CANADA'S INSURANCE AND RISK MAGAZINE. CANADIANUNDERWRITER.CA

CANADIAN UNDERWRITER

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Power Play
BY ANGELA STELMAKOWICH

Smooth Exchange Needed
BY BRENDA ROSE

Home to Roost
BY GORD ENDERS

CANADIAN UNDERWRITER

VOL. 81, NO. 4, APRIL 2014

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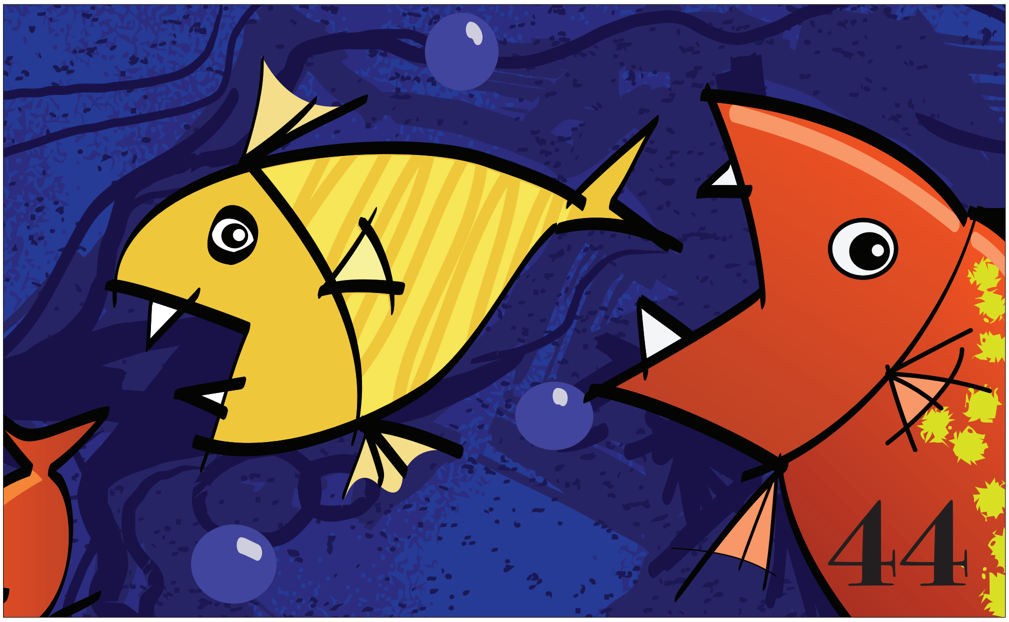
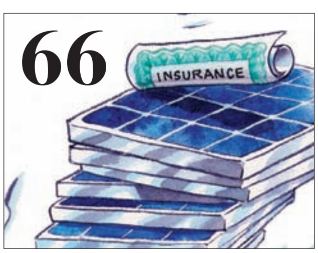


COVER STORY

FEATURES



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Curtain call for entries.
Submit your nominations for the Annual CIP Society National Leadership Awards.
Nominations will be accepted until June 1.
For more information about the leadership awards and the nomination process, please visit the CIP Society website.
www.insuranceinstitute.ca/cipsociety
CIP SOCIETY
NATIONAL LEADERSHIP
AWARDS

CU 80 Years *Articles – 1943, 1944, 1945*

How to Handle Incendiary Bombs

Recent NFPA Bulletin Issues Instructions for Handling New Type of Incendiary Bombs Now in Use by the Axis Powers — Water Still Best Counter Agent Known

Fires in Fifteen Months of War

Summary by N.F.P.A. Reveals the Direct and Significant Effect of Fires on the War Program. Some New Hazards Have Developed, but Old Ones Persist for the Most Part.

By F. W. KENDRICK

How to Handle Women In Insurance Agencies

British Hospitality Extended to All Insurance Men and Women in Overseas Forces

All Insurance Members of the United Nations Overseas Forces to be Included in British Hospitality Scheme.

Ontario Agents Hold Twenty-Third Annual Convention at Toronto

Main Theme of Meeting is Qualification of Agents and Incorporation of Canadian Federation. Many Attend Business Meetings, Serious Attitude Prevails.

Comprehensive Liability is a Needed Insurance Development

Insured Does Not Always Choose Individual Policies Best For His Own Case. The Comprehensive Coverage Prevents Many Loopholes Left By Such an Individual Policy Program.

By G. H. POOLE

Independent Insurance Research Organization Advocated

Although Based on Scientific Principles, These Principles are Not Properly Applied in the Insurance Business, Speaker Claims. Formation of Independent Research Body Would Help Correct This Situation.

RALPH H. BLANCHARD

Roll of Honour

On Active Service in the World War

Compiled by Canadian Underwriter

Better Start Selling Insurance to Women!

Women Control the Bulk of the Wealth of This Country; They Hold Responsible Business Positions; They Manage Households With the Men at War; They Are Our New Customers.

Unless Many More Automobiles Insured Public May Force Compulsory Insurance

Over 90,000 Uninsured Cars a Menace to the Insurance Business as Well as the Public—Insurance Covers Only 40% of Cars Involved in Accidents — A Problem for the Companies.

By LILLIAN D. MILLAR

Bitter Fight Now Waging in United States Over Who Shall Write Automobile Insurance

Encroachments of General Motors and Sears Roebuck Co. a serious threat to insurance companies as well as agents. Canada should prepare.

Are Agency Services Essential to Public?

In 1942, Canada's Fire and Casualty Agents were paid more than $25 millions in commissions — a sizable sum. Can they convince the public that they are worth the amount they receive?

By LILLIAN D. MILLAR

Insured Loss from Halifax Riot Will Approximate $500,000

Committees have been set up to record claims under insurance policies pending result of Kellock inquiry.

British Hospitality Extended to All Insurance Men and Women in Overseas Forces

All Insurance Members of the United Nations Overseas Forces to be Included in British Hospitality Scheme.

HAROLD M. SMITH

F. R. HEARNE

Ontario Superintendent States Qualification Plan for Agents

Hamilton Fur Storage Fire Loss Adjusted for $325,325

Complications developed from under-valuation of furs in vault, and PPF Policies held by customers of Giddings Ltd.

Insurance Plays Vital Role

Toronto Institute Announces Education Plan

John A. Barron has been appointed secretary; elementary course to be taken by all students with specialized courses later; expected to be in operation very soon.

Vancouver Water Front Explosion Tops List of Large Fires

$5.5 millions destroyed in 29 fires between December 8, 1944 and May 14, 1945—exclusive of losses due to business interruption.

CU 80 Years *Articles – 1946*

80
1934 - 2014

When this heavy transport truck, loaded with steel rods, and a passenger automobile collided almost head-on in Toronto the driver of the car was instantly killed and the truck driver was injured. The steel rods on the truck penetrated the automobile. The accident occurred during daylight on dry roads.

(Photograph by The Evening Telegram, Toronto)

Peacetime Accident Slaughter Greater Than Wartime Carnage

Speakers deplore loss of life through war—but at least that has ceased; loss of life from home-front accidents continues

Homes Factories Highways MORE DANGEROUS THAN WAR!

Casualties on the Home Front Continue to Mount in Number

Every Day, Everywhere, this sort of thing is happening –

HALF A TON OF DEATH

December 2nd, 1946

View of the "insurance store" from the street.

Insurance Still Must Be Sold

Modern insurance store at busy intersection in Toronto finds that little business comes in "over-the-counter"

December 2nd, 1946

Compulsory Automobile Insurance Goes Only Half Way

Provides compensation for innocent victims but fails in accident reduction, says speaker. Financial responsibility laws stress both points. Manitoba's law held up as example.

February 15th, 1946

Building Values Go Up– Insurance Protection Goes Down!

Increased cost of materials, higher wages, lack of construction and sudden increase in demand send building values skyward. Insurance coverage must follow suit.

February 1st, 1946

Court Defines Liability of Auto Insurers to Third Parties

Important decision rendered by New Brunswick Court. Insurer Not Liable Where Policy Obtained by Material Misrepresentation.

By M. I. PIERCE, B.A., LL.B.

Quebec Brokers' Head Lauds Agents' Qualification Developments

By T. V. DEPATIE

President, Insurance Brokers' Association of the Province of Quebec.

January 15th, 1946

Bright Prospects Ahead For "Wet" Marine Insurance

As Canada girds herself for foreign trade expansion, every small manufacturer is thinking of exports. Even inland agents can handle marine covers and add to their premium income.

Tornado at Fort Frances hurled a smokestack through the roof of the Mattlow Sawmill

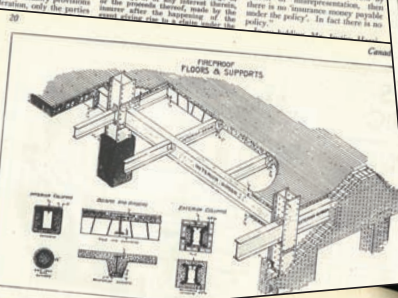
Triple Disaster Strikes in Widely Separated Parts of Canada

of nature leave heavy toll of property damage

Home Automatic Fire Detection Devices Recommended

Fire Chief G. E. Huff explains how best to escape from a burning building; suggests use of fire extinguisher and home fire drills.

(Dominion Fire Prevention Association Annual Meeting)



Gov't. Control of Industry A Hindrance to Prosperity

Lord Woolton, wartime Food Minister, addressed the Canadian Club in Montreal on conditions in postwar Britain

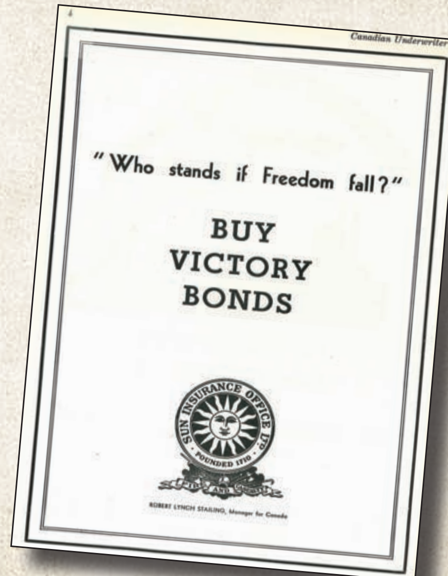
December 15th, 1946

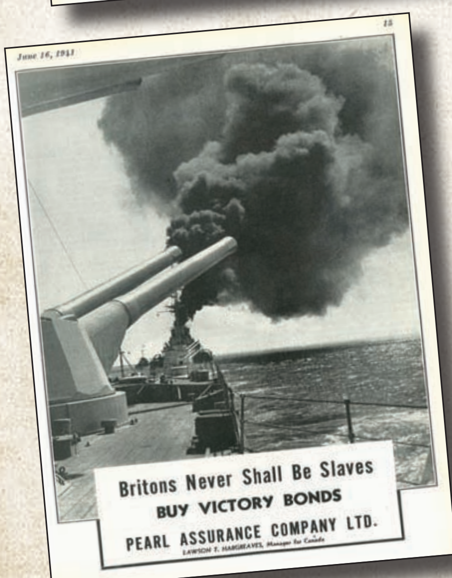
26th Annual Convention of OIAA Sees Education Plan Begun

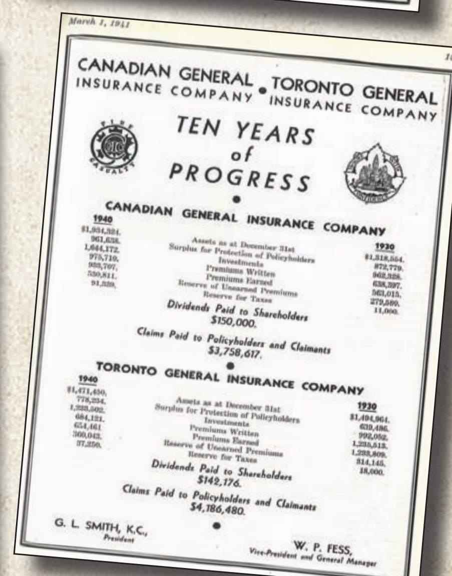
Automobile Legislation Enacted In Six Provinces During 1946

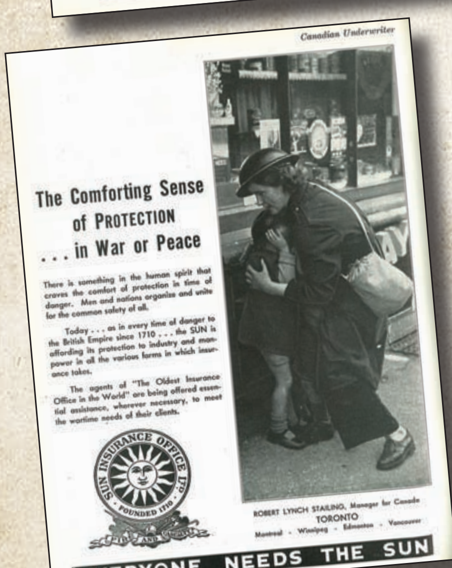
Revised statutory conditions respecting unlicensed drivers meets with objection over wording. Proposal held pending further consideration.

CU 80 Years *Advertisements – 1941*









CU 80 Years *Advertisements – 1942, 1943*

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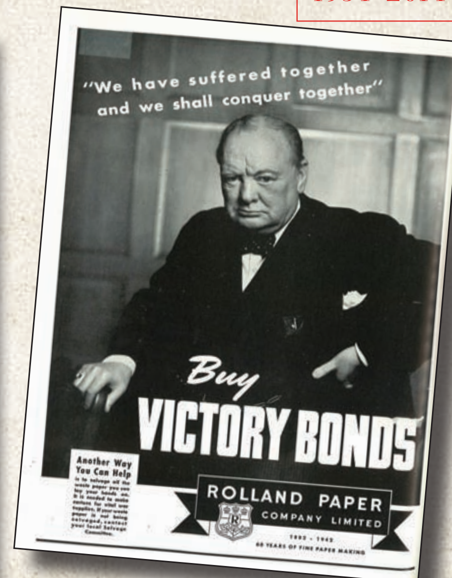
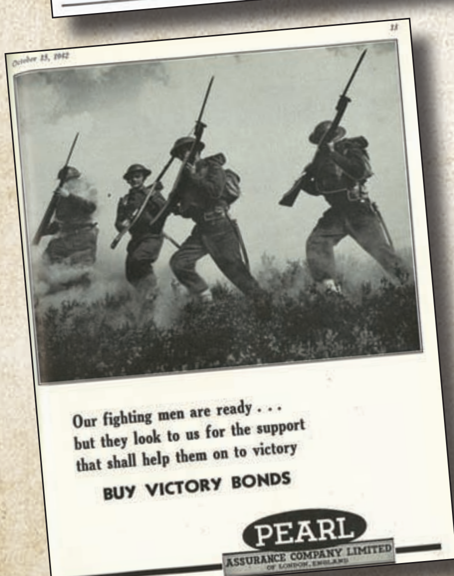
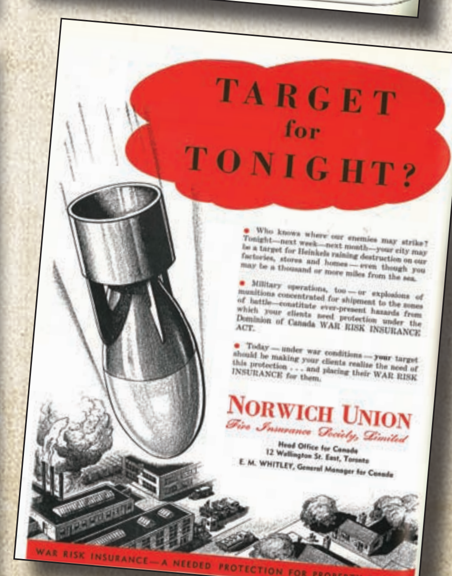
1934-2014







Use It or Lose It

Getting all the necessary ducks in a row has become a pressing issue in light of the possible competitive advantage gained.

