta flooding highlights the need to better communicate with policyholders what exactly is, or — more important — is not covered. In Alberta's case, many insurers were forced to pay claims for overland flooding — a risk that is not a default coverage in Canada — because the opportunity cost of a damaged reputation for denying these claims was simply too high.

Similarly, the risk of an earthquake in Canada is real, but most Canadians do not have earthquake coverage. As with overland flooding, this may not be obvious to the average policyholder.

A devastating earthquake in one of Canada's susceptible areas could cripple the insurance industry if companies were forced to pay for uncovered damage, as they were in Alberta.

Those in the insurance industry likely know about the weather's impact better than most, and so it makes sense that this industry is leading the charge to manage that risk. Still, the weather cannot be controlled and insurers need to learn how to better predict and underwrite associated risks to minimize their losses.

## DIGITAL TECHNOLOGY

Harnessing new technology and ever-increasing amounts of data is a hot topic these days — in the insurance sector, and beyond. For p&c insurers, new technologies are creating opportunities to better predict risk, improve underwriting and offer innovative products like never before. But, as always, where opportunities abound, risks lurk.

EY's outlook notes that with advancements in satellite mapping, for example, insurers can use predictive modelling and geographic maps to determine where risks for natural disasters are more likely to happen. Armed with that information, they can drastically improve their underwriting of those property risks.

Learning to align the right technology and advanced analytics can help insurers realize better underwriting results in other lines of business, too.

Take vehicle telematics, for example. With data about how customers are driving, underwriting can be based on real numbers versus predictions.

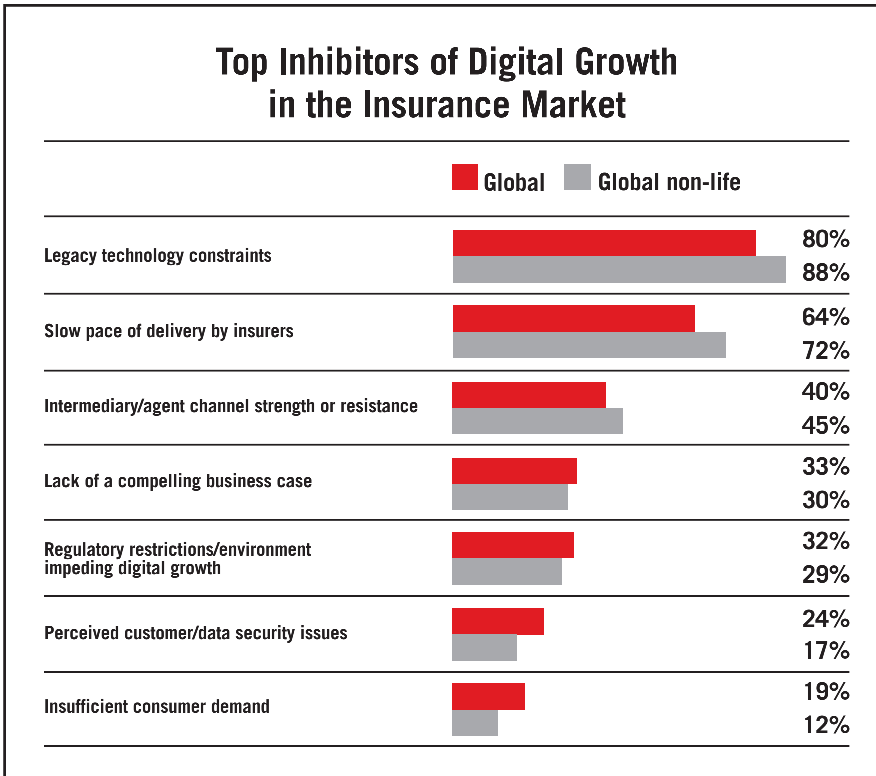
While using things like satellite mapping and sensor technology can provide more cost-effective and targeted risk protection, insurers need to ensure they have solid safeguards in place to accurately and confidentially use and store that information. It is critical that insurers review underwriting guidelines to ensure that, even with all this information, they still offer consumers a product at a price they can afford.

These examples are just the tip of the iceberg when it comes to digital. Insurers are the first to admit that legacy technology is holding them back. Looking internally, the right investments can help enhance operating capabilities, and easily provide the kind of business and regulatory information required for strategic, operational and compliance purposes.

As noted in a previous report issued by EY, *Insurance in a digital world: the time is now*, insurers have been slow to embrace digital across the globe (see chart opposite, *Top inhibitors of digital growth in insurance market*).

That is concerning because building out a comprehensive digital strategy is one of the greatest potential opportunities for insurers today to better meet customers' changing needs, drive retention and, ultimately, improve bottom line performance.

Whether insurers looking to digital to better predict risk or enhance internal operations, having a customer-centric model needs to be at the forefront of these investments. Once the customer is at the core, aligning the right technology and advanced analytics can help insurers come out on top.




Source: *Insurance in a digital world: the time is now*, EY Global Insurance Digital Survey 2013

## REGULATORY AND ACCOUNTING CHANGES

From corporate governance to cybersecurity to solvency, new regulations are challenging p&c insurers. But the trend towards more, rather than less, regulation seems to be holding, and those insurers that find ways to efficiently manage these requirements will be in a better position to focus on their customers and seize opportunities to grow their business.

Many new regulations are focused on managing risk, which is hardly surprising. Canada's Office of the Superintendent of Financial Institutions' *Corporate Governance Guideline*, for example, is intended to enhance the effectiveness of financial institutions' boards of directors, through measures such as developing a risk-appetite framework and clarifying the roles of the chief risk officer and audit committee.

Insurers, in the business of risk taking, after all, should be leaders in complying with these kinds of risk-related regulations. New requirements around data quality, data governance and the level of detail provided by reporting systems, however, will require more attention.

**Looking internally, the right investments can help enhance operating capabilities, and easily provide the kind of business and regulatory information required for strategic, operational and compliance purposes.**

Complying with these changes and making sure that their systems, people and data are a focus can only help the business.

## NEXT ERA IN P&C INSURANCE

In 2014, risks have undeniably evolved from the threat of fire. The potential impacts of new risks are serious, while the rapid pace of technological innovations is changing the face of the industry.

With widespread adoption of things like cloud computing, mobile technology, social media and other cyber-related exposures — and with demands for transparency stronger than ever before — businesses and individuals are left open to a range of privacy and reputational risks.

In this regard, insurance companies have an opportunity to provide increased coverage, but also services to help insureds mitigate these risks, using analytics and other technologies.

Property and casualty insurance companies need to continue to explore new approaches to risk management and mitigation when it comes to everything from weather to technology to regulation. Those insurers that harness the right strategies to assess and manage these emerging risks can take advantage of opportunities not seen since fire ripped through London almost 350 years ago.

And by leveraging technology and focusing on the customer with these new risks, insurers can improve bottom line growth and set the stage for an exciting new era in p&c insurance.

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*by Cunningham Lindsey Canada Claims Services Ltd. – Feb 21*

**Mariner Innovations Industry Expansion and New Toronto Office**
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**CKR Global identifies top three foreign corruption risks facing Canadian companies**
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**Paul Davis Systems Canada, Ltd. Expands Again… with a New Franchise Location in Charlevoix Region, Quebec**
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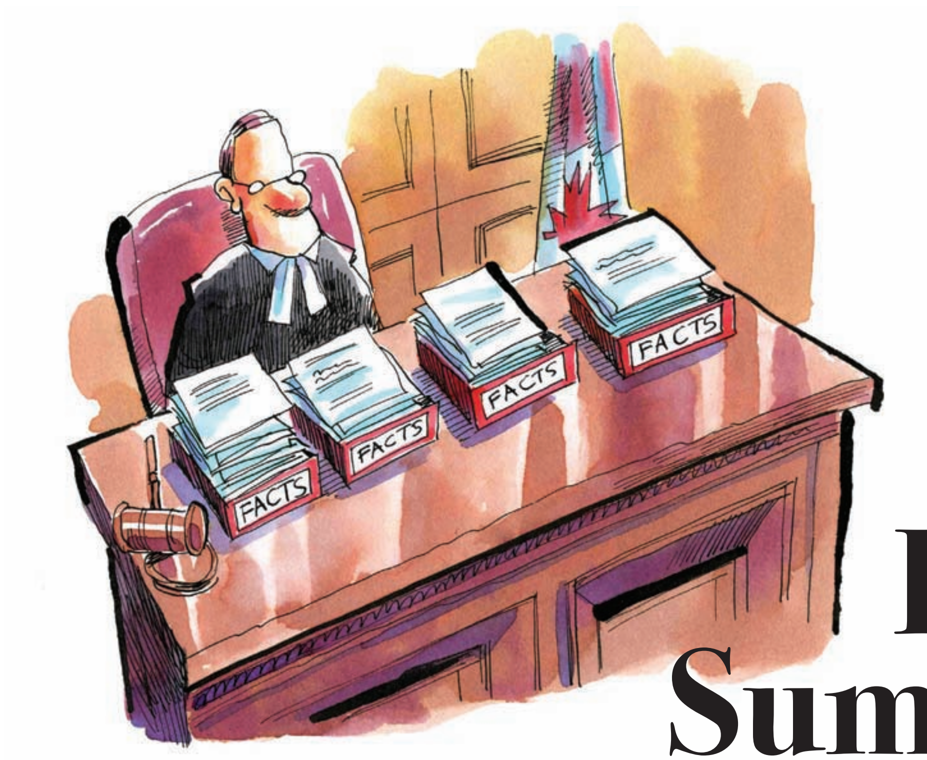



# In Summary

**Canada's highest court has outlined a new summary judgment test. With the recent *Hryniak* decision, one may expect an increase in summary judgment motions brought and for judges to play a more expansive role. Ideally, that would mean more cases can be heard quicker and with less cost.**

**Albert Wallrap**
Associate,
Dutton Brock LLP

Fair and just adjudication requires proportionality. In a ground-breaking decision, the Supreme Court of Canada wholly embraces the touchstone of proportionality in the country's civil justice system and sets forth a new test for summary judgment.

In the two related decisions of *Hryniak v. Mauldin*, and *Bruno Appliance and Furniture v. Hryniak*, released on January 23, 2014 (collectively described as *Hryniak*), the high court heralds a shift in legal culture across Canada towards a fair and just process that allows judges to find the facts necessary to resolve disputes.

In *Hryniak*, the Supreme Court of Canada liberally interpreted Ontario's Summary Judgment Rule 20 to provide judges with broad discretion to exercise expanded powers of fact finding in the interest of justice. Legal process must be proportionate, timely and affordable — and the most painstaking procedure, such as a full trial, may not be the most suitable forum to justly adjudicate claims.

As a result, the threshold has been lowered and summary judgment motions will be increasingly used in litigation so as to avoid unnecessary expense and delay.