Angela Stelmakowich, Editor
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Insurers in Alberta's auto space may want to use it — the ever-intoxicating "it" being usage-based insurance (UBI) — but the provincial regulator makes clear they will not get to play until sobering matters are addressed.

UBI offerings are starting to roll out or expand in Canada, and one should only expect these to ramp up in the not-too-distant future.

Seemingly giddy over the possibilities, a number of players have entered the space to date. Over the last year or so, entrants have included the following: The Co-operators program, launched in Ontario in April, in which users get a 5% discount upon enrolment and could earn up to 25% off auto insurance, depending on driving behaviour; Desjardins General Insurance Group's program, available in Ontario and Quebec as of last spring, allows individuals to save as much as 25% more on their car insurance at renewal; and Intact Financial is expected to soon release a program in both Ontario and Quebec.

All of these follow the policy from Industrial Alliance, Insurance and Financial Services Inc. in Quebec two springs ago and last year's announcement that Quindell Portfolio PLC would partner with Independent Broker Resources Inc. to offer technology for all Insurance Brokers Association of Ontario telematics initiatives to IBAO's 12,000 brokers.

But before insurers get to play in Wild Rose Country, they will need to ensure the issue of "informed consent" from consumers is addressed for any telematics-based insurance in the province.

Alberta's Automobile Insurance Rate Board is supportive of UBI as a voluntary discount program, notes the board's 2013 annual report. "However, entry into the Alberta market will require the approval of the Superintendent of Insurance as this product introduces new rating factors. The issue of informed consent by Alberta consumers must be satisfactorily addressed prior to the introduction of any programs."

In a posted bulletin last fall, Ontario's regulator, the Financial Services Commission of Ontario, placed heavy emphasis on privacy issues and data collection. Information gathered through telematics technology, or other devices, for usage-based insurance pricing, should be considered "personal information" as defined by Canada's *Personal Information Protection and Electronic Documents Act.*

The Insurance Brokers Association of Canada has made clear the principles that brokers believe are essential to ensure consumers are protected, including that consumers have the right to control and ownership of data relating specifically to themselves, their families and their businesses.

It is a position reiterated recently by Quebec's brokers association, which notes "telematics must essentially remain a 'voluntary option' for consumers, whose support must be based on informed consent."

Getting all the necessary ducks in a row has become a pressing issue in light of the possible competitive advantage gained and the apparent receptiveness of consumers to relinquish driving details — including mileage, speed and hard braking — for a break on auto insurance.

"These services can help insurers differentiate and de-commoditize their products. They can also help them focus on a brand-new consumer base to grow new business and improve retention," Robin Harbage, global lead for Towers Watson's UBI practice, said in April in releasing recent survey results.

In all, 56% of respondents reported a "strong interest" in buying a UBI policy, 85% noted they would be open to a UBI program, and 94% expressed interest if they were guaranteed premiums would not rise. At 47%, the last point was the most common concern around UBI; privacy issues, including sharing of consumer data, were close behind, cited by 46%.

As well, almost half (48%) of respondents indicated they would be willing to change their driving behaviour.

Amid a somewhat cautious approach by regulators to date, that link to driving behaviour (presumably reducing risk) should be a given.

That approach is critical to be of benefit to insurers, brokers and consumers.

Regulation

OTTAWA DRAFTS RULES ON MUTUAL CONVERSIONS

Economical Insurance has "welcomed" the federal government's proposal to broaden the Cabinet's power to make regulations on the conversion of mutual insurance companies into companies with common shares.

Conservative MP Peter Van Loan tabled Bill C-31 in the House of Commons in March. In addition to implementing part of the 2014-2015 budget, the omnibus bill also proposes several changes to the federal *Insurance Act*. Section 237 of the existing *Insurance Act* gives Cabinet the power to make regulations on applications of mutual insurance companies to convert into firms with common shares.

Economical Insurance announced in 2010 its intent to demutualize, "subject to approval" by both policyholders and regulators.

Once enacted, "the next step will be for the Department of Finance to release draft demutualization regulations, which are expected to be subject to a public consultation period before coming into force," notes a press release from Economical Insurance.

"At that point, Economical's Board of Directors will be in a position to determine whether demutualization within the final regulatory framework would be in the best interests of the company," the statement adds.

POWER TO STOP UNSAFE RAILWAYS FROM OPERATING

Ottawa is proposing that the federal transport minister have the power to stop a railway from operating if there are "extreme safety issues."

The *Railway Safety Act* currently gives railway inspectors the power to issue a "letter of non-compliance" if a railway firm is found to be violating the law. A rail operator has 14 days to correct the problem.

At present, Transport Canada's only option in cases of persistent non-compliance is prosecution. But the proposed *Railway Operating Certificate Regulations* and associated legislative provisions expand the federal department's enforcement continuum, providing the transport minister "with the ability to remove a (railway operating certificate), thereby stopping a company from operating in a case where there are extreme safety issues."

The minister could also suspend or cancel the railway operating certificate if the prescribed conditions of issuance cease to be met, or if any provision of the act or its instruments is contravened.

ONLINE ARBITRATION SCHEDULING TOOL TESTED

The Financial Services Commission of Ontario is testing its online service to schedule pre-hearings and settlement conferences, in a bid to streamline arbitration for auto insurance claims disputes.

FSCO looks to be moving on with the phased implementation of Arbitration eCalendar, announced in January. Its aim is to make scheduling more accessible and flexible, minimize administrative costs and free up time for commission staff.

The regulator has invited an insurer and a law firm to test the service. Once the testing is complete, FSCO will begin inviting other companies to register for the service.

While participation will be voluntary at first, registration and participation in the service will become mandatory.

ALBERTA GOVERNMENT EARMARKS FUNDS FOR FLOOD MITIGATION

The Insurance Bureau of Canada (IBC) supports the move in the Alberta government's budget to earmark $1.5 billion for flood mitigation and recovery programs over the next three years.

The provincial budget calls for $700 million for future flood mitigation projects, including grants for erosion control, flood hazard mapping, mitigation related to water and wastewater infrastructure, protecting "high-priority" areas and an additional $859 million for flood recovery.

More severe weather "overburdens our sewer and stormwater infrastructure, resulting in more sewer backups in homes and businesses. We know there is need for Albertans to prepare for the inevitable," Bill Adams, vice president of IBC's Western and Pacific region, says in a statement.

Canadian Market

ECONOMICAL INSURANCE TO STOP WRITING INSURANCE IN N&L

Limited opportunities for profitable growth, combined with a challenging regulatory environment, were key considerations in Economical Insurance's decision to stop writing insurance in Newfoundland and Labrador.

The move, which takes effect as of October 1, 2014, follows a thorough review of its business there, Economical Insurance notes.

Existing policies with Economical Mutual Insurance Company or its subsidiary, Federation Insurance Company of Canada, will be honoured in full as per the coverage terms and conditions up to the expiry date.

In line with its stated intent in 2010 to demutualize, the mutual now has a new operating model. "We will enhance broker and customer experience, and will produce tangible cost savings that will support our future profitable growth," says Karen Gavan, Economical president and CEO.

SGI CANADA EXITS MARITIMES IN FAVOUR OF WESTERN EXPANSION

SGI Canada has entered into an agreement to sell its shares in the Insurance Company of Prince Edward Island (ICPEI) to EGI Financial Holdings Inc. at book value, estimated to be $10 million, with another

$3.5 million to license the use of SGI's computer systems.

The deal is expected to close this summer, notes a statement from SGI Canada.

SGI Canada purchased 75% of ICPEI's shares in 2001. But the carrier reports it now plans to "redirect resources" and focus on Ontario and Western Canada, and recently applied for a licence to compete in the B.C. p&c market.

"Our plans to exit the Maritimes and move into B.C. will allow us to achieve geographic diversification targets faster, spreading risk more effectively and helping ensure financial stability for the company and, ultimately, providing enhanced security for customers in all regions," says Andrew Cartmell, SGI's president and CEO.

Risk

B.C. LAUNCHES PUBLIC CONSULTATION ON QUAKE PREPAREDNESS

British Columbia plans to invite input from stakeholders on how the province can better prepare for and respond to a catastrophic seismic event.

"This emergency management consultation regarding catastrophic seismic events will directly involve all levels of government," the provincial government reports.

"The property & casualty insurance industry agrees that it's time for regional and national conversations on how to prepare for a mega-earthquake, which could happen at any time," says Bill Adams, vice president for the Western and Pacific region of the Insurance Bureau of Canada.

Stakeholder roundtable activities will focus on those regions at highest risk, with the final report expected to be submitted by year's end.

Claims

AVIVA WATER DAMAGE CLAIMS FLOW IN 2013

Last year saw Aviva Canada paying out a record of more than $190 million in water damage claims, a 69% increase over 2012.

"With last year's storms, water damage reached an all-time high, making up 51% of all Aviva Canada property claims," notes Wayne Ross, vice president of property claims for the insurer.

If the 2013 Alberta and Toronto catastrophes were removed from the calculation, Aviva Canada reports, water damage would still have made up 40% of all property claims for the insurer.

Data also shows that last year, the average cost of a water damage claim rose to $20,537, a 130% increase over the $8,944 the company experienced 10 years earlier.

"The reasons for the upward trend are rather simple," Ross says. "The increasing investment Canadians are putting into their basements, combined with more frequent severe weather events and an aging sewer system that is unable to deal with large amounts of water within a short time period, results in a lot of homes experiencing damage," he adds.

Technology

CONSUMERS WANT POLICY INFO VIA MOBILE DEVICES

More than half of consumers included in a new survey say they want certain insurance policy information available through either e-mail or smartphones, but most insurance providers are behind on delivering useful information through mobile technology.

In the global survey from predictive analytics firm FICO, 55% of consumers said they want policy renewal reminders delivered via e-mail or smartphone, and 52% said they are interested in alerts regarding changes in their policy.

The survey included 2,239 adult smartphone users in the United Kingdom, Australia, Brazil, China, France, Germany, India, Italy, Japan, Korea, Mexico, Russia, Turkey and the United States.

Mobile communication is still under-used by insurers. Two-thirds of respondents reported never using their smartphones to manage or interact with their insurers.

USE OF PREDICTIVE MODELS GROWING: TOWERS WATSON

Property and casualty insurers in the United States have increased their use of predictive modelling across almost every line of business over the past year, indicate results of a new survey by Towers Watson.

Despite that, most businesses taking part in the company's fifth annual survey still lack a comprehensive, company-wide approach for using predictive modelling for all "core functions," Towers Watson notes. The survey involved 59 U.S. p&c insurance executives.

Overall, insurers are often not applying their data-driven analytics uniformly throughout the business, while overall usage fluctuates significantly by line of business and company size.

A compelling case can be made that well-executed predictive modelling provides better pricing guidance to underwriters, Towers Watson reports in a statement.

Among those using predictive modelling, most said it has led to favourable bottom line results with positive impacts on rate accuracy (85% personal, 96% commercial), profitability (80% personal, 78% commercial) and loss ratio improvement (80% personal, 74% commercial).

Reinsurance

REINSURANCE MARKET IN STATE OF FLUX: WILLIS RE

Traditional reinsurers must be mindful of areas into which they are looking to diversify in the face of increased competition from the influx of capital markets capacity, notes Willis Re president Paddy Jago.

Jago says the reinsurance market is in the greatest state of flux he has seen during his 35 years in reinsurance.

Remaining relevant, he emphasizes, demands three things: having a high degree of expertise; being of a certain size; and having in place relationships in the reinsurance market.

People First

Greg Meckbach
Associate Editor

Ginny Bannerman, recipient of the CIP Society's established leader award, picked up some leadership attributes from her father while he was running the family brokerage that still serve her today.

Ginny Bannerman, 2013 recipient of the established leader award from the CIP Society, the graduate division of the Insurance Institute of Canada, has some simple leadership advice for brokers.

"Put people first," says Bannerman, a former Calgary brokerage owner who is now vice president, finance (West) for Intact Insurance. "Get involved. Be proud of what you do. This is a great industry," she says.

It is something that Bannerman has taken to heart. She has served two terms as president of the Insurance Brokers Association of Alberta (IBAA), from 1997 until 1999, and later as president of the Insurance Brokers Association of Canada (IBAC).

Bannerman was one of five executives recognized with a national leadership award in 2013 by the CIP Society. Of the five, she is one of two — the other was James Cameron — who also received an established leader award through which the institute recognizes graduates of its Chartered Insurance Professional (CIP) and Fellow Chartered Insurance Professional (FCIP) programs.

HOME FRONT

Bannerman began her insurance career in the family business — Bannerman Agencies Ltd. — which was founded in Calgary in 1921 by her grandfather, Jack Bannerman, and later run by her father, Bob Bannerman.

"There was a lot of pride in the name of the business and the family name," she says. "My dad's one and only rule was to treat people the way that you want to be treated yourself. Dad was a guy who was absolutely colour-blind when it came to class or whatever. He treated everyone with the utmost respect regardless of background or gender or age."

In the 1970s, Bannerman recounts, she started working at Bannerman Agencies after school. Initially, her duties included filing, emptying garbage cans, washing the coffee pot "and many very important things like that," she quips.

It was the start of learning the wide range of duties that makes up a family business. "You stayed until the work got done," she says.

Jack Bannerman, who founded the brokerage in 1921, originally had property and casualty partners. His p&c partners went on to found Reed Shaw McNaught, which, after several name changes, became Aon Reed Stenhouse Inc., Aon plc's brokerage and risk management subsidiary in Canada.

"My dad's one and only rule was to treat people the way that you want to be treated yourself. Dad was a guy who was absolutely colour-blind when it came to class or whatever."

Jack Bannerman was joined in the family business by his son, Bob Bannerman, after the latter graduated from the University of Alberta. Bob Bannerman, who passed away in 2011, was named Insurance Man of the Year for Canada in 1969 and had led both the Alberta and national brokers' associations.

In 1988, Ginny Bannerman bought the business from her father, and sold the brokerage to Canada Brokerlink Inc. in 1999. A year later, Canada Brokerlink was acquired by Allianz Canada, itself purchased by ING Insurance, now called Intact, in 2004.

Six months after selling to Canada Brokerlink, Bannerman left the brokerage and she and her husband, Don Radford, established Bannerman Radford & Associates Inc., which she describes as a "small boutique" insurance brokerage.

GETTING CONNECTED

"During that time, I was asked to go in on the executive of the Insurance Brokers Association of Canada," she notes. As president of IBAC from 2001 until 2002, Bannerman had opportunities to meet other insurance professionals from across the country.

"With IBAC, you get to meet with the federal minister of finance, dealing with the federal regulations that impact insurance," she says. While she was on the IBAC executive, a major issue for brokers was the *Bank Act*.

After her term as IBAC

president, Bannerman worked for both IBAA and the Insurance Bureau of Canada (IBC) from 2002 until 2006.

At the time, she was approached by both Harold Baker, then CEO of IBAA, and Jim Rivait, then IBC's western regional vice president. "We worked out some ground rules about what a conflict of interest might look like, where insurance companies' and brokers' interests were not aligned — and through that I represented the two organizations with the Alberta government."

At the time, Alberta politicians were concerned about both affordability and availability of auto insurance. The province eventually brought in reforms, including a premium grid setting maximum premiums that carriers can charge for basic coverage for any driving record. It also brought in the *Minor Injury Regulation*, which sets a maximum amount that can be recovered as damages for non-pecuniary loss resulting from a minor injury, and the *Diagnostic and Treatment Protocols Regulation*, which provides people injured in auto accidents with faster access to medical care.

"In essence, the legislation reduced costs by making people better sooner," she says.

Photo: Ginny Bannerman

Bannerman eventually went on to become IBAA's full-time executive officer in 2007, and chief executive officer the following year. She left that job in 2010, Bannerman says, when Intact hired her as vice president of personal insurance for its western division, which handles Manitoba, Saskatchewan, Alberta, British Columbia and the three territories.

THE BIG PICTURE

In 2011, Bannerman moved to her current position as vice president of finance for the western division. She oversees several operations, including budgets and accounts receivable, printing and mailing of policies, as well as scanning documents.

Bannerman also oversees the business excellence, transformation and practices and process centres of excellence for Intact West.

"Their area of focus is to find ways to do work more efficiently, more effectively and to improve work flows," she says. "Imagine a company the size of Intact. We have a number of projects that are ongoing simultaneously. So they manage the development of the projects, making sure that the timing is right. That group is also very good at looking for manual functions that can be automated," she suggests.

In managing teams from different offices, she notes that she had gained valuable experience while working about a decade ago on her Master of Business Administration at Royal Roads University in Victoria. The educational pursuit entailed both one-month residency periods and online work from Calgary, she says.

"The other students came from all around the world and one of the things we really learned to do — and you have to remember this is 10 years ago — was work as a virtual team through different time zones," she explains.

"I had teammates all the way from China to Abu Dhabi," Bannerman relays.

After almost four decades of leadership roles in brokerages, associations and at a carrier, Bannerman has some words of wisdom to offer her insurance industry colleagues.

"Sometimes I think when we go through times where we have got product changes or rates are increasing or we are dealing with catastrophic events, all of our people can get pretty beat up," she says.

"Never lose sight of the value that we, as an industry, bring to society."

Game On

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

Businesses looking to achieve long-term success need to keep their heads in the game. For brokers and insurers to both win, things must advance beyond creating effective interaction between systems to a common form of data exchange where information flows between multiple systems.

The game is on. The next question is, whether the partners brokers rely on are in this for the whole season, or just this period?

One terrific shift is not enough for a win, if the coach does not have the resources to keep the competition in check throughout the entire game. And there is no doubt that leaving assets sitting on the bench, while the opponents' score climbs, is a recipe for disaster.

In business, wins are determined in the end by how well strategic choices align with customers' greatest needs. Specific operational goals around budgets and expense management are, of course, necessary, but can actually be counter-productive if they do not support overall strategic ends.

Just as a coach allocates players with the ultimate purpose of scoring goals, businesses must determine priorities for budgets and resources with strategic customer delivery objectives in mind if they expect to win long-term success.

In the insurance world, brokers and the insurers who partner with them understand that competitive products and pricing are table stakes. Beyond that, customers need choices, objective advice and trustworthy advocacy.

In addition, consumers now also expect to obtain information and to access choice, advice and advocacy on their own terms and at their own convenience.

The technology does already exist for the industry to deliver on these expectations, and for

Illustration by Barbara Spurll


AVIVA
Insurance
Leisure & Lifestyle
Greetings from
Cottage Country

customers to obtain up-to-the-minute information through the access points they prefer. To translate the potential into reality, however, brokers, insurers and technology providers must together make the necessary decisions to invest in infrastructure that will keep them in the game, not just through today's overtime, but through to the end of the season.

TEAM INVESTMENT

In Canada, investment in information technology generally lags behind the spending levels in many other countries. Bob Humphreys, country leader for Demand Programs and Digital Strategy at IBM Canada, emphasized this point during his presentation at the 2014 Insurance-Canada Technology Conference, while referencing recent *Backbone Magazine* and Deloitte studies that link limited information technology investment and low productivity.

The insurance sector, in particular, is noteworthy for its relatively modest IT spending.

Inadequate investment becomes even more evident in a digitally transformed marketplace replete with amplified customer expectations. The need for alignment and collaboration between marketing and IT is increasingly critical.

Humphreys noted as part of his presentation that using technology to "build new capacities and competencies within the organization... will (in turn) help ensure improved relevance of IT efforts to the customer audience."

This is not possible, however, unless key foundations are first developed.

The problem is, of course, that there are a great many possible avenues for investment. When budgets are limited or even reduced in the face of realities such as catastrophic losses or premium erosion, there are difficult choices to be made. The pressure on bottom lines for Canadian insurance businesses has seldom been greater, nor has the scope of change ever accumulated so rapidly.

But inaction is not a viable option, as businesses are forced into choices unwillingly or not by the simple evolution of the technological environment. Further, there are always risks in making decisions with far-reaching impact.

Nevertheless, one positive outcome is that a fresh scrutiny of purposes and priorities can reveal areas where funds are not well-deployed. The industry can no longer afford to tolerate outdated practices that perpetuate waste while a shift to more accurate, more efficient processes is postponed.

Imagine (if you can) that your favourite hockey team is headed into the playoffs, squared off against its arch rival. The three star players, however, are to be assigned to the locker room for the first two periods of each game, and tasked with taping old practice sticks.

The industry can no longer afford to tolerate outdated practices that perpetuate waste while a shift to more accurate, more efficient processes is postponed.

The coach has promised that in two years' time, they will no longer have to do this chore, but in the interim, the stars will be expected to carry the game during the ice time they do have in the third period.

MODEL GAME PLAN

Most industry stakeholders agree that the model for data exchange long promoted by the Insurance Brokers Association of Canada (IBAC) makes sense. It represents long-term efficiencies for brokers and broker-distribution insurers not only for automated policy change, but for other transactions as well.

Key elements of the design include the following:

- transactions start and finish in the broker management system;
- information is packaged and transmitted in strict accordance with Centre for Study of Insurance Operations (CSIO) XML standards;
- data transfers from broker to carrier systems, and a response returns to the broker, in real time;
- information moves electronically, without manual user intervention or additional data entry;
- transmissions avoid connection to carrier portals, but rather send data directly to carrier systems; and
- any necessary accommodation of carrier-specific coding occurs behind the scenes on the insurer's side of the transaction and requires no customization of brokers' systems.

The IBAC model also lays essential groundwork for brokers to be able to provide quality information in digital form to consumers, while still delivering on promises of advice and choice in an electronic forum.

Much work has already been done on the design, verifying the concept's viability and confirming such details as synching broker and insurer systems before a policy change transaction is initiated.

DELAY OF GAME

The debate now is around timeline and priorities for implementation. While some carriers are moving ahead, others may postpone actual implementation until next year to stretch budgets.

In the interim, their brokers will still be forced to perform manual double entry and their resources will continue to be squandered.

It is a complex task to measure just how much the industry has been wasting on the inefficiencies of the *status quo*. Costs at the brokerage level are well-documented, but the drain on insurer funds is harder to quantify.

Each carrier's internal budgets are, of course, confidential. Any calculation, however, would have to include a tally of direct ongoing costs, such as those noted below:

- expenditures for multiple layers of web portal development and maintenance and repeated mapping between back-end systems and presentation layers, each time rates or underwriting are adjusted;


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Managing Director and Executive Vice President
Best Buy Insurance
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- programming and staffing expense for maintaining user IDs and passwords, including continuous changes for brokerage staff outside the insurer's authority; and
- staffing costs for both IT and underwriting personnel dedicated to portal operations, including training and support, auditing and monitoring brokers' use of the insurer policy management system. A loading for supervisors and managers of these staff must also be added.

Even more difficult to determine, though, are the indirect costs that this arrangement is extracting right now from an industry that can ill afford the waste. Each insurer will have its own answers to these questions:

- What potential income is lost when brokerage staff are engaged in redundant data entry rather than focused on customers and their needs? What is the possible damage to an insurer's market share?
- What are the real costs of time lost in corrections or the consequences of errors, when brokerage staff are manually keying information into unfamiliar insurer systems?
- What is the ultimate cost of lost goodwill with customers, if brokers cannot immediately provide requested information, or in the future, if the most current data is not easily available via the brokers' websites?
- What are the unintended consequences to both insurer and broker incomes, if insurer budget-cutting downloads additional clerical tasks onto distribution and diverts more broker resources away from customer interaction?
- What is the impact on an insurer in situations where brokers must reduce the number of markets they access, due to the administrative burden of portal entry, and as such, no longer have other alternatives for placing risks that an insurer would prefer not to underwrite?
- What are the long-term environmental impacts of persisting with legacy systems and processes that foster inefficiency and redundancy?
- What is the cost of falling behind in market share, if the prerequisite building blocks for online customer interactions through broker access points are not developed?

COMMON GOALS

These negatives could be eliminated if the outdated double-entry practices were replaced with effective, up-to-date automation that prioritizes complete customer service. It is true the expenditure needed to construct functioning data exchange — moving information "straight through" between broker and insurer systems using standards and interoperable functionality — is not insignificant. But it is finite.

In the interim, funds spent now, to perpetuate processes that ultimately must be replaced, are simply lost, and existing and prospective customer relationships are put at risk. Insurers need to ask themselves, How much was spent this past year on technology that sabotaged their brokers' productivity?

Creating effective interaction between brokerages and multiple company systems is simply the first, essential step towards giving consumers choice, advice and advocacy digitally, in whatever shape that might take. It is in insurers' interests, as well as those of brokers and consumers, for the industry to move to a common form of data exchange where information flows between multiple systems, as easily as it can within direct writers' closed networks.

The chance for real teamwork is here. Collaboration does take practice, but common strategic objectives do motivate team members and bring them together.

Sometimes coaches have to make tough calls. Sometimes they have to diverge from old practices to leverage opportunities. And sometimes a group has to stretch itself to reach the next level of competition. Certainly, prudent coaches will eliminate distractions and exercises that do not contribute to the plan.

In the insurance game, consumers are no longer just spectators; now they are the referees, and they expect a certain level of play from organizations that want to participate in this league.

It is up to each industry player to make sure that they are ready for game day.

Gaining Consent

Éloïse Gratton
Partner,
Co-chair, Privacy,
McMillan LLP

Canada's Anti-Spam Legislation (CASL) will take effect at the beginning of July. What do organizations need to know about which electronic messages are affected, when consent will be required and what processes must be in place to ensure compliance.

With the adoption of Canada's Anti-Spam Law (CASL) in July, the new legislation will impose cumbersome and expensive requirements on most Canadian organizations. While CASL provides various requirements, which are complex and will be open to interpretation in some grey areas, consider the following top five steps any organization must take to be CASL-compliant.

STEP 1
DETERMINE IF MESSAGES ARE COVERED

For the purposes of CASL, an "electronic message" is broadly defined as a message sent by any means of telecommunication, including a text, sound, voice or image message, although not a commercial electronic message that is an interactive two-way voice communication between individuals, that is sent by means of a facsimile to a telephone account or that is a voice recording sent to a telephone account.

What is a CEM?

A commercial electronic message (CEM) is an electronic message for which it would be reasonable to conclude its purpose is to encourage a commercial activity (having regard to its content, to where it links or the contact information contained in the message), whether or not the person sending the message does so in the expectation of profit. A CEM includes, for instance, a message that offers to purchase, sell, barter or

lease a product, good, service, land or an interest or right in land, offers to provide a business, investment or gaming opportunity, or advertises or promotes any person engaged in anything previously mentioned.

CASL does not apply to certain types of e-mails

Organizations do not have to comply with CASL when sending messages that include service, warranty or product-upgrade information, or if there are health and safety issues related to a product purchase. Organizations should still use discretion in sending such messages, however, since customers may view these as spam if the organization uses them as an opportunity to up-sell or cross-sell other products.

CASL does not apply to messages that are sent within an organization or between businesses, where there is an ongoing business relationship and the message pertains to that relationship. CASL also does not apply to any message sent in response to a request or to enforce a legal right or obligation.

Other exemptions include messages sent via closed-messaging systems, messages sent to certain foreign jurisdictions in compliance with their anti-spam laws, and messages sent by a registered charity where the primary purpose of the message is fundraising.

CEMs are excluded from the application of CASL if the sender has a personal relationship with the recipient: for instance, if the individuals have had direct, voluntary, two-way communication.

In addition, there is a one-time exemption for a CEM sent to someone to whom the sender has been referred by a friend or business relation of the recipient.

STEP 2
OBTAIN CONSENT

Under CASL, it is prohibited to send — or cause or permit to be sent — a CEM to an electronic address unless the person to whom the message is sent has consented receipt.

Do I have express consent?

Consent from the recipient of the CEM must be express, meaning the recipient has said "yes." Any request for consent must clearly set out the purposes for which it is being requested and properly identify the requestor. Consent may be obtained orally or in writing, and must include the name of the person seeking consent (or the name by which the person seeking consent carries on business, if different), the mailing address, and either a telephone number providing access to an agent or a voice-messaging system, an e-mail address or a web address of the person seeking consent and a statement indicating the person whose consent is sought can withdraw consent.

An electronic message that contains a request for consent to send a CEM is considered to be a CEM. This means that an organization cannot contact a potential customer by e-mail to obtain express consent, unless there is already an implied consent, as detailed below.

Is consent otherwise implied?

Certain other communications are deemed by CASL to have been consented to by their recipients, including if the sender can show he or she has an existing business or non-business relationship with the recipient that has been active in the last two years, or if the sender has received an inquiry or application within the last six months from the recipient in respect of a potential transaction.

This would mean, for instance, that if a potential customer makes a request for information to a business for one of its products on January 5, the business can send to the potential customer CEMs for six months (i.e., July 5 of the same year). If this customer purchases something on April 14, 2015, the business has a new period of two years to send CEMs to that customer (i.e., it has implied consent until April 14, 2017. Should the customer purchase another product within this timeframe, this creates a new two-year period to send CEMs to the customer).

This means organizations must ensure that their customer databases keep track of the date of an e-mail transaction or a request for information to be able to benefit from the implied consent under CASL.

Consent would also be implied if the recipient disclosed his or her e-mail address to the sender (for instance, provided a business card), or his or her electronic address is published (for instance, on the business' website) and there is no statement saying that the person does not wish to be contacted, although the CEM must relate to the recipient's job or business.

To benefit from implied consent under CASL, an organization will have to show where it got each electronic address, meaning it will need to track how it has obtained consent of each individual to whom CEMs are sent.