## *HRYNIAK* DECISION

*Mauldin* and *Bruno* are two related cases involving the questionable dealings of the same investment trader, Robert Hryniak. (The latter two cases before the Court of Appeal for Ontario are discussed in *Canadian Underwriter*, April 2012).

In 2010, the motion judge in *Mauldin* held that Hryniak had made false representations that funds had been properly invested in a legitimate trading program when he knew the program was a sham from the outset. Investors were defrauded US$1.2 million (related to *Mauldin*, not including *Bruno*) as a result.

In December 2011, the Court of Appeal affirmed the motion judge's findings that Hryniak was liable for the tort of civil fraud. In *Bruno*, the Court of Appeal overturned the summary judgment

Illustration by Dave Whamond / www.threeinabox.com

and, instead, found there was a genuine issue requiring trial as to whether Hryniak had induced Bruno to invest.

*Mauldin* and *Bruno* were subsequently appealed to the Supreme Court of Canada, resulting in the *Hryniak* decision. In the end, Canada's highest court found that summary judgment was suitable on the facts in *Mauldin*, since the elements for civil fraud had been proven, but not in *Bruno*.

Previously, the Court of Appeal for Ontario had ruled that the expanded powers under Rule 20 should be exercised at trial unless a motions judge can achieve the "full appreciation" of the evidence and issues required to make dispositive findings. However, the Supreme Court of Canada held that the Court of Appeal's "full appreciation" test went too far and prevented judges from exercising their discretion to adjudicate more cases through summary judgment. The requirement of "full appreciation" overemphasizes the benefits of the trial process.

In *Hryniak*, the high court emphasizes that the principle of proportionality underlies the rules of court, whether or not expressly stated. Ontario's Rule 1.04(1.1) provides that the "court shall make orders and give directions that are proportionate to the importance of the complexity of issue, and to the amount involved, in the proceeding."

The Supreme Court of Canada states the discretion of motion judges to use their enhanced powers of fact finding — i.e., the hearing of oral evidence, making findings on credibility, and drawing reasonable inferences — should be exercised, keeping in mind that "access to justice is one of the greatest challenges to the Rule of Law today." Summary judgment provides a proportionate, more expeditious and less expensive means to achieve a just result than proceeding to trial.

## NEW SUMMARY JUDGMENT TEST

In *Hryniak*, the Supreme Court of Canada describes the new summary judgment test as first requiring judges to determine if there is a genuine issue requiring trial based on the evidence before them, without using the new fact-finding powers. If there appears to be a genuine issue requiring a trial, then the judge should determine if the need for a trial can be avoided by exercising their new powers. Justice Andromache Karakatsanis states the following:

> "There will be no genuine issue requiring a trial when the judge is able to reach a fair and just determination on the merits on a motion for summary judgment. This will be the case when the process (1) allows the judge to make the necessary findings of fact, (2) allows the judge to apply the law to the facts, and (3) is a proportionate, more expeditious and less expensive means to achieve a just result."

The test is whether or not the motions judge can appreciate the evidence necessary to make dispositive findings confidently in order to fairly resolve the dispute and serve the interest of justice.

As Justice Karakatsanis states, "What is fair and just turns on the nature of the issues, the nature and strength of the evidence and what is the proportional procedure."

The "interest of justice" is not defined in the Rules and must be considered on the facts of each case. In this regard, judges should first determine the consequences of using the new powers in a preliminary step.

In some cases, judges may find that summary judgment motions clearly lack merit, and there will be no need to proceed further. Some concerns about credibility or clarification of evidence may be addressed by oral evidence. The motion judge should also consider the evidence that would be available at trial and the opportunity to fairly evaluate this evidence.

Clearly, the interest of justice would not be served where claims will proceed to trial regardless of the outcome of the motion, or where there is a risk of duplicative proceedings or inconsistent findings of fact.

## ENHANCED TRIAL MANAGEMENT

As a preliminary to the summary judgment motion, parties should seek an order for directions, and may apply to dismiss the summary judgment motion itself as premature or improper. Dismissal of the motion may occur where the matter is lengthy and complex, and where it would not advance the litigation or support timeliness, affordability and proportionality.

In some cases, summary judgment motions may be appropriate even before discoveries have been completed. In many cases, however, full document production and discoveries will be first required to ensure that the parties have a meaningful opportunity to lead their case and that the motion judge has an appreciation of the evidence and issues necessary to confidently make findings of fact and to apply the law to the facts.

Even if a summary judgment motion fails, the motion judge may provide directions to manage litigation and ensure efficiencies going forward. Motion judges should also remain seized of the matter so as not to waste judicial resources given their knowledge about the case.


**Even if a summary judgment motion fails, the motion judge may provide directions to manage litigation and ensure efficiencies going forward. Motion judges should also remain seized of the matter so as not to waste judicial resources given their knowledge about the case.**

## STANDARD OF REVIEW

The Supreme Court of Canada recognizes that deference should be accorded to motion judges who make findings on the "interest of justice" and whether or not a trial is required — both being mixed issues of fact and law — and the standard for review is a "palpable and overriding error." For findings of law, the standard is that of correctness.

## POST *HRYNIAK*

Within the first month of its release, *Hryniak* has been cited in more than 20 decisions across Canada. In the Ontario decision, *The Bank of Nova Scotia* v. *David Allin*, Justice David Brown applies *Hryniak* and clarifies the role of the motion judge. For hearings under case management in Toronto, at least, parties are encouraged to complete the written record and cross-examinations well before the summary judgment hearing to allow the judge to assess the adequacy of the record in advance, and to provide direction as to the hearing of oral evidence. Any expert opinion relied upon would also have to be filed with the record.