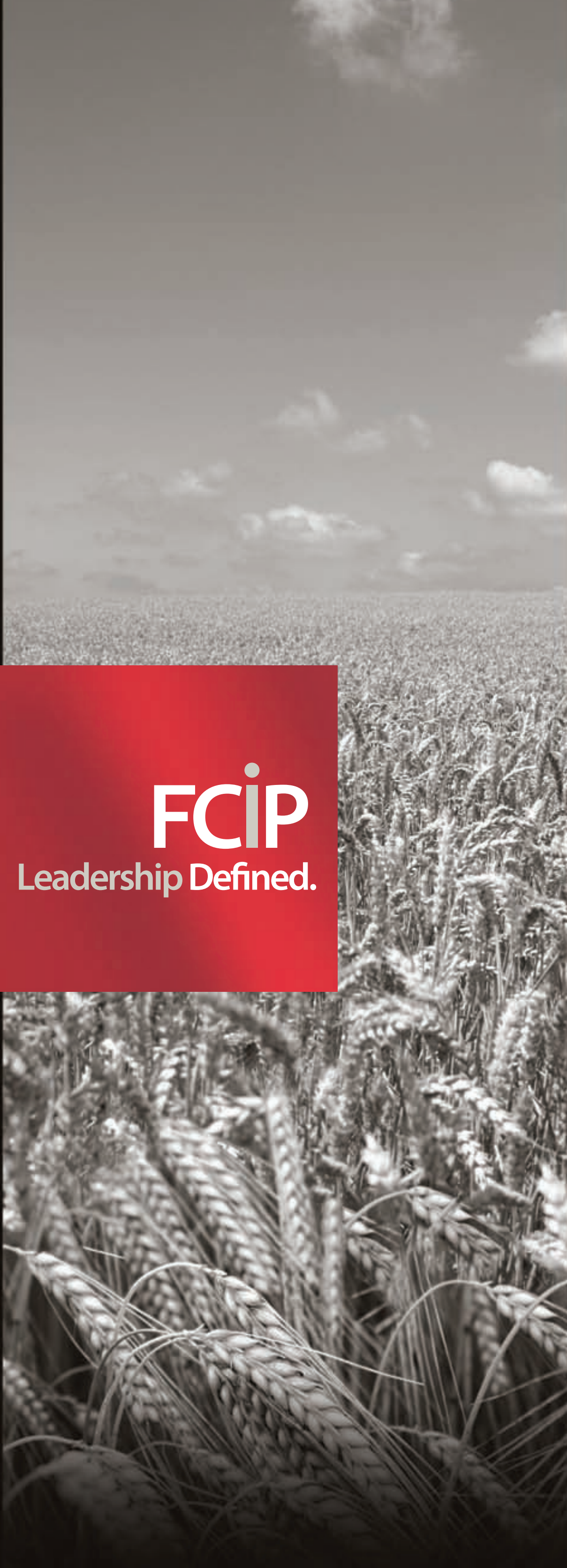
Is the message exempt from consent requirements?

Certain types of messages are exempt from consent requirements, meaning that although there is no need to obtain consent before sending them, they still must include content and unsubscribe requirements.

The types of messages exempt from the consent requirement include quotes or estimates, as well as messages that deliver a product, good or service, deliver upgrades, facilitate or confirm a transaction, provide warranty, recall, safety or security information, and give information about ongoing use or ongoing purchases. Messages that provide information about ongoing subscription, membership, accounts, loans or similar employment relationships or benefit plans are also exempt.

STEP 3
INCLUDE PRESCRIBED CONTENT

CASL prescribes mandatory content to be included in each CEM. More specifically, the sender must clearly identify himself or herself, and provide a method for the recipient to readily contact the sender. Moreover, it has to include a



Consent would also be implied if the recipient disclosed his or her e-mail address to the sender (for instance, provided a business card), or his or her electronic address is published (for instance, on the business' website) and there is no statement saying that the person does not wish to be contacted.

working unsubscribe mechanism at no cost, using the same means as the one used to send the CEM, unless it is impracticable to do so.

If the latter, the sender may include either an electronic address or a link to the relevant unsubscribe mechanism. The language used should be as simple as the following: "If you no longer wish to receive marketing offers from ABC, please click unsubscribe or e-mail info@ABCcompany.com."

Users could also be instructed to reply to a text CEM with the word "unsubscribe" in the subject title.

The unsubscribe mechanism must remain operative for 60 days from the date of the message. The organization may end a confirmation either by e-mail or by website notice that the opt-out message has been received and that the user will be removed from all lists.

STEP 4
HONOUR REMOVAL REQUESTS

Opt-out or unsubscribe requests should be honoured on a timely basis, and if possible, immediately upon receipt of the opt-out request using real-time removal procedures. Under CASL, the CEM sender must ensure an unsubscribe request is in effect no later than 10 business days after it is sent, without any further action required by the person asking to be removed.

Once the organization obtains an opt-out request from a user wishing not to be contacted again by that sender, this request should be valid forever.

STEP 5
ASSESS RISKS, GET READY

The risks for non-compliance with CASL are much more than reputational. Every person who contravenes CASL is liable, resulting in a possible monetary penalty. As such, every organization has an incentive to conduct and undertake compliance assessments of their communication practices before July 1, 2014.

What are the risks?

The maximum penalty for a violation of CASL is $1 million for an individual, and $10 million for any other person. Various factors will be taken into account by the Canadian Radio-television and Telecommunications Commission (CRTC) when determining the penalty, including the nature and scope of the violation, any other CASL violations, any financial benefit the person obtained from committing the violation, the person's ability to pay the penalty, and whether or not the person voluntarily compensated the person affected by the violation.

CASL also includes a right of private action, which opens the door to potential privacy class actions.

CASL includes directors' and officers' liability — an officer, director, agent or mandatary of a corporation that commits a violation is liable for the violation if he or she directed, authorized, assented to, acquiesced in, or participated in the commission of the violation.

Furthermore, under CASL, a person is liable for a violation that is committed by employees acting within the scope of their employment or agents or mandataries acting within the scope of their authority.

This means organizations should ensure that their employees, who may be contacting customers or potential customers — such as those working in marketing or business development departments — receive proper privacy training on CASL.

Getting ready?

Organizations looking to get a head start on compliance with CASL should consider the aforementioned five key steps to ensure they are ready for the new requirements, whether those relate to identifying what messages are covered, obtaining consent or honouring unsubscribe requests.

As well, organizations should develop anti-spam policies, conduct employee privacy and anti-spam training, and avoid illegally collecting and using e-mail addresses.

Bad Deal

Disturbing business practices by some automobile dealers in Quebec have pitted insurance brokers against dealers. The battle is being waged over what the Quebec brokers association regards as a clear violation of provincial law related to dealers offering replacement cost endorsements on replacement insurance.

Opinion/Analysis

Nadine Bourgeois
Director of Communications and Public Affairs, Regroupement des cabinets de courtage d'assurance du Québec

It looks like frayed relations between insurance brokers and some auto dealers are poised to deteriorate further than is currently the case. Tensions are likely to rise in light of the Regroupement des cabinets de courtage d'assurance du Québec's (RCCAQ) intention not only to keep lobbying the Autorité des marchés financiers (AMF) to strictly enforce provincial law in a bid to end illegal practices by some dealers, but also to shine a spotlight on the practices that Quebec brokers contend put consumers in harm's way.

None of this is likely to tamp down tensions. But RCCAQ officials and members believe the move is in the interests of brokers and consumers alike to publicize and denounce practices that skirt the law. This is being achieved through the recent launch of a consumer awareness campaign.

SOURCE OF TENSION

Questionable practices

Over the past few years, the RCCAQ has been concerned with certain dealers' business practices, particularly when these involved offering their clients an opportunity to purchase replacement insurance. The RCCAQ regards certain methods being used as violating provincial advisory, transparency and disclosure rules and requirements needed to protect consumers who want to buy damage insurance. In light of the disturbing (and illegal) practices, the RCCAQ began documenting some of these in the fall of 2012.

Call to action

After condemning these practices as harmful to both the industry and consumers, the RCCAQ called on members to remain vigilant, denounce these practices and alert the AMF when they became aware of any such questionable practices. This call to action did not fall on deaf ears: various examples of abusive situations were eventually brought to the attention of RCCAQ which, in turn, began compiling information to build a solid case supporting its view that the practices were in contravention of the law.

In March 2013, the RCCAQ submitted its findings to the AMF, which immediately voiced its concern and promised swift action. After analyzing the situation, the AMF informed the RCCAQ that the regulator intended to investigate several of the reported cases.


DRIVE
YOUR BUSINESS
FURTHER

Not all dealers implicated

Special care has been taken by the RCCAQ to ensure that insurers who are dealing properly with automobile dealers, obeying the law and complying with all ethical requirements are not caught up in the skirmish. No complaints have been filed against insurers who are acting lawfully. As for automobile dealers, it is important to note that many do a very good job, in accordance with the highest professional standards.

RAISING PUBLIC AWARENESS

"The unfair competition engaged in by many new car dealers in Quebec deserves to be brought to the general public's attention," says RCCAQ chair Jean Bilodeau. To that end, since November 2013, the RCCAQ's efforts have been focused on a new tack: raising public awareness of the risks that consumers face.

Ever since auto dealers were authorized to sell replacement insurance (AMF auto insurance form FPQ No. 5), some of them began competing with brokers on the "replacement cost endorsement" (FPQ No. 43) by including an option in the FPQ No. 1 automobile insurance policy. Based on various reported cases, some dealers are entering into financial arrangements.

This tactic is in clear violation of the rules. For example, they may transfer the required information for submitting FPQ No. 1 to the agent or broker and then finalize the transactions in their places of business.

LACK OF TRANSPARENCY

Consumers may not always have a full understanding of the existing rules and protections in place. For example, dealers are authorized to offer replacement insurance — which resembles the replacement cost insurance offered by brokers — whereas brokers offer both types of coverage.

Some dealers take advantage of this lack of transparency by denigrating products offered by brokers and by pressuring consumers to buy products with which dealers themselves, having no insurance training, are unfamiliar.

This causes confusion for consumers who may want to compare dealers' prices with brokers' prices.

It should be noted that dealers' prices for replacement insurance can be as much as 66% higher than brokers' prices, due in part to the cost being added to the vehicle financing amount, which may be spread out over six years.

Some consumers who agreed to discuss their experiences reported that some dealers even threatened to increase the vehicle-financing rate if they did not purchase replacement insurance through them. That means consumers were unfairly pressured to buy this insurance.

It should be noted that dealers' prices for replacement insurance can be as much as 66% higher than brokers' prices.

THE LAW IS THE LAW

Within this specific legal framework, the RCCAQ wishes to reiterate what the legislation governing distribution without representation provides for in the case of automobile dealers.

Automobile dealers are authorized to do the following:

- offer replacement insurance (FPQ No. 5);
- offer life, health and job loss insurance if it pertains to vehicle financing;
- refer clients to an insurance representative to obtain products that automobile dealers are not authorized to sell;
- provide clients with the contact information of a representative or a registered person;
- provide a representative or a registered person with the name and contact information of a client or list of clients (only client contact information is allowed, such as names, addresses, e-mail addresses and phone numbers); and
- receive compensation that is wholly independent of the referral outcome (i.e., whether or not insurance products are ultimately purchased).

In principle, dealers are also required to inform clients that replacement insurance is also available from insurance brokers.

Automobile dealers, however, are not authorized to do the following:

- offer automobile insurance (FPQ No. 1) or advise clients on the coverage available under such a contract;
- gather personal information with a view to obtaining a quote;
- complete on a client's behalf, or help a client to complete, an insurance quote request or an insurance proposal (even if the client asks for assistance);
- provide clients with any insurance-related advice;
- make the signing of the vehicle sales agreement contingent on the signing of a replacement insurance contract; and
- make the signing of a loan agreement contingent on the signing of an insurance contract with a dealer-specified insurer.

BROKERS' VOICES

To date, a total of 21 cases involving clients willing to be contacted have been submitted to the AMF, while brokers have submitted another 20 denunciations of dubious practices brought to their attention.

Still, the RCCAQ knows this is not enough. Looking to rally the troops, Bilodeau emphasizes that "we have to send out a powerful message so the AMF cannot possibly ignore it. If we have 4,500 brokers, we should have 4,500 denunciations of illegal practices."

To assist in the campaign, the RCCAQ has prepared a consent form to be signed by consumers affected by these practices so that they can be more easily contacted by the AMF.

The RCCAQ refuses to give up the fight and is fully prepared to do battle to protect insurance brokers and consumers alike.

Reforming Claims Control

Robert Wildbore
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Willis Re Canada

Nick Goulder
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Willis Re

Who is in control of claims? Historically, insurers have settled and paid their own claims, rarely consulting with reinsurers. But reinsurers are increasingly asking for claims meetings, additional information and original claim reports. Is the approach to claims in need of reform?

While many commentators have focused on the influx of new capital into the property catastrophe reinsurance arena, this is not the only place that capital is flowing towards. The casualty reinsurance market is now experiencing the effect of the "bow wave" triggered by dislocation in the property market.

Casualty reinsurance markets are not, however, only witnessing an influx of former property capital looking for a new diversified home. In addition, new risk capital, converged with investment capital, is arriving.

This has the potential, at least in theory, to be transformational. A superior investment yield relative to "normal industry average returns" when integrated into a pricing model and applied to classes of business where duration is material, is at worst a competitive advantage, and at best a possible game-changer.

Cedants faced with greater choice need support and guidance in triaging that choice more than ever. Selecting reinsurers is multi-faceted and requires careful consideration in all lines of business.

However, casualty business by its nature — the tail, frequently more complex and nuanced losses and loss events — necessitates additional scrutiny of a reinsurer's approach to claims.

Filtering out the background noise, established reinsurers are seeking to reinforce the value and strength of incumbency, while new markets offer innovation, spread and other enticing ben-

Illustration by Barbara Spurll

efits — much of it centred around price and coverage at the point of sale, but with little focus on claims performance and the discharge of contractual obligations.

Historically, insurers settled and paid their own claims, rarely consulting with reinsurers about how to handle matters. Little by little, established dynamics have shifted with reinsurers increasingly asking for claims meetings, additional information and original claim reports. The greater the sums involved, the more assertive the behaviours can become; unless forcefully managed.

NEED FOR REFORM

The elephant in the room, and one that can turn out to be a deeply corrosive issue, is who should be controlling the claim? Willis Re believes now is the time to focus on these issues and to consider three core principles to carry the weight of the appropriate reforms.

Point of control

First, at least in the case of casualty treaty reinsurance, there are powerful reasons for complete control of the claim to reside with the insurer. In all common sense and normal business practice, the insurer's claims team will never be aiming to settle on any basis that is more generous than the essential obligations of the insurance policy.

The reinsurer has many opportunities and information to assess the business outlook of the insurer, and the quality of its claims operation, before entering any treaty.

However, "following the fortunes" appears to be treated as more of a question than a "given."

The solution is to underline the right of the insurer to settle claims, and stipulate that all such settlements are binding on the reinsurer. This removes doubt that any loss may be settled at the sole discretion of the insurer.

The burden of proof should shift back to a reinsurer, in cases of dispute, of proving how a claim is not covered under the reinsurance terms and conditions, rather than debating if and how it is under the original policy.

Consider language to reinforce those principles, such as the following:

> The reinsurer agrees to abide by all loss settlements of the company, which the company, at its sole discretion, shall adjust, settle or compromise. All such adjustments, settlements or compromises shall be unconditionally binding upon the reinsurer provided they are within the terms and conditions of this contract. The reinsurer shall also benefit in due proportion from any salvages, recoveries and compromises effected or negotiated by the company.

The reinsurer has many opportunities and information to assess the business outlook of the insurer, and the quality of its claims operation, before entering any treaty. However, "following the fortunes" appears to be treated as more of a question than a "given."

Second, clearly, scenarios can emerge that are sufficiently complex and that require good faith discussions between the parties. So in a market that relies on subscription and syndication, how should clients respond where reinsurers A to V supports a course of action, but reinsurers W to Z have different views and interests?

The solution that Willis Re advocates is a "Super-Majority Settlement Clause." This text would provide that once claims have been agreed totalling a fixed percentage — say 75% for illustrative purposes — all of the participating reinsurers on a given contract are deemed to be bound by the majority decision and further dissent is not possible.

Philosophically, the claim has been arbitrated by the majority, thus binding the remainder of the participating reinsurer panel. Such an approach preserves the established benefits of spread in a subscription-based market — those

who had to replace a 100% participation when a reinsurer non-renews following a "change in strategy" will identify here — while avoiding minority dissent or worse over recoveries where "the tail wags the dog."