The judge would then take a preliminary view of whether oral evidence is required to make findings on contested facts.

## IMPACT ON THE INSURANCE INDUSTRY

As a result of the Supreme Court of Canada's decision in *Hryniak*, one may expect an increase in summary judgment motions brought. Judges will play a more expansive role and, ideally, more cases can be heard quicker and with less cost.

Insurers will wish to assess the pros and cons of the summary judgment option at an earlier stage in litigation and avoid legal costs and uncertainty in a conventional trial. There are tactical advantages to bringing these motions in appropriate cases and settlement may occur due to the prospect of summary judgment at an earlier stage.

In some cases, however, attempts at summary judgment motions may lead to further appeals and delays. Fact investigation and expert opinion may be required earlier.

Summary judgment motions will become more prominent as a litigation tool for resolving disputes. As a result, insurers may wish to assess claims and related risks earlier, and review litigation budgets, keeping in mind the new test for summary judgment.

# Resolving Dispute Resolution

The recently completed review of Ontario's auto dispute resolution system offers 28 recommendations, including the creation of a new tribunal to handle disputes involving the Statutory Accident Benefits Schedule (SABS).

**Willie Handler**
Consultant,
Willie Handler and Associates

A review of the Ontario auto insurance dispute resolution system (DRS) carried out by Justice Douglas Cunningham has provided the provincial government with 28 recommendations which, if implemented, would remove the system from the Financial Services Commission of Ontario (FSCO) and create a new government administrative tribunal.

Justice Cunningham was appointed by Ontario finance minister Charles Sousa to conduct a review of Ontario's DRS last August. Based on several consultations and written submissions from 33 groups and individuals, he provided the government with an interim report in October 2013 before making his final recommendations in February of this year.

## A NEW TRIBUNAL

Justice Cunningham envisions a new tribunal that reports to a Cabinet minister instead of the superintendent at FSCO. Arbitrators would no longer be Ontario public servants, but government appointees, similar to adjudicators on a number of other government tribunals.

The Insurance Bureau of Canada and a number of member companies proposed the entire system be privatized. The report does recommend some private sector involvement, proposing that the tribunal establish tendered contracts with one or more private-sector dispute resolution service providers to address any future backlog.

## A MORE STREAMLINED PROCESS

Justice Cunningham's report envisions a radically streamlined and quick process. It recommends that an insured who submits an application to the proposed tribunal have an arbitrator's decision within six months if the dispute proceeds to arbitration. The tribunal would have a registrar to deal with jurisdictional issues at the time the application is received without a hearing.

Currently, many procedural disputes are resolved by way of a preliminary hearing conducted by an arbitrator. Under the proposed system, an insurer could challenge an insured's refusal to attend an insurer examination at the time an application is submitted.

Justice Cunningham further recommends pre-arbitration meetings, neutral evaluation meetings (a step that has not been used since 2008) and that appeals to the director's delegate be eliminated.

## AN END TO MEDIATION

A significant recommended change is to eliminate mandatory mediation as the first step in the dispute resolution process. Instead, a settlement meeting would be scheduled with an arbitrator rather than a mediator. This step would have elements of both mediation and the current pre-arbitration meeting.

The report also recommends doing away with telephone mediations. Instead, settlement meetings would take place in person or through video conferencing.

The settlement meeting would take place within 45 days of an application being accepted by the tribunal's registrar. If the settlement meeting does not conclude with a settlement of all issues in dispute, the parties would be expected to disclose the evidence they will rely upon in support of their position at a hearing. During a settlement meeting, the arbitrator might provide one or both parties with an opinion regarding the likely outcome of a future arbitration if the parties fail to reach a settlement.

**Following an unsuccessful settlement meeting, an arbitrator will inform the parties whether their arbitration will take the form of a paper review, an expedited in-person hearing or a full in-person hearing.**

### THREE ARBITRATION STREAMS

Following an unsuccessful settlement meeting, an arbitrator will inform the parties whether their arbitration will take the form of a paper review, an expedited in-person hearing or a full in-person hearing. The determination would not be subject to appeal.

A paper review would take place in cases where $10,000 or less of medical and rehabilitation benefits are in dispute, or where the dispute involves a determination as to whether or not the claimant's injuries meet the minor injury definition. A paper review would occur within 60 days following the receipt of a completed application and the arbitrator would provide a written decision (no more than three pages) within 30 days of the date of the review. The tribunal would be expected to restrict the length of expert reports and briefs.

Arbitration hearings would be conducted as an expedited in-person hearing in cases that do not qualify as either a paper review or full in-person hearing. These should last no longer than one day and the arbitrator would inform parties how much time will be allocated to present their cases.

Arbitration hearings would be conducted as full in-person hearings for disputes involving catastrophic impairment determinations, whether the claimant qualifies for 24-hour attendant care or income replacement benefit claims beyond 104 weeks. The arbitrator would determine the length of a full in-person hearing.

All in-person hearings would take place

within 90 days following the receipt of a completed application, with decisions being available within 45 days of the hearing date. The arbitrator's report should be no longer than five pages for an expedited hearing and 10 pages for a full hearing.

The appeals of arbitration decisions should be heard by a single judge of Ontario's Superior Court of Justice on a question of law.

## NEW PENALTIES FOR NOT MEETING TIMELINES

The report recommends a number of timelines that would be incorporated in legislation along with penalties for those who do not comply. Parties who cannot commit to appear for settlement meetings or arbitrations within the timelines set out would not be eligible to claim their costs at arbitration.

If the tribunal is unable to schedule an arbitration within those timelines, it would be expected to reduce the arbitration fees it collects from the parties.

Parties would also get financial relief if arbitration decisions are late being issued.

## A SHIFT IN CULTURE

Justice Cunningham made it clear that he would like to see a change in culture within the DRS. A number of recommendations are expected to accomplish that shift.

Every insurer would be required to establish an internal company review process and to inform an insured how to access the process following a benefit denial. However, insureds would not be required to use the internal company review process before submitting an application to the new tribunal. Companies would be free to determine how their internal review process will be structured, but must provide an insured with a written response within 30 days.

Justice Cunningham recommends the settlement of future medical and rehabilitation benefits should be prohibited until two years after the date of the accident, which is one year longer than the current prohibition.

The provincial government would be expected to create a sliding scale of fees and Justice Cunningham proposes that incentives be introduced to encourage parties to settle early.

Experts would be required to certify their duty to the tribunal and to provide fair, objective and non-partisan evidence. Arbitrators would be expected to ignore evidence that was not fair, objective or non-partisan and, in those circumstances, the expert would not receive compensation for appearing as a witness.

## WHAT HAPPENS NEXT?

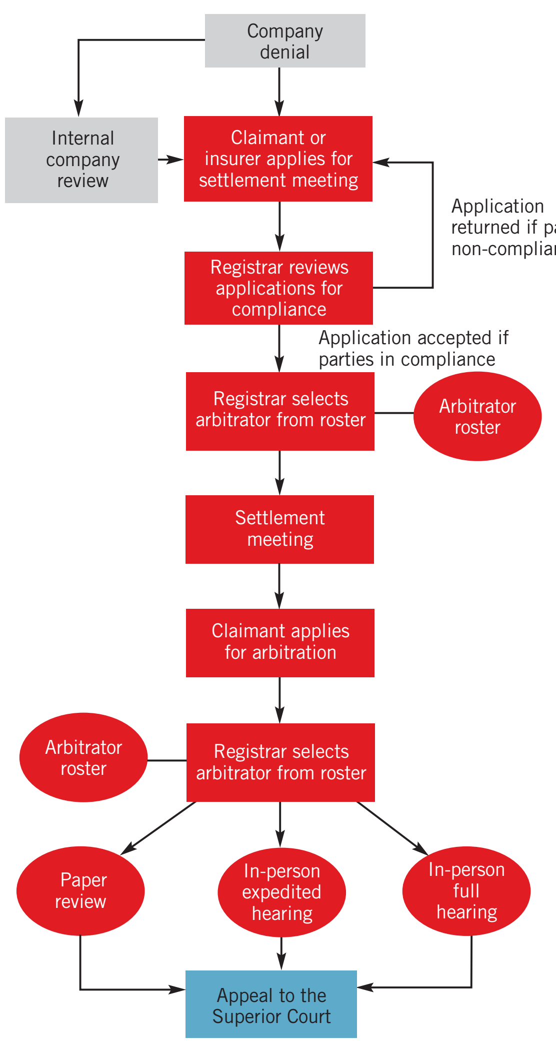
In January 2014, the Ontario government indicated that it will propose legislative amendments in the spring session based on recommendations of Justice Cunningham's review.

However, the legislation may not pass if a spring election takes place. Should an election occur, it will be up to the new government to decide when and how it chooses to proceed with DRS reforms.

Once legislation finally passes, it will take some time to establish a new tribunal. That means DRS users may be waiting some time before they benefit from any recommended changes that are adopted.

*(Ed. note: In early March, Ontario's provincial government tabled legislation that, if passed, will move administration of the dispute resolution system from FSCO to the Ministry of the Attorney General's Licence Appeal Tribunal.)*

**New Dispute Resolution Model**




Source: Appendix B, *Final Report of the Ontario Automobile Insurance Dispute Resolution System Review,* February 2014

UPCOMING EVENTS: FOR A COMPLETE LIST VISIT
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**1** Gore Mutual Insurance Company of Cambridge, Ontario recently announced its president and chief executive officer, Kevin McNeil [1a], will retire June 30. Effective February 17, Heidi Sevcik [1b], former vice president of claims, became Gore Mutual's new chief operating officer, reporting to McNeil. Sevcik will take on duties as president and CEO July 1. Sevcik, who has led Gore Mutual's claims, personal insurance and commercial insurance underwriting operations, has been in the insurance industry since 1979.

**2** Cunningham Lindsey Canada Claims Services Ltd. recently promoted Mike Alwyn [2] to the position of vice president of major loss services. Alwyn had been assistant vice president of Cunningham Lindsey Canada's commercial risk division (CRD) and specialty services. Cunningham Lindsey Canada is rebranding its CRD division to major loss services, "to more closely align itself with other Cunningham Lindsey major and complex loss adjusting teams," the company reports.