Third, other techniques are required where a reinsurer (perhaps no longer enjoying an ongoing commercial relationship) has taken to raising questions about the validity of the settlement, not

out of a sense of dismay that a foolish error has been made, but simply because the reinsurer has found this to be an effective tactic in delaying, or negotiating downwards their share of the settlement.

The solution may be the wider introduction of language already accepted in many treaties, where a reinsurer who delays payment faces a penalty interest clause for that delay. Typical clauses require interest at the 90-day Treasury Bill rate (or equivalent in other territories), plus a fixed percentage.

A reinsurer signing up to such a clause is demonstrating confidence in the speedy settlement of losses.

With such a condition, cedants have economic recourse against poor performance. More practically, the deterrent effect of an interest penalty suppresses prevarication and disincentives behaviour by eliminating the economic advantage of delay.

Regardless of market conditions, unless brokers and reinsurers grasp this issue and focus more on the performance and efficacy of casualty reinsurance transactions when losses occur, rather than enticing but non-contractual assurances, the product itself loses value.

Current market conditions in Canada provide a helpful platform for reinsurance buyers faced with increased choice. They might consider reviewing possible improvements in their ceded casualty placements as a differentiator in market selection.

By tightening possible wording deficiencies, clients will be addressing an area that can yield tangible economic, administrative and counter party ben-

efit for decades. In turn, this provides reinsurers — keen to differentiate their product on a basis other than just price — an opportunity to demonstrate their willingness to support their clients and tackle an elephant in the room.

Then and Now

Insurance Bureau of Canada recently hit gold, celebrating its 50th anniversary earlier this year. In looking back, some issues in Canada's property and casualty industry look familiar, while others do not. Both, however, provide a glimpse of the future and demand sharp alignment with the needs of the insurance industry and consumers.

Don Forgeron
President & Chief Executive Officer, Insurance Bureau of Canada

The year 2014 is a big year for Insurance Bureau of Canada (IBC) — it is the bureau's 50th anniversary. Anniversaries are often times to reflect and to celebrate, so this being a special year, the association is doing a bit of both.

First, some reflections. It is worth looking back at why IBC was formed in the first place if only to recognize how far it has come both as a trade association and insurance has come as an industry.

DEALING WITH THE CHAOS

In 1963, the business climate was difficult for the general insurance industry. Poor data, misinterpretation of that data and improperly priced products led to underwriting losses of almost $74 million — or more than $560 million in 2014 dollars. Kenneth MacGregor, federal Superintendent of Insurance at the time, expressed concern about the solvency of some companies and the lack of industry-wide statistics.

That warning spurred a group of insurance chief executive officers to create IBC in 1964. At the inaugural meeting held April 8, 1964, at the King Edward Hotel in downtown Toronto, chairman William Spry did not mince words about the need for a new organization to "relieve the chaotic conditions" in the industry. With prodding from regulators, IBC began with the narrowly focused mission to provide industry-wide statistics and information about economic trends that would allow companies to make sounder rate decisions.

Eventually, that mission became broader. Within about 20 years, the association had become the major voice of general insurance companies in Canada. Today, IBC represents 90% of the property and casualty insurance market in Canada and is influential with all levels of government on the most important challenges facing both the industry and all Canadians.

While its mission is now broader, it is a point of pride that IBC has never lost sight of its core purpose. One of the trademarks of a good association is that it makes it easy for members to have a voice. In 1964, the association began serving as the voice of members on the issues of the day and continues to be that voice today.

An insurance CEO said to me shortly after I became president in 2009: "If you do nothing else, please look at the issues through our lens." It was great advice.

It is gratifying to talk to CEOs and see that IBC's work is aligned with the issues that are priori-

ties for our members and, indeed, the industry at large. Whether it is climate change adaptation, earthquake preparedness, Ontario auto or the complexity of modern regulatory compliance, the association has a clear role to play on the issues that matter most to our members.

DEALING WITH THE ISSUES

In this milestone year, there is certainly cause for celebration — IBC has had some major wins for our members and for Canadians as a whole over the last five decades. For instance, it has contributed greatly to improvements in road safety, leading the charge on the mandatory use of seatbelts and the introduction of graduated licensing. In the last few years, IBC has also worked to put distracted driving on the public agenda.

As an industry, insurance should be proud of this record; these initiatives have considerably decreased the numbers of injuries and fatalities on our roads.

Another more recent positive outcome has been the solid run IBC has had with auto insurance reform in the provinces where insurance is administered through the private-sector only: the Atlantic provinces, Ontario and Alberta. The association played a significant role during the reform process.

One need only look back to the early 2000s to see how these markets represented a major challenge. With the minor injury caps in New Brunswick, Prince Edward Island, Nova Scotia and Alberta, there has been premium affordability and product stability, as well as solid industry earnings. In Ontario auto, the 2010 reforms stand as a major achievement for the insurance industry.

IBC believes the road to a sustainable product, until such time as the political environment stabilizes, is through incremental change. Some of that change was seen in the reforms announced late in 2013 and with the recent bill introduced by the provincial government.

Recently, the IBC Board of Directors has challenged the organization to take a national leadership role on files affecting not just the industry, but the country at large. This has resulted in a fundamental shift in how the association has approached some of the more serious issues facing Canadians.

On earthquake preparedness, IBC has put this issue on the map and continues to lead the discussion; on severe weather, this issue was on the association's agenda well before the record losses of 2013.

The p&c insurance industry has responded not only by identifying the problem, but by coming forward with solutions. Severe weather and the cost of responding to it are now also some of the key priorities for the federal government and Public Safety Canada.

Embracing this national leadership role has also involved a major shift in how IBC sees itself.

Yes, it has multiple mandates: fraud reduction, data collection and IT services, to name a few. But, fundamentally, the association adds the greatest value in the area of government relations on behalf of its members, having aligned our resources to accomplish this.

DEALING WITH THE CHALLENGES

That is not to say there are not challenges. Regulation is a big one. IBC takes the view that it must anticipate issues and respond with real solutions — before the government steps in.

When politicians get involved in the insurance industry and products, it rarely ends well, demonstrated most recently in Ontario auto insurance with the arbitrary rate reduction measure.

Without looking at the cost structure of the product, this kind of price manipulation provides a superficial response and does not address underlying problems. It is not in the long-term interests of either consumers or the insurance industry.

There is also a key problem looming on the personal property front. It looks so much like the auto crisis in the early 2000s; it has many of the same characteristics.

But back then, the solution was for government to do something about the cost of the product. Unfortunately, in this case, unless governments can do something about the weather, there is not a lot that insurers can do about the cost of the product.

The solution will be much more difficult this time and the industry has to be prepared for that. How does it offer an affordable product that provides an appropriate level of protection?

The answer to this question lies with all stakeholders — including consumers, governments and industry — playing their respective roles.

IBC's job is not simply to articulate the problem. To add value, the association must develop solutions and then identify what role it can play in bringing those solutions forward.

These are complicated and multifaceted challenges; they require comprehensive solutions that involve IBC and other groups, such as regulators, brokers, consumers, reinsurers and adjusters.

The cost of the insurance product is something that is dealt with on a day-to-day basis. The fact is that for a typical family with two cars and a house, their general insurance premiums represent a significant portion of disposable income. Should the insurance industry expect people to be happy writing that cheque? Likely not.

But if and when policyholders have claims, they will see the responsiveness of this industry and understand the value of insurance.

Those in insurance should be proud of the industry and the work it does. Today, the industry is providing leadership to Canadians to better prepare them for serious risks, something that should be remembered when someone asks what value the industry generates for Canadians.

Fifty years is a significant accomplishment for any industry association. IBC is still relevant today, likely more than it has ever been. The sharp alignment of its focus with important national and industry issues will continue with the hope of seeing more positive results in future.

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Melting Spot

Greg Meckbach
Associate Editor

As Saskatoon faces a record year for watermain breaks attributed to temperature fluctuations, a local broker has noticed that carriers are adjusting premiums and deductibles for sewer back-up coverage on some homeowner policies.

As the spring thaw brings with it the need to deal with basement flooding and ice damming, some insurance executives in Western Canada recommend that brokers advise homeowners to keep their roofs clear and their attics cool, as well as warn prospective home insurance clients of potential coverage gaps in policies.

In Saskatchewan, property owners tend to get a build-up of snow around their foundations during the winter, reports Jim Seip, president of the Insurance Brokers' Association of Saskatchewan (IBAS).

By day, Seip is sales manager at Life Line General Insurance Inc., a Saskatoon-based brokerage whose homeowner clients are advised to move snow away from foundations as a preventive measure. "We are having a record year for waterline breaks in Saskatoon this year," he says. "We had a record cold winter, so it drove the frost deep in the ground."

On March 20, the City of Saskatoon reported on its website that this year, the ground frost extended down to the level of underground pipes.

"Each time the temperature changes significantly, the frost level can move, putting pressure on the pipes causing them to shift," the information notes. "If there is already a weak spot in the pipe, caused by age, corrosion or previous work, it can break."

When watermains break, Seip adds, "you get a massive flood of water, and that enters the house and causes damage as well." Four years ago, the city had "a massive amount of sewer back-up" resulting from the spring thaw, he reports.

"There is an ongoing water issue here in Saskatoon and insurance companies are adjusting their policies to deal with it," Seip suggests.

Citing higher deductibles and higher premiums for sewer back-up in certain areas, he says carriers "have been getting much more detailed with regard to sewer back-up losses and assessing premiums and deductibles based on that, and requiring sewer back-up valves and things like that."

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BACKWATER VALVES MANDATORY

Over the last couple of decades, the City of Saskatoon has imposed new requirements on homebuilders. All homes constructed after January 1, 2004 must have "a weeping tile system that diverts water into a sump pit inside the basement," notes information from the city.

The city has further required "backflow prevention devices" in all new homes since February 1, 1997. "You do not want to be the only one on your block to not have a sewer backwater valve," Seip cautions. "If you are, you are going to have a fountain in your basement."

Even where backwater valves are not mandatory, he recommends homeowners install them.

"I see, on a daily basis, the damage that sewer back-up causes," says Seip. "I always tell people it's the second worse claim you want to have. The worst is fire, of course."

TOP CONCERNS

However, the spring thaw offers more than concern for what happens down below in basements; there is also concern about what happens above, namely ice damming.

This phenomenon is "one of the most common sources of roof damage," the Institute for Catastrophic Loss Reduction (ICLR) warns. In its report, *Protect Your Home from Snow & Ice Storms*, ICLR defines an ice dam as "a ridge of ice that develops at the edge of your roof or around drains that prevents snow or water from melting off your roof."

Seip reports that one such ice dam in Saskatchewan recently cost an insurance carrier $13,000 on a homeowner claim. "That's a lot of roof, so it can be a fairly disastrous hit to your pocketbook."

ICLR cautions that if snow melts on the roof of a home, water can run down toward the edge and then freeze after coming into contact with eavestroughs that are colder than the roof.

"As the ice forms, water trying to drain down the roof will build up behind the 'dam' and potentially leak into walls, ceilings or your attic," the ICLR report notes. "This water may cause rot in the roof that leads to collapse. In addition, the 'dam' also limits snow from falling off your roof, which can add to existing snow loads and put pressure on the structure of your home."

TRAPPED MOISTURE

Damage can be extensive, restoration contractor Paul Davis Systems Canada Ltd. states in a newsletter posted on the company's website. Losses can include delaminated or rotted roof decking, and damaged and/or dislodged shingles or shakes. Inside the home, the newsletter notes, potential losses include stained, sagging walls or ceiling drywall, and wet insulation.

"The worst effects of ice dams are often hidden, caused by moisture trapped inside walls or floors."

Seip reports that one such ice dam in Saskatchewan recently cost an insurance carrier $13,000 on a homeowner claim. "That's a lot of roof, so it can be a fairly disastrous hit to your pocketbook."

Seip relays that the winter of 2012-2013 "was probably our worst year in my memory for ice damming" in the Saskatoon area.

"That was a bad year all around because we had double the normal snowfall," he says, reporting that his brokerage alone handled in excess of 50 ice damming claims last year in Saskatoon alone.

"There are probably 10 to 15 insurance brokers in Saskatoon so you can imagine the claim volumes, just in ice damming," he recounts. "In the 15 years before that, I never had an ice damming claim," he adds.

In British Columbia, ice damming is "typically restricted to our northern areas where the weather is more severe and where the snow load and temperatures are more severe," reports Greg McGill, senior vice president, British Columbia for Western Financial Group Inc.

Describing what staff for Western Financial's broker network tell homeowner clients, McGill says that "we certainly try to be proactive with our clients and suggest they clean up their gutters in the fall, which will allow their melt to be more effective, and also to clean their roof off during the course of the winter to keep the amount and the volume of snow melt down."

Manual ice removal, ICLR points out, is "extremely dangerous and should be done by a professional."

INSULATE FIXTURES

One preventive measure that can be taken, Seip advises, is for homeowners to improve the ventilation in their attics. "That way, it keeps the attic cool and you are not going to get that constant freeze-thaw," he explains.

ICLR advises homeowners to insulate incandescent light fixtures in the ceiling below the attic, which "can often generate enough heat to melt snow on a roof."

Seip is not aware of any carriers charging higher premiums for ice damming. That said, he says he does advise clients up front that losses related to floods from natural sources of water are "virtually never covered" in homeowner policies.

"That's something that the broker has to advise the client of, at the time of the purchase," he emphasizes.

"If they do that, they can protect themselves from some grief down the line, rather than explain at the time of the loss that, 'Hey, there is no coverage for this,'" Seip says.

"There may be other exposures that are not available, depending on the individual client," McGill notes. "The best advice we have is to come in and speak with one of our insurance professionals to match the client's needs to the appropriate carrier," he adds.

Power Play

Mergers and acquisitions activity involving brokerages shows few signs of letting up, looking like it will remain hot to warm over the next year or two before cooling off. Transactions may take the form of insurer to insurer, insurer to broker or broker to broker. But how will this coming together play out in terms of broker independence, distribution, breadth of choice for customers and opportunities for brokers?

ANGELA STELMAKOWICH

Own a brokerage and feel like selling? It is unlikely any solid business will have much difficulty finding a buyer… or an equity partner… or someone to advance a bit of working cash.

It appears mergers and acquisitions (M&A) activity involving brokerages — whether insurer to broker or broker to broker — is likely to still have some legs over the next year to two.

Of course, brokerages are not the only operations up for grabs these days. But what does all this activity ultimately mean for insurers, brokers and consumers who are looking for (and expecting) ever-increasing choice, flexibility and responsive service?

DRIVE TO BUY

John McArthur, president of John C. McArthur & Associates, Inc., says the increasing level of insurance broker activity is being driven by the want for increased market share. McArthur has headed two major insurance groups before getting into consulting work, where his current focus is M&A transactions, almost exclusively involving insurance brokers, with almost all of his clients partially owned or financed by major insurance groups.

A large insurer like Intact, for example, likely needs to write $600 million to $700 million worth of new business every year just to keep the top line flat, McArthur suggests. "There's just not that much new business around, so the only way they can accomplish that is to get their arms around other insurance companies' portfolios," he comments.

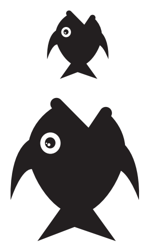
"In this continued low-interest rate environment, which is with us now for some time, we're seeing a recognition by industry participants that underwriting profitability needs to remain a focus and that means gaining economies of scale through operations, but also through, importantly, underwriting," says Catherine Code, senior advisor to Deloitte's Financial Advisory Practice.