**3** Ingenie Services Ltd. plans to launch its auto telematics product in Canada and has agreed to have its majority shareholder, Quindell Portfolio plc, buy the remaining shares of ingenie that Quindell does not already own. Last year, England-based Quindell acquired Toronto-based Iter8 Inc., which provides software-as-a-service for property and casualty brokers and agents. Quindell, whose products include claims management outsourcing, owns 57% of the issued shares of London, England-based ingenie, which targets 17- to 25-year-olds with its telematics-based auto insurance. "Quindell exercising its option will also allow ingenie to rapidly pursue its strategy for international growth, starting with the launch of an ingenie young driver product in Canada," notes a statement from the company. Quindell agreed in 2013 to partner with Independent Broker Resources Inc. (IBRI), which is owned by the Insurance Brokers Association of Ontario.

**4** In early February, RSA Insurance Group plc named Stephen Hester [4] as its new chief executive officer. Martin Scicluna, chairman of London-based RSA, had been acting in an executive capacity pending the appointment of a new chief executive. Scicluna will revert to non-executive chairman. Hester, most recently CEO of the Royal Bank of Scotland, has also served as chief executive for The British Land Company plc and as chief operating officer and finance director of Abbey National plc. In addition, he has held senior roles at Credit Suisse First Boston.


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**5** Specialized Property Evaluation Control Services (SPECS) Ltd. announced in February that Andrew Ross [5] had been appointed as the new chief operating officer. For eight years, Ross was with the Vancouver branch of Edmonton-based SPECS, a construction consulting firm that provides services to insurance and property management firms, as well as to private and public institutions. Ross has worked in the insurance industry for more than two decades, including five years as a project manager with a national restoration firm, notes a statement from SPECS.

**6** The Centre for Study of Insurance Operations (CSIO) announced January 29 that Intact Insurance has obtained CSIO Certification for its electronic documentation solution. CSIO Certification is available to member insurance companies and vendors. With its data exchange standards, CSIO seeks to help solve data compatibility issues, facilitate more efficient and seamless integration of information and improve implementation of technology solutions.


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**7** DAS Legal Protection Insurance Company Ltd. has appointed David Smagata [7] as its vice president and chief legal officer. Before joining Toronto-based DAS Canada, Smagata had been assistant vice president of legal services for Aviva Canada. He has also worked for litigation law firm McCague Borlack LLP, and for TD Insurance, notes his LinkedIn profile.

**8** Sutton Special Risk Inc. of Toronto has appointed Ben Wiggins [8] assistant vice president, contingency and sports in early February. As an experienced specialty underwriter from Lloyds, London, Wiggins has a strong background in underwriting a variety of classes in territories around the world, such as North America, the United Kingdom, Australia and Europe, notes a company press release. "In his new role, Ben will be responsible for further developing Sutton's Contingency and Amateur Sports blocks through established global networks, as well as providing local senior underwriting support," the statement adds.

**9** FirstOnSite Restoration reported in early February that Bill Moorman had joined the company as senior vice president, Central Region. Jason Prescott, already with FirstOnSite, has been appointed as director of operations, Central Region. Prescott previously served as district general manager (DGM) for Northern Ontario and Eastern Ontario, and acting DGM for the Greater Toronto Area.

**10** Saint John, New Brunswick-based Mariner Innovations, an information technology service firm that is expanding into the property and casualty insurance industry, has hired two former executives of OARBIC Inc. Former OARBIC president Peter Symons [10] is now vice president of insurance at Mariner Innovations. Roula Partheniou, previously OARBIC's vice president of operations, is now delivery and relationship manager with Mariner Innovations. Symons has worked in p&c for more than 25 years, and while at OARBIC, his duties included overseeing operations and executing project audits. Partheniou had managed OARBIC's consultant relationships, and developed and managed OARBIC's internal processes, finance and administration.

**11** Dane Hambrook [11a] is the new managing director of Ironshore Canada Ltd. and Stephen Stewart [11b] is the new managing director of the Canadian Branch of Ironshore Insurance Ltd. Both Hambrook and Stewart will report to David Frediani, president of Hamilton, Bermuda-based Ironshore International. Ironshore Canada is its managing general agent business in Canada. The Canadian branch was established "to complement distribution capabilities and reinforce its regional market commitment," notes a company statement. "Ironshore's duel approach allows Ironshore Canada to underwrite complex corporate risks that address the insurance coverage needs for various industry classes."

The **CIP Society of the Greater Toronto Area** held its **Annual Industry Trends Breakfast** on January 16, 2014 at the National Club, featuring guest speaker Philip Cook, CEO of Focus Group Inc. Despite the record-low catastrophe losses in 2013, Cook predicted that climate change will continue to affect the industry and the cat bond market will continue to expand. He suggested it is "disappointing" that the Canadian industry has not been able to address the coverage issue for overland flooding. For the past several years, Cook has shared his predictions for upcoming years with industry professionals at the annual breakfast, organized by the Insurance Institute of Ontario.


Two CARSTAR Collision Centres in Hamilton, Ontario became **Toyota Certified Collision Centre's** in January. **CARSTAR Hamilton Gage,** sponsored by Red Hill Toyota Scion and **CARSTAR Hamilton Rymal**, sponsored by Upper James Toyota, both became Toyota Certified. Both the Toyota and Scion dealerships are part of Parkway Motors Hamilton family. Brothers Tony, Sam and Remo Mercanti, who own the CARSTAR collision centres, consider it a significant accomplishment that both of their locations received this certification. "We are certainly grateful and excited at the same time for the opportunity to professionally serve Toyota customers," says Tony Mercanti. Becoming Toyota Certified requires an intensive process to ensure that only top centres are selected. After a recommendation is made to Toyota Canada, reviews are performed that consider processes, material waste and client satisfaction to capture an overall picture of how a client's repair is handled from start to finish.

**Ronald McDonald House Charities Canada** hosted the **29th Annual National Ski Challenge** at Mt. Tremblant, Quebec on February 4-5. With the support of more than 240 skiers, suppliers and sponsors, over $175,000 was raised in support of Ronald McDonald House families across Canada. The insurance industry put forward a strong contingent of teams once again for the annual event. The insurance industry organizer for the event, Cedric Gyles, senior vice president and director, Risk Management Practice at Aon Reed Stenhouse, industry teams from various sectors of the insurance market were well-represented on the Corporate Ski Challenge podium. Zurich Canada teams took the winning medals in Fligh ts "B" and "D" while the ACE INA Insurance team captured top honours in "C" Flight.

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

More than 100 people attended the **Quebec Risk & Insurance Management Association's (QRIMA) annual Market Update session** held in Montreal at Club Saint-James on January 16, 2014. The speakers included Ellen Moore, president and CEO of Chubb Insurance Company of Canada, Jacques Dufresne, EVP, Eastern Region for BFL Canada, and Pierre Cleroux, vice president of research and chief economist for the Business Development Bank of Canada.
















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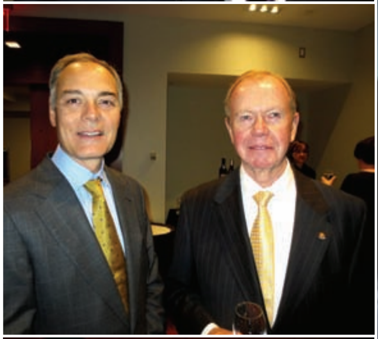
The **Insurance Institute of Ontario** held its **115th Annual Convocation & Awards Night** on January 23 at the Metro Toronto Convention Centre. Donna Ince, president of the Insurance Institute of Ontario, served as MC. Silvy Wright, chairman of The Insurance Institute of Canada, addressed the more than 400 Chartered Insurance Professional (CIP) and Fellow Chartered Insurance Professional (FCIP) graduates. The keynote speaker was Neil Pasricha, bestselling author of The Book of Awesome.





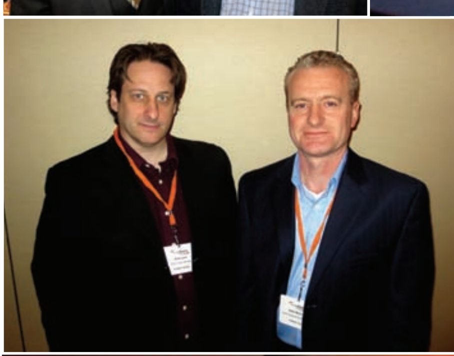
## GALLERY

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

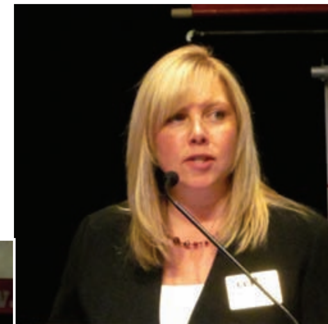
With more than 250 in attendance, **McCague Borlack LLP** hosted its **19th Annual "Christmas in January" party** at its Toronto offices on January 21, 2014. McCague Borlack LLP is the Ontario affiliated firm of the Canadian Litigation Counsel (CLC). As such, CLC members and The Harmonie Group, together with clients and guests from all facets of the insurance industry across Canada, embraced the mid-January event to get together, look to the year ahead and discuss the latest news and developments in the industry.

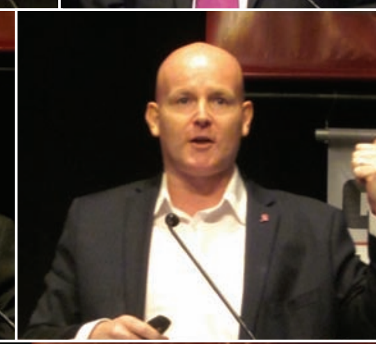
*See all photos from this event at www.canadianunderwriter.ca/gallery*

The **AudaVision 2014 Toronto symposium**, held by auto claims technology provider **Audatex Canada** on January 31, 2014, offered its claims outlook for the coming year. "There's a seismic shift happening across the entire claims ecosystem that's being driven by a wide range of digital technologies." Various speakers presented throughout the day, including George Cooke, president of Martello Associates Consulting, and former CEO of The Dominion, as well as Glenn Gibson, CEO of Crawford Consulting Services (Canada) and president of business operations, Hamilton Tiger-Cats.



A total of 377 repairers, insurers and suppliers representing the insurance claims and collision repair industries attended the **Canadian Collision Industry Forum (CCIF)** meeting on February 1 in **Toronto**. Leanne Jefferies, director of collision programs for AIA Canada, welcomed the group and introduced speakers of the day. These included Tom Bissonnette of Parr Autobody in Saskatoon, outgoing CCIF chairman; Larry Jefferies, CCIF chairman for 2014; Andrew King, managing partner at DesRosiers Automotive Consultants; Marc Honorat, founder of Haiti ARISE; and Doug Kirk, global services support manager at Akzo Nobel. Discussing top CCIF action items, a panel discussion ensued, with input received from members of the CCIF Steering Committee: Joe Carvalho of Economical Insurance; David Adams of Global Automakers of Canada; Paul Prochilo of Prochillo Brothers Collision; and Bruce Hemstreet of CARSTAR, Lethbridge and Medicine Hat).