"Companies will continue to acquire brokerages," adds Greg Purdy, managing partner with Pathway Partners Ltd. "There is significant pressure to gain more control of distribution," Purdy says. "We may see some transactions on the company side that have a long-term strategic aspect to them. We may see companies positioning themselves more broadly as financial service providers," he adds.

"I believe there is an increased chance the larger purchases may go the route of broker to company," Karen Slaunwhite, executive director of the Insurance Brokers Association of Nova Scotia, says.

However, Peter Morris, vice president of Strategic Resource Consultants, suggests that moves by insurers to acquire brokerages may be tailing off, perhaps "because the insurers who wish to own brokerages are reaching the saturation point in terms of their holdings."

Randy Carroll, chief executive officer of the Insurance Brokers Association of Ontario (IBAO), also reports that activity is down, this time for broker-to-broker transactions. That said, the activity that has been taking place over the course of 2013 and into 2014 shows some real positives for the broker channel, Carroll suggests.



"I don't think there would be a brokerage out there that wouldn't be attractive," says Randy Carroll of the Insurance Brokers Association of Ontario. "It would be attractive at what cost?"

"There has been a bit of a shift, where we see more brokers partnering up with brokers and remaining as independent operators than we have seen brokers selling to insurers, losing their independence," Carroll comments.

Be it insurer or broker, what brokerages are attractive targets?

"I don't think there would be a brokerage out there that wouldn't be attractive," says Carroll. "It would be attractive at what cost?" Factors such as location, mix of business, loss ratios and longevity of staff will be among those that come into play, he notes, "which are all part of that determining factor of what the multiple looks like."

McArthur suggests that targets run the gamut, "all the way from that very small mom-and-pop shop or even books of business controlled by producers who have an equity position and want to retire and are prepared to sell that."

RECENT ACTIVITY

Perhaps the most interesting — certainly among the largest — of recent or planned transactions are the purchase of State Farm Canada's property and casualty and life insurance business by Desjardins Group, the Travelers Companies Inc. acquisition of The Dominion and the reported sale of Noraxis Capital Corp., a network of 17 regional insurance brokerages, by RSA Insurance Group.

Citing the Travelers/Dominion deal, Morris says "although there is now one insurer where there once was two, it's not as though they were head-to-head competitors beforehand. If anything, for brokerages that previously had only one of these carriers in their office, there is now an opportunity to tap into the lines of business offered by both."

John Belyea, chief operating officer at Moore-McLean Insurance Group, does not expect consumers or brokers to see much difference as a result of the deal. "Travelers in Canada wasn't playing in the personal lines market; they weren't playing in the small office package market. They were a much more specialty lines underwriter, larger corporate risk, and your typical insurance broker didn't even do business with them."

The influence of the planned Noraxis sale, however, may not be so clear. "It's a collection of very large brokerages that is very appetizing, particularly for a party that's not in our marketplace right now, to be able to get in in one fell swoop and have a significant presence, a significant foothold," Belyea suggests.

"The anticipated sale of Noraxis will alter the commercial lines landscape in Canada," Purdy predicts. "Many suspect that a U.S.-based brokerage will purchase the business. This is causing some commercial lines brokerages to re-evaluate their growth strategies."

Some transactions, though, appear to be about investment, Morris says, citing the move by La Caisse de depot, a pension fund manager in Quebec, to invest in commercial insurance broker, BFL Canada. Among La Caisse's goals? To help the broker grow its presence and focus on acquisitions.

IMPACT ON INDEPENDENCE

Despite insurer consolidation to date, Belyea does not think the impact on brokers through to their clients has been significant. Even with Intact's growth, for example, he notes that with "the size of the p&c industry as a whole, they still do not have anywhere near the market share you typically see in the market leader in other industries, even in other financial services businesses," he notes.

"We're still in a highly fragmented market in Canada, with the top five still representing less than 50% of premium volume," Code points out. "And so further consolidation on many levels will help to improve the stability and the risk diversification and capital strengths of the industry," she suggests.

One way that brokerages may be affected relates to their ultimate independence and ability to offer consumers choice. Consider that with brokers looking to play by making acquisitions themselves, they are likely to need banking, funding or equity partners given the current multiples for brokerages.

If it makes sense, brokers may get some capital from their insurers, if that is in the minority, "without losing their independence," Carroll suggests.

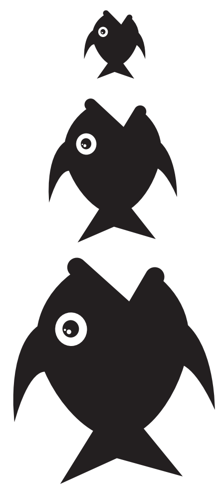
McArthur, however, is not convinced that is possible. "The brokerage is expected to place more business with the insurance company that is financing the deal," he argues.

Brokerages "will favour the company that brought them to the dance, whether it's a loan or an equity position."

In light of the "extraordinary high prices that brokers are changing hands at for the moment," McArthur says that in most cases, it could take a buyer 10-plus years to pay off the loan through the cash flow the business generates. If an insurer assumes a 25% equity position, however, it may be possible to pay off the loan in, say, seven years.

That agreement is likely to include right of refusal for the term of the loan, and maybe a couple of years more, he reports. The result? "Insurance companies are getting a stranglehold on distribution in Canada," he contends.

What Morris finds particularly troubling is when a brokerage arranges to place all its personal lines business with the acquiring carrier and the other markets in the broker's office are then used for commercial lines business only.



Brokerages "will favour the company that brought them to the dance, whether it's a loan or an equity position," says John McArthur of John C. McArthur & Associates, Inc.

"The consumer may continue to believe that their 'broker' is shopping the market on their behalf. In fact, the consumer will be insured by the acquiring carrier regardless of whether or not it is to the consumer's advantage," he says.

Carroll disagrees insurer funding arrangements will adversely affect customer choice. "If we had a capital crunch and capital wasn't available elsewhere, it might be a concern, but it's not," he says. In line with their code of ethics, brokers must ensure "the decisions that they make are in the best interests of the consumer," not themselves or "insurers just because they are a funding partner."

Purdy says there will "absolutely" be an impact on customer choice as consolidation on the insurance company side will reduce the variety of products available.

But Belyea expects that for there to be a real impact on consumer choice, "you need an RSA to go to Aviva, or Aviva to Intact, in terms of bringing that mainline, large multi-line insurer and consolidating into another insurer."

"Larger organizations, both on the broker and company side will benefit from scale," Purdy points out. "As the consumer continues to change in how they purchase insurance, we will see shifts towards more marketing and investment in branding," he expects.

Independent brokers realize that they need to get bigger and make acquisitions themselves, says Belyea. Size can help, he explains, because it gives very large brokerages clout with insurers. "They have to play with you."

Belyea notes, however, that if a brokerage is looking to grow and become a large regional player, for example, "there has to be an element of specialization. That doesn't mean you do just one thing. Maybe you do three, four even five things very well, and that accounts for maybe 80% of your business."

Jessica Goldberg, a partner in Deloitte's Monitor Deloitte Practice, sees "brokers more proactively looking to partner with each other, both across geographies and potentially within the same geographies. Given the low interest rate environment, there's an abundance of capital in the system that might be helpful to support those kinds of transactions."

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MULTIPLE CONCERNS

But wanting is not necessarily getting. Current multiples is having an influence on who the players are.

"Compared to any other potential purchaser, an insurer has the opportunity to earn income not only from the operation of the brokerage but, in addition, from any underwriting profit it earns on an increase in premium written. This allows an insurer to be able to justify paying more for a brokerage than any other bidder," Morris says.

Belyea suggests that current valuations are artificially inflated. He notes that in 2002 when insurers stopped giving out funds for portfolio transfers "brokerage values dropped by about a quarter overnight. There's a risk that can happen."

McArthur puts the current multiples for independent brokerages at about 3 to 3.5 times, although he is not convinced those numbers will hold much longer. If the owner of a smaller brokerage is being offered 3.25 times now, McArthur says, he would recommend the owner take it, citing factors such as eroding market share because of competition from direct writers, the mandated auto rate reduction in Ontario and inflation in the loss cost area.

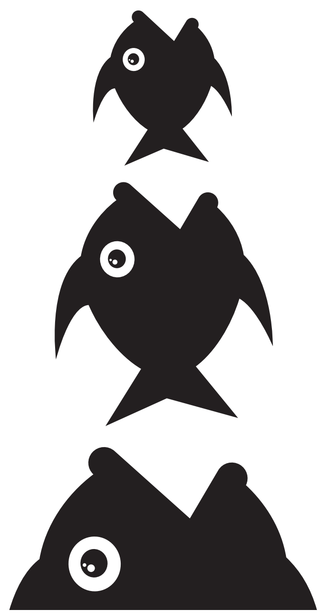
"I think there's been a bit of inertia in doing anything because there's always a belief that valuations will get higher," Belyea says. "I'm not sure I would bring that to the bank right now because there could be a moderation, and maybe that's going to encourage some to sell."

Beyond Noraxis, Purdy says that "there has been a marked change in the activity level of Johnson (part of RSA Group since 1997), which has been an active buyer at premium multiples. With Johnson reducing its purchases, we may see a reduction in the multiples being offered."

That may be good for brokerages looking to grow. With the potential for multiples to come down, says Purdy, "we should see more traditional broker-to-broker deals, as many have been priced out of the market in the past few years."

Slaunwhite suggests "broker-to-broker transactions are definitely a positive option for the brokerage community, the industry as a whole and, ultimately, for the consumer as a broker provides the consumer with choice and the broker will find the product that best meets the individual needs of the client."

Carroll says it is difficult to say if a multiple is inflated or not, emphasizing the "determining factor is how bad the individual who's purchasing actually wants to buy the brokerage."



"Larger organizations, both on the broker and company side, will benefit from scale," says Greg Purdy of Pathway Partners Ltd.

Talking to brokers who have actually sold, he says, shows that there are many variables that need to be taken into account. These include associated costs, retention after the transaction, and determining what is discounted because there are certain aspects of the book of business that do not stay with the book.

"What I have seen is we've had brokers that have been successful in competing with those multiples with insurers who have not been willing to ante up to match what brokers are offering," Carroll says.

A lot of that has to do with the way the transactions are being funded. "There used to be short tails on funding," he notes, citing terms of five to 10 years, but there are now "more flexibilities with regard to the term of repayment."

Belyea suggests longer amortization periods, sometimes 15 years, are of concern. "Brokerages are potentially putting themselves at financial risk by taking such a leap. It wasn't that long ago that if a brokerage didn't pay itself back within five to seven years after you acquired it, you didn't acquire it; it didn't make sense."

PERSONAL AND COMMERCIAL

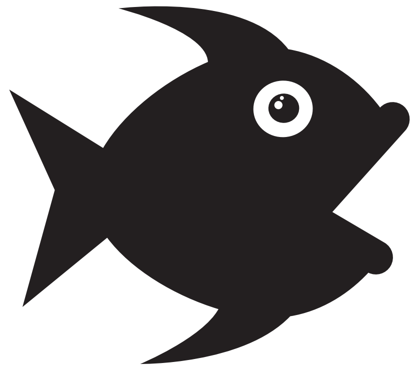
"Long term, I don't see how independent brokers — whether they're partially owned by an insurance company or financed by an insurance company or not — can continue to compete in the personal lines business with the direct writers," says McArthur. The largest brokerage is likely to have an expense ratio of 30% or more, compared to about 18.5% to 23% for direct writers.

Citing the move by the Ontario government to reduce auto premiums by 15%, Morris says there are questions as to the long-term profitability of auto insurance in the province. "This being the case, you would expect there would be less interest in acquiring an insurer or brokerage that is heavily exposed in this area."

While McArthur's view about brokers in personal lines using traditional models is none too rosy, he suggests the commercial side is an entirely different animal. "Direct writers are really not in that space," he says, adding that "commercial lines is a very complex area and there's a niche for professional advice."

McArthur says he is starting to see a trend in which brokerage owners are spinning off their personal lines business and focusing on commercial lines.

Purdy, too, believes there will be "a shift more towards commercial lines-oriented brokerages," he says. "The challenge for brokers is to get to the table as most transactions are determined by carriers and not taken to an open market."



"It wasn't that long ago that if a brokerage didn't pay itself back within five to seven years after you acquired it, you didn't acquire it; it didn't make sense," says John Belyea of Moore-McLean Insurance Group.

ABILITY TO COMPETE

To compete, brokers need to go through a process of change, says Carroll, emphasizing the *status quo* as it relates to the distribution model is not an option. "Customers aren't traditional anymore," he says. "Brokers need to make changes within their models so that it allows the consumer to deal with them the way that the consumer wants to deal with them."

Says Carroll, "The easier I can make it for the consumer, the happier the consumer is going to be, the more referrals I'm going to get and the longer I'm going to keep that consumer on the books."

Purdy agrees. "Brokers are and will need to continue to respond to the changing consumer. They will need to spend more effective time communicating with their clients. This will take on different forms as social media is more broadly used and technology evolves," he says.

The more sophisticated-thinking brokers understand that in order to play effectively going forward, "they'll need to do more and different things around things like mobile, online and telematics," says Goldberg.

For truly independent brokers, Belyea suggests that there is "a wonderful opportunity" to obtain a competitive advantage in the marketplace.

"Consumers, whether it's an individual, a personal consumer, whether it's a corporate consumer, are going to want to know they're dealing with an organization that is truly independent and is going to act in their best interest and not just move their book, their coverages, their policies, to Insurer A because Insurer A happens to own them, control them, and wants that volume," he says.

But questions remain. "What we don't know is if you're independent and don't have those connections, where does that leave us with respect to certain markets? It's clear right now that acquisition opportunities which used to flow through insurers, they will not direct them to a brokerage that they do not feel is, quote, in their hand," Belyea suggests.

"The value of having an independent consultant, from a consumer's perspective, is more important today than it ever has been," Carroll says. "We're moving away from a commodity model back into an advice-based model," he says.

But Belyea sees a rough road ahead for internal perpetuation. "We're seeing owners now have an expectation that they're going to get three times for their shares. You cannot sell a business to your own employees and other shareholders at a three times valuation. The math just doesn't work, unless you run this thing out 15, 20 years," he says.

Something closer to about 2.25 for a decently run brokerage would help foster internal perpetuation, Belyea offers. "I think us brokers are getting a little greedy because we're seeing these valuations and by doing so, we're actually putting at risk our independence and the existence of the true independent broker."

DOWN THE ROAD

So how are things looking a little farther down the road?

"The move by RSA to divest itself of Noraxis will make it unlikely that RSA will be bidding on other insurance brokerages anytime soon. The withdrawal of a major insurer from the broker-acquisition market may take some steam out of the market to purchase brokerages," Morris predicts.

With Johnson now out — citing the issues in the United Kingdom — "I think you might see a slight softening in terms of price, but there's still a great demand," Belyea comments.

On the commercial side, "I think we will see some larger U.S.-based brokerages acquiring Canadian operations, particularly in commercial lines," Purdy points out.

Belyea notes he is curious to see if the more traditional American model — where only a certain percentage of the price is guaranteed up front and the brokerage must hit growth targets to earn it way up to the higher valuation — is going to play in Canada.

If it does, "the model for independent brokers acquiring other independent brokers makes sense," he suggests.

McArthur says he believes that as soon as interest rates start moving up, "we're going to see significant rate increase. And that will then cause the price being paid for brokerages to drop. From now until then, it's a seller's market."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Looking Skyward

Consumers have been added to the mix of insurers and intermediaries looking to the skies and crossing their fingers in hopes of a mild storm season. That may not be surprising, given that it is not uncommon in Alberta for home premiums to have increased 20% to 30% since January.

Gord Enders
President,
Insurance Brokers Association of Alberta
and President,
Direct-Line Insurance

Everyone is poised for another summer storm season, with intermediaries and companies alike crossing their fingers for a rare, mild season. This year, however, there is another participant in the annual ritual: the consumer.

Consumers have long been affected by the weather — one reason the insurance industry exists. The main worry for consumers has been property damage caused by severe weather and an aging infrastructure. But this year, there's another concern: affordability.

Premiums are on the rise in Alberta; so are deductibles. But limits are going down. So what are the numbers… and why?

In Alberta, it is not uncommon to have seen 20% to 30% increases on home premiums since January. There are even cases where 30% to 50% increases have been applied. That is a lot.

Most homeowners now carry a $1,000 policy deductible. Peril deductibles such as wind and hail, or sewer back-up, are now often issued by carriers at $1,500 or $2,500 — sometimes with the option to buy down; sometimes not.

Peril limits like sewer back-up are being introduced. And depending on the rating territory, sometimes as precise as the six-digit postal code, coverage may not be offered. In some cases, insurers are issuing renewals with a $10,000 limit. Last year, it was unlimited. That, too, is dramatic.

WEATHERING THE RISK

The changes have been in the works prior to last June's floods in Southern Alberta. The Insurance Brokers Association of Alberta (IBAA) identified the issues prior to 2013's storm season and announced its Property Insurance Forum at its AGM in May. Held in September, the forum gathered stakeholders who have influence on the property insurance industry. With 16 participants and more than 80 observers, the Superintendent, Institute for Catastrophic Loss Reduction, various insurers and other government bodies and associations, were invited to provide insight into how weather and insurance may be managed.

While the meeting was designed to share information and different perspectives rather than draw conclusions, it is clear that the consumer has been most affected by the dramatic changes. Clients now need to determine the cost of clean-up, reconstruction and replacement of contents

for their basements, now that policy limits do not always apply.

Few consumers have the technical knowledge to determine this, and expect their insurance provider to help determine values.

Brokers, too, have been affected by the changes. Errors and omissions (E&O) exposures have increased substantially.

What happens when a client with a $20,000 sewer back-up limit suffers a loss costing $90,000 to repair and replace? With insurers placing different limits and different criteria on availability, brokers must be diligent in where coverage is placed, especially renewal business.

For example, if a broker has five markets and three have put in sewer back-up limits, it is not feasible for a broker to move the home portfolios to the two remaining markets without the limits. This is particularly the case when the majority of companies are telling brokers it is not if, but rather when, they introduce limits.

And, of course, how many insurers would be willing to let a broker move a partial book and still retain a contract?

Communication and documentation are key processes the broker must also determine. Is a phone call to the client required or is a letter sufficient? Are client signatures required acknowledging new limits? Brokers generally do not want to see a loss not covered when it could have been, and no broker wants an E&O claim.

MAXIMIZING THE VALUE PROPOSITION

With all the changes, the broker value proposition has never been stronger. Brokers offer advice and choice. If one market cannot provide suitable coverage and pricing, then the option exists to move the client to another company that offers a better match.

The average consumer cannot navigate the complexities of home insurance. As the very nature of the broker role is to act as an advocate for clients, brokers are compelled to bring advice and choice to the conversation.

Direct writers and captive agents do not face the same number of risks as brokers. Choice of insurer is not an option and as a direct representative of the company, the E&O exposure dissipates. Uninsured or unsatisfied clients are left to pursue the insurer alone.

Agents and direct writers provide advice, but accountability is limited to the reporting relationship with their employer or supplier. Of course, most agents do not want to see clients suffer an uncovered loss either.

FACING UNEXPECTED HAZARDS

All insurers have concerns with underwriting profitability and reinsurance costs. During the Alberta floods, some direct writers had very tight wordings that excluded most of the damage.

By covering the Alberta losses, some direct writers did so at their own cost without the benefit of reinsurance support.

By covering the losses, these companies did so at their own cost without the benefit of reinsurance support. Since their premiums did not incorporate the cost of these risks, the costs were multiplied. Add increases on reinsurance for 2014, and costs for all insurers are increasing.

Insurers also have public relations to manage — just ask the direct writers who suffered communications nightmares after denying sewer back-up coverage during the Alberta floods.

With limits on sewer back-up now in play, many insurers seem to believe that the potential PR pitfalls have been avoided. Truth is, the issue has just been transferred to another communications hazard. When an insured has a $20,000 limit, which may or may not have been effectively communicated, and suffers a $100,000 loss, he will be upset, especially if he feels that he was treated unfairly. Put this into a catastrophe situation, and PR Nightmare — The Sequel, begins.

With PR headaches, consumer unrest and potential issues of availability, affordability and sustainability surrounding property insurance, it is not unreasonable that consumers may begin contacting elected officials. When that occurs, government intervention may be expected, which is not what most industry players want.

It happened in 2004 with auto insurance in Alberta, leading to government reform. The result was a stable product, but the years of process were costly and tumultuous, which is why IBAA is advocating to insurers the need for a moderate approach in returning property insurance to profitability.

DEALING WITH INCONSISTENCIES

Continuing in the PR vein, flood insurance for personal property is not available in Canada, yet it is available for commercial property on an optional basis. This cannot help but be confusing for consumers.

Canada is the only G7 country not offering flood cover. Moreover, reinsurers are very interested in Canada as a flood market. Consumers and intermediaries also want it. But without updated flood maps and mitigation projects, and a defined government role, primary insurers are nervous.

IBAA believes the insurance industry as a whole is well-suited to provide a profitable flood solution. Most likely this will require a national solution, with most reinsurers believing it needs to be mandatory.

The future of property insurance will be chaotic and confusing for the next few years, especially for the consumer, while insurers determine the right formulas. Eventually, it will likely level out with insurers offering similar sub-limits, deductibles and rating platforms.

Brokers, and to an extent other intermediaries, will experience several months of difficult challenges as they determine how to manage their portfolios, E&O exposures and conversations with clients. Change can be hard, especially with so many unknown variables, but soon becomes the norm.

In the meantime, everyone waits for the summer storm season… watching the skies.

Far From Standard

Fire protection is far from standardized in Canada. This inconsistency, coupled with the return of some bad habits, demands that insurers diligently adjust premiums based on the Canadian Fire Insurance Grading Index, thereby reflecting true risk and avoiding artificially low rates that spur municipal cuts to fire budgets.

Michael Currie
National Technical Director,
Fire Underwriters Survey

Recent news in several areas of Canada has reminded the insurance community that public fire protection is far from standardized in this country. Many insurers have forgotten this and have fallen back into the lazy habits of old, which led to the peril of fire being a grave concern across the industry.

The trouble is that almost all Canadian citizens, underwriters included, assume public fire protection is standardized and that simply being Canadian entitles that person to some level of fire protection.

Nothing could be further from the truth.

In fact, the insurance community of Canada came together in 1883 to form the Canadian Fire Underwriters Association specifically to bring order to the chaotic model of public fire protection in the country. The model that was created included having a single index of published fire protection levels that all insurers agreed to use to set premiums.

Municipalities, realizing the amount of public fire protection they provided would be measured by an outside agency, became fairly diligent to invest in public fire protection capacity and mitigate fire risk by implementing and enforcing building and fire codes.

MODEL APPROACH

The way the model of public fire protection works is fairly ingenious. Municipalities manage their fire risk and provide measurable levels of public protection, fire insurance grades are set, and the insurers adjust capacities and premiums to reflect the level of risk and protection on the ground. The whole system is a positive feedback loop that results in insurers being able to underwrite more accurately and municipalities being able to justify the expense of public fire protection.

All Canadians benefit from this system.

TIME FOR A REMINDER

Although the system works well, insurers are beginning to forget that they need to be diligent to keep this system working. If property owners can get protected rates without the municipality hav-

Illustration by Barbara Spurll

ing to invest in a recognized level of fire protection service, then why would they?

More and more municipalities are asking the question, How can we reduce spending? Unfortunately, one of the first services considered for cuts is public fire protection.

Municipalities often see public fire protection as a cost centre with no return on investment. This is understandable as property insurers do not indicate to insureds what level of premium discount they might be receiving as a result of the level of public fire protection investment.

The Fire Underwriters Survey (FUS) continuously surveys communities across Canada, and over the past several decades, a few trends have emerged.

VOLUNTEERISM DOWN

Roughly 80% of fire departments in Canada are manned by volunteers. That means that when a building is on fire, there will be several extra minutes in total response time as firefighters need to travel from their homes or places of work to the fire hall before suiting up and responding to the fire scene with an engine.

In years past, before the digital age, participating as a volunteer on the local fire department was a fun way to be part of the local community. It seems, however, that people's lives have become busier and volunteering on the local fire department is seen more as a second job than a way to be part of the community.

This is exacerbated by businesses that historically were very supportive of volunteer fire departments, but that in recent decades have pulled their support. In fact, more and more businesses are advising their employees that they are not allowed to leave while on shift.

This may be understandable since businesses are focused on producing their own financial results, which are unlikely to benefit from having employees called away in the middle of shifts, leaving their posts unmanned.

There are many factors that have resulted in the downward trend in volunteer firefighting, including location economics. Firefighters often do not live and work in the same town.

In Vancouver, for example, few firefighters can afford to live in the city, so they have homes in cities like Coquitlam, Maple Ridge or Surrey, which may result in their place of residence being farther away from the fire station.

An interesting side note is that many insurers assume large cities are 100% career fire forces, but this is not the case. More and more cities are looking to reduce their overhead by cutting fire department budgets and fire departments are turning to volunteer or paid on-call models in an effort to maintain some level of fire protection.

The biggest factor in reduced volunteerism seems to be apathy. More people are assuming that they do not need to contribute as someone else will.

When it comes to public fire protection, however, this can have very serious consequences. A lack of standards for training firefighters has been identified as a serious problem.

There are actually a number of standards for training firefighters, but they are expensive and time-consuming to implement. The result is that most communities do not implement them.

In fact, a recent study for British Columbia firefighters found it was not economically feasible to train firefighters to the minimum National Fire Protection Association Standard Level 1.

For volunteer fire departments, this is a big problem, and for the communities that they serve, there is a significant liability exposure in having emergency responders who are not certified Level 1 firefighters responding to very dangerous incidents on behalf of the community. This is beyond the serious risk to firefighters themselves.

APPARATUS AND EQUIPMENT

As a result of the economic belt-tightening of municipalities, more and more fire departments are being asked to do more with less. Municipal associations have lobbied FUS to change the apparatus life cycle requirements to allow communities to operate apparatus and be recognized for fire insurance grading regardless of the age of equipment (and whether or not that equipment is reasonably reliable).

This issue not only affects the apparatus, fire departments are also being asked to do without replacing personal protective equipment (PPE) and to share things like SCBA (self-contained breathing apparatus) breathing masks because of their expense.

EFFECT ON PUBLIC FIRE PROTECTION

These trends and others result in lower levels of public fire protection and fire prevention. Volunteers are far less likely to join an organization that is poorly equipped and does not provide minimum training or proper PPE.

In many cases, fire insurance grades are getting worse in communities served by volunteer fire departments.

That said, it is not all bad.

When fire insurance grades become worse, property insurance premiums go up. Typically this is the reminder that property owners need to either take additional steps to mitigate the risk (knowing a lower standard of protection exists), or to advocate locally for improvements in public protection.

There is a significant liability exposure in having emergency responders who are not certified Level 1 firefighters responding to very dangerous incidents on behalf of the community. This is beyond the serious risk to firefighters themselves.

How can the trend be corrected? The answer is easier than one might think.

Using the Canadian Fire Insurance Grading Index diligently will stop the downward trend in public fire protection. This is why the index was invented. When insurers diligently adjust premiums based on the fire insurance grades, the impact is immediate and financial.

Property owners who experience increased costs for property insurance as a result of poor levels of fire protection can apply pressure to their elected officials to improve policies for higher standards of fire protection. If communities respond by improving protection, this results in improved grades, and better access to lower insurance premiums.

The challenge today is that fire losses are down and other perils are a bigger concern now. Although true, it is important to remember why fire losses are down.

The underlying financial incentives created by the grading index have resulted in communities having the leverage they need to make proactive choices in mitigating fire risks through developing, implementing and enforcing building and fire codes, as well as by providing water supplies and fire departments for responses to fires.

Every month, there are examples of communities contacting FUS for assistance as their public fire protection is nearing the brink of extinction.

In one recent case, a fire hall had just two volunteer firefighters left on the roster, prompting the fire chief to notify FUS as the local council was refusing support. Once council members realized insurers would adjust premiums in the area if the station was no longer recognized, they immediately began a program to revitalize the response capacity.

If insurers did not adjust premiums based on fire insurance grades, communities would certainly pull funding for public fire protection.

The grading index continues to be improved to facilitate more accurate and efficient underwriting processes and the entire system was recently converted into an online, location searchable database that offers fire protection details, hydrant information and fire insurance grades.

The most important thing for the insurance community is to be diligent. The insurers of Canada created a model of incentives for public fire protection investment and standing behind the model is often the key for local fire departments to secure the support they need from their communities.

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Opinion/Analysis

Donna Ince
Senior Vice President, Personal and Commercial Insurance, RSA Insurance

Insurers have certainly noticed the high toll that increasingly severe and frequent bad weather is having — and policyholders are likely to soon follow. The circumstances make it clear that insurers, brokers, customers, lawmakers and other groups all must work together to mitigate (or prevent) damaging effects.

No matter where one stands on the issue of climate change, there is no denying the impact of increasingly severe weather over the past number of years. The Canadian insurance industry is still reeling from the repercussions of its most expensive year yet, with 2013 weather catastrophes totalling upwards of $3.2 billion in insured losses.

Needless to say, figures like this will get the attention of insurers and brokers alike. Soon enough policyholders will be taking heed as well — if they have not already — given the noticeable impact on rates typically arising from events of this scope and magnitude.

Industry-wide, there has been a push to inform and educate consumers about how insurance is adapting to this new reality, wherein "water is the new fire" — a reality to which no one is immune, whether or not an individual ever personally experienced a backed-up basement.

While an understanding of the issues at hand is a great starting point, the industry has reached a critical juncture at which it is time to do much more than simply be aware of what is going on. It is time to act.

That means everyone — insurers, brokers, customers, lawmakers and other bodies concerned with both environment and economy.

As a leading authority on climate change and its impact on our ecosystems, the World Wildlife Fund (WWF) has warned for some time that greenhouse gases being pumped into the atmosphere are transforming ecosystems around the world at an unprecedented rate. As a result, the world is warming more quickly than ever, with catastrophic impacts such as accelerating sea level rise, droughts, floods, storms and heatwaves, notes information posted on WWF's website.

At a local level, industry stakeholders are seeing a growing number of events like the extreme flooding experienced last year in Alberta and Ontario, followed by a major ice storm in Eastern Canada and a perpetual freeze/thaw cycle. What is more, as the upward trend of urbanization continues, as noted by WWF, there are fewer places for all this excess water to go.

While a growing number of affluent Canadians are taking great pride in the oases they have built in upscale, finished basements, their high-end havens are increasingly vulnerable to costly water damage. As catastrophic weather goes up

As catastrophic weather goes up in severity and frequency, water itself is going down — as in pouring down — into basements, and into the pocketbooks of Canadian consumers.

in severity and frequency, water itself is going down — as in pouring down — into basements, and into the pocketbooks of Canadian consumers. This not only puts strain on homeowners, it also places a great deal of onus on the insurance industry.

OPPORTUNITY FOR GUIDANCE

There are a number of things insurance professionals can advise people to do to mitigate or prevent damages to their homes, such as investment in proper installation of backwater valves, and proper maintenance in and around their homes.

RSA, for its part, is working with brokers to ensure customers are "Climate Smart," which includes encouraging behaviours that help them mitigate damage to their property and prepare them for the impact of the increased frequency and severity of climate change-related weather events, while also helping to protect and preserve the environment. For example, using new hot water tanks and sump pumps can improve energy efficiency and also help to better prevent a major loss; connecting a rain barrel to the downspout will help divert rainwater while enabling homeowners to reuse this water for irrigation.

While it makes good sense to share practical solutions that will empower customers to make good choices, the individual consumer is by no means the only part of the equation. Aging and inadequate infrastructure Canada-wide has been a major issue for the insurance industry for at least the past 25 years, notes *The State of Canada's Cities and Communities*, a report issued by the Federation of Canadian Municipalities (FCM), and

Evidence suggests that retrofitting sustainable drainage systems can result in multiple benefits, including improved water quality, reduced carbon emissions, reduced pluvial and sewer flood risk, aquifer recharge, enhancement of urban spaces, and increased biodiversity, notes the report.

the added strain of climate-related catastrophes is certainly not helping.

Dealing with the Deluge: urban water management in a changing climate, a report by WWF in partnership with RSA Group, warns that climate and land use change will have significant impacts on water, affecting patterns of rainfall, run-off and river flow with greater uncertainty and variability.

As towns and cities are increasingly forced to cope with high volumes of surface water, better, more sustainable drainage solutions must be implemented. Examples of sustainable drainage systems can include wetlands, ponds, green roofs, permeable paving and urban river restoration.

Evidence suggests that retrofitting sustainable drainage systems can result in multiple benefits, including improved water quality; reduced carbon emissions (because less water volume means less sewage treatment); reduced pluvial and sewer flood risk; aquifer recharge (relieving stress in water-scarce areas); enhancement of urban spaces; and increased biodiversity, notes the report.

In Canada, a number of municipalities, conservation authorities and other bodies with shared objectives have started some excellent work that looks more closely at how to build more climate-smart communities. The Insurance Bureau of Canada's (IBC) current work on the Municipal Risk Assessment Tool is one example of a growing commitment from industry bodies and local governments to investigate better planning options for city infrastructure.

LOW IMPACT, HIGH REWARD

The other part of the equation is finding and using available resources to help mitigate this impact, including Low Impact Development (LID), which essentially means implementing infrastructure design that helps manage stormwater run-off.

LID practices include bioretention, permeable pavements, green roofs and other practices, such as soakaways, infiltration galleries and vegetated swales with perforated pipe systems, Canada Mortgage and Housing Corporation (CMHC) notes in its report, *Equilibrium Communities InSight: Green Infrastructure and Low-Impact Development*.

Some of these terms may be unfamiliar, but they are all greener, eco-friendly solutions that involve diverting water flow back into the environment, instead of sitting in the basement of someone's home.

From a city planning perspective, examples of multi-stakeholder efforts include a retrofit project between the City of Mississauga and Credit Valley Conservation in Ontario, which used LID practices to capture and treat stormwater run-off through permeable pavement and bioretention planters, while reducing the city's stormwater management costs; and a sustainable community demonstration initiative, funded by CMHC and Natural Resources Canada, with EQuilirium Communities to support research and technical activities related to green infrastructure and LID in rural and urban communities across the country.

Additional studies funded by CMHC will include further investigation into these techniques, from environmental and technical factors to the regulatory issues and long-term costs associated with these initiatives.

WATER ALL AROUND

Water really is everywhere — literally and figuratively. While the water issue is a significant and potentially daunting one, it is also quite heartening to see that water mitigation strategies can dovetail very well with actions to preserve the health of our ecosystems.

Not only will Canadians be able to spend more uninterrupted time enjoying man caves, home bars and the other myriad features of the Great Canadian Basement, but the hope is that the work being done will also enable us to leave a better planet for the generations yet to come.

Insurers and brokers have a fiduciary responsibility to customers; it is necessary to arm them with all the necessary information to help them mitigate or prevent damaging scenarios from occurring. That starts with sharing valuable risk control knowledge, ensuring that customers are not only informed, but motivated, to act in their own best interests — and that of the environment.

There remains a lot of work to do on all levels. Progress will have to include lobbying efforts by bodies such as the IBC, and sustained collaboration across all groups toward the common goal of essentially making life better for customers while preserving the health of our planet.

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Solar Haze

Craig Harris
Freelance Writer

The rapid growth of the solar energy market has created some cloudy issues for insurance coverage and claims. Is the property and casualty insurance industry taking into account all of the risk factors associated with the proliferation of solar panels?

Michael Guest has a unique perspective on the seemingly ubiquitous array of solar panels popping up on residential and commercial buildings throughout Ontario.

As a former vice president with solar development companies, he now works as a project manager in renewable energy for Giffin Koerth Forensic Engineering and investigates quality assurance issues with solar installations.

"One of my main messages to insurance companies is that the notion these systems are benign and maintenance-free is dangerous," Guest says. "There are now over 18,000 solar systems connected to the grid in Ontario and the idea that you just put them up on the roof and leave them for 20 years is misguided," he cautions.

"I have done several presentations to insurance companies and the main comment that, without a doubt, comes back is, 'Wow, we did not know the amount of energy created.' I really think the insurance industry is a little behind the curve on solar," he adds.

RECENT START

In May 2009, the Ontario government passed the *Green Energy Act*, which included a series of incentives that ushered in an accelerated take-up rate of renewable energy initiatives. For the solar industry, one key incentive was the Feed-in Tariff (FIT) program, which provides a guaranteed pricing structure for the production of electricity into the grid from renewable sources.

The "microFIT" program allows homeowners, farmers and small businesses to develop renewable energy projects that are 10 kilowatts (kW) or less in size.

Although controversial, Ontario's green energy plan and the FIT program essentially kick-started the widespread use of solar systems in the province.

Illustration by Barabara Spurll

The Canadian Solar Industries Association (CanSIA) reports that Canada's solar market rose by 289 megawatts (MW) in 2011, a 270% increase over the previous year. By 2016, the total installed solar capacity is estimated to be between 3,200 MW and 4,300 MW — an 11-fold increase.

While the installation of small residential rooftop-mounted solar panels represents 100 MW of the Ontario market (with roughly 11,000 installations), larger systems on retail stores, other commercial structures and school/government buildings connected directly into the grid are also becoming more prevalent.

UNDERSTANDING THE IMPLICATIONS

Since 2009, insurers have been slowly wrapping their heads around the implications of arrays of solar (also known as photovoltaic, or PV) panels, reports Jen Aitchison, an account executive in renewable energy for Jones Brown Insurance Brokers & Consultants. Many underwriters are offering endorsements or riders for solar panels to the existing standard homeowner policy.

Aitchison reports that most insurers "are now factoring in solar energy panels as part of the homeowners insurance policy; there is typically an additional premium for the replacement costs. The value of the home has increased as a result of the solar panels."

This is the approach that RSA Canada, a specialist in renewable energy, has taken.

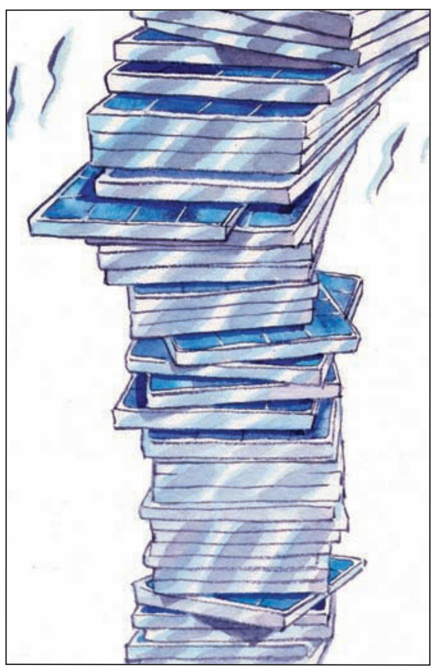
"The cost of solar panels need to be included as part of the personal property coverage limit," notes Amy Graham, national property leader for personal insurance at RSA Canada. "This ensures that the cost of rebuilding the home includes the additional exposure of the panels," Graham adds.

Aitchison observes, however, that there is no standardized industry approach to solar panels. "On the residential side, some insurers are still struggling and a little behind on solar energy," she points out.

"There are a few insurance companies that I would suggest haven't really taken the time to understand what a solar installation is, and are charging exorbitant amounts for coverage."

Some of the early confusion around the microFIT program prompted Insurance Bureau of Canada (IBC) to develop a brochure in 2011 on the insurance implications of solar energy projects. It lists loss or damage to solar equipment, loss of income and liability as the main insurance scenarios.

IBC's brochure also notes that insurance needs are contingent on how people participate in energy projects, whether as an individual homeowner, as part of a community initiative or through so-called "aggregators" — energy companies that essentially lease the roof space of multiple buildings and install solar panel arrays.



These aggregator firms, such as Pure Energies, front the cost (often in the range of $20,000 to $30,000, or more) of installing solar panels and allow the individual homeowner to benefit from the electricity provided and the guaranteed feed-in tariff rates to the hydro grid. By selling electricity back to the province, the intent of the program is to provide a steady stream of income to the homeowner (and aggregator).

IDENTIFYING RISK

Who precisely is responsible for the solar panels on the roof and any associated liability (including third party) can be a grey area for aggregators and homeowners, subject to individual contract language. Another issue is whether or not the "income stream" resulting from solar panel installations is considered business income for the homeowner. The typical homeowner policy excludes coverage related to taxable income for business purposes.

"If the solar panels are also used to share power with the hydro authority (such as Ontario's microFIT program), additional endorsements that provide the insured with adequate protection are strongly recommended," Graham notes.

Aitchison, who says she likes the business model of the aggregators, observes that "on the insurance side, it removes a lot of the risk for the home insurer in that the aggregators are carrying liability and property insurance themselves. So homeowners don't need to incur any extra expense in that regard."

Solar energy aggregators are viewed as commercial risks for insurance, notes Geoffrey Carter, RSA Canada's technical manager of construction and renewable energy. "RSA's approach to rooftop aggregators is to treat them as a business," Carter says.

"Our renewable energy underwriters provide solutions that cover physical damage to the solar panels and related equipment, business interruption and commercial public liability," he adds.

No matter how solar panel arrays are installed or provided, several sources say there are risks that could result in surprising claims severity. The exposures typically extend to equipment, installation, weather (severe wind/hail) and fire.

While there is little direct claims experience in Canada on solar energy, Aitchison says that "we have taken a lot of the global claims data, and applied it locally to understand where the exposures are. On the commercial side, there are more risks related to roof ballast mounting systems. You want to make

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sure of the wind-loading and snow-loading," she says.

Aitchison cites the well-publicized case of a solar panel installation on a multi-residential high-rise building in Toronto that partially collapsed earlier this year and sent a support beam crashing to the ground. Police were called in to the apartment in the Flemingdon Park area on January 31 to secure the premises and ensure public safety.

However, others say that there are more prominent exposures with solar panels. "Fire is without a doubt the biggest risk," says Guest, who adds his goal is to educate insurers. "At Giffin Koerth, we have done 17 fire investigations that were caused by solar arrays."

Guest notes that during a recent small fire investigation at a solar panel system installed four years ago, "we pulled out the infrared camera and we found multiple hotspots, multiple problems just waiting to happen. Let's assume that is the canary in the coal mine; there are a lot of systems out there of that age. The problems will continue to develop as they are exposed to the elements," he cautions.

THE FIRE CHALLENGE

There are several risk factors associated with fire and solar energy. One is the fact that solar panels do not "shut down" like a traditional hydro-electric supply. "Fire presents a unique challenge because solar panels continue to generate power even after a fire has started," Carter explains.

"Depending on how the system is configured and the location of the isolator switches (which stops the panels from generating electricity), this can make it difficult for firefighters whose top priority is saving lives with property protection a secondary concern," he says.

One area of risk outside of insurers' control is whether or not firefighters will actively enter a full blaze in a building equipped with solar panels as a result of concerns about electrical shock, increased roof loads/structural concerns and toxic emissions. It is an issue that fire departments from Belleville to Huron County in Ontario have debated the past three years.

The provincial Ministry of Labour has issued general health and safety guidelines related to firefighting and solar systems. In the end, however, the onus is on individual fire departments to adopt their own standard operating procedures around fires in buildings with solar panels.

No matter how solar panel arrays are installed or provided, several sources say there are risks that could result in surprising claims severity. The exposures typically extend to equipment, installation, weather (severe wind/hail) and fire.

Jeff Edge, an independent adjuster and owner of Leading Edge Claims Services, has done research and conducted presentations on solar panels and fire risks. Edge observes that "home and building owners, adjusters and restoration contractors will usually have the 'time' to ensure a building is safe before entering. What about first responders — particularly firefighters? The time element is entirely different," he notes.

"Many fire departments are now taking the approach that if there are solar panels on the roof, they will spray it with water, but they are not going up on the roof to vent the fire or send their people inside," Guest reports. "They will basically let it burn, which could lead to significantly more total losses for insurers," he adds.

"The insurers I have spoken to seem to have accepted that if there is a fire in a building with a PV system — it's a total (loss)," Edge observes. "Typically, insurers rate based on fire hall versus hydrant protected, full-time versus volunteer (fire department). What rating classification will satisfactorily encompass: 'We're not going anywhere near it?'"

ENHANCING AWARENESS

Sources say that awareness of solar panel systems and risk management strategies are the best ways for insurers to address the exposures of this growing form of renewable energy. The strategies may include quality assurance around solar equipment and installation, as well as due diligence regarding building permits and engineering approval for roof load and electrical connections.

Maintenance, in the form of regular inspections for weather or other damage, is another key part of reducing losses associated with solar panels.

Risk management and loss prevention strategies could become mission-critical as more renewable energy projects are adopted in Ontario, especially large-scale commercial and multi-residential arrays of solar panels.

Other provinces, such as Nova Scotia, Alberta and Quebec, are also looking at ways to move forward with their renewable energy plans.

"I believe this is a problem that is about two years away," Guest concludes. "These systems are on the buildings you insure, whether you know about them or not."

Avoiding Pitfalls

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Misrepresentation and material non-disclosure can present pitfalls. When an insurer learns of facts that could give rise to a material misrepresentation, consideration must be given to voiding, cancelling or confirming the policy. If the policy is voided, the insurer must then determine the appropriate manner of dealing with the premium.

While not an everyday occurrence, it is an unfortunate reality that some insureds are not truthful when applying for insurance. Material non-disclosure may come to light during the investigation of a claim or upon renewal of the policy.

However that information is obtained, once it is available to the insurer or its agent, the insurer must make an election as to how to proceed. The following three possibilities exist:

(a) retain the premium and treat the contract as valid and subsisting;
(b) avoid the contract and return the premium; or,
(c) give notice of cancellation of the policy.

Once the choice is made, an insurer is most often "stuck" with that decision and cannot later change course, as the courts have determined in a number of cases over the years that these options present distinct legal positions. By choosing one option, the insurer is "waived" or "estopped" from later changing its mind and attempting to invoke a separate path.

Waiver occurs when the insurer has full knowledge of its right to void the policy and makes an unequivocal and conscious choice to abandon that right. Estoppel applies when there is knowledge of facts that indicate a lack of coverage, and a course of conduct is taken by the insurer upon which the insured relies to its detriment.

By way of example, while investigating a claim, an insurer learns of facts evidencing a material misrepresentation