## GALLERY

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Hundreds of insurance claims industry guests attended the **8th Annual Post CICMA/CIAA Joint Conference Cocktail** on February 4, 2014. Entitled **The Big Mingle**, the event featured an "all-things Canadian" theme, with a nod to the (then) upcoming Winter Olympics. Giffin Koerth and Blouin Dunn LLP hosted the event, held at the The Fifth Social Club in Toronto.

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More than 150 exhibitors from across Canada showcased their works at the **Ontario Insurance Adjusters' Association's (OIAA) Professional Development & Claims Conference** in Toronto on February 5, 2014. The event featured a trade show and seminars covering a wide variety of timely claims topics.




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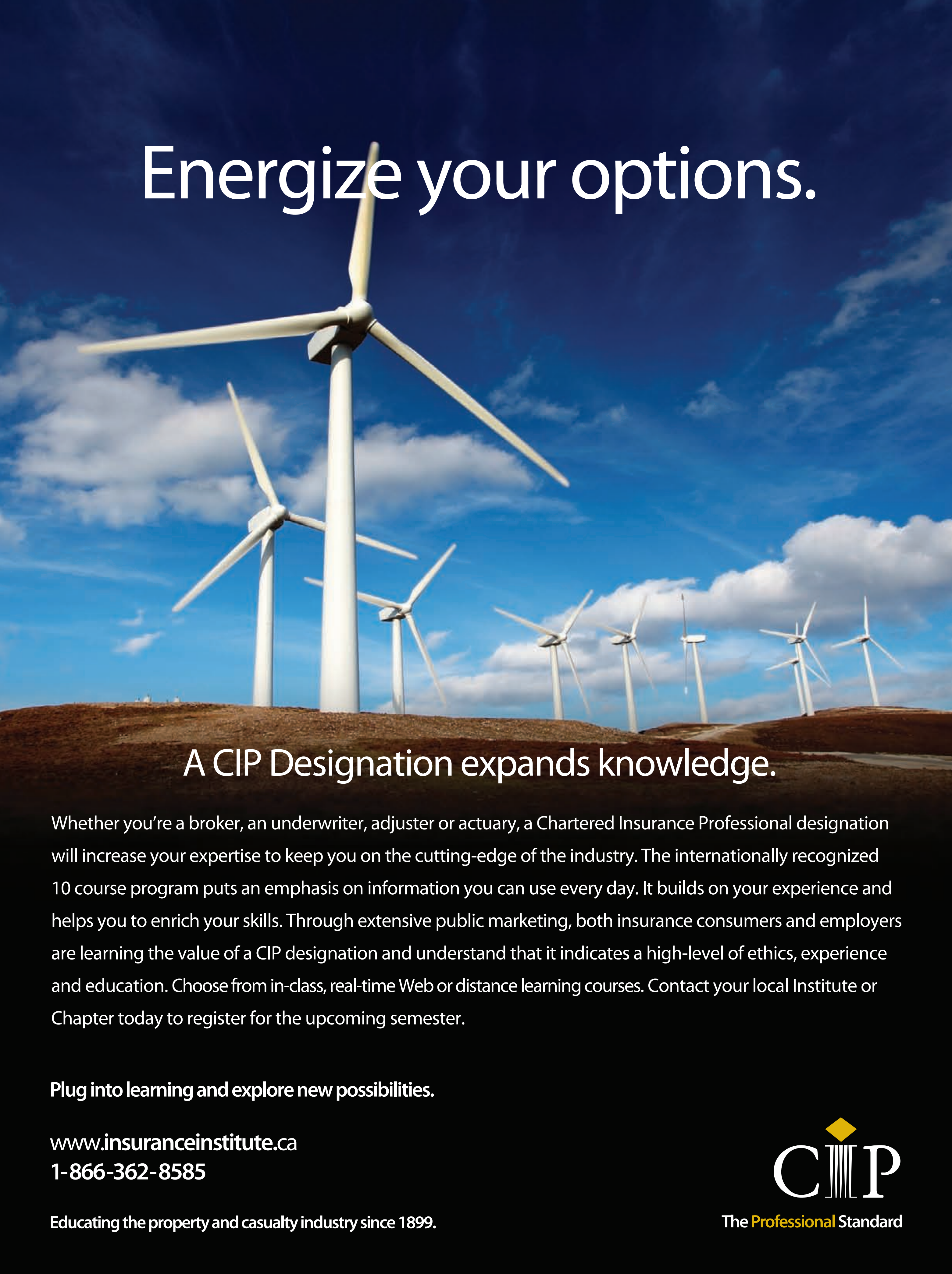
The **CICMA/CIAA Ontario Chapter's 47th Annual Joint Conference** was held February 4, 2014 at the Metro Toronto Convention Centre. The theme of the conference was "Technology Supporting Claims… It's in the Clouds." Guest speakers were master of ceremonies Brian Maltman, executive director of General Insurance OmbudService; Jo-Ann Eccleston, past president of the Ontario CICMA Chapter; Dorothy Lowry, president of the Ontario CIAA Chapter; Carol Kreiling, vice president at Swiss Re; Steven Dubenow, national manager at SIU, CKR Global; John Kotsopoulos, president and CEO of iAutoConnect; and the keynote speaker, Amber MacArthur, entrepreneur, bestselling author, well-known blogger, keynote speaker and TV host. MacArthur started her career during the dot-com boom in San Francisco and has since been at the forefront of reporting on and participating in digital innovation.







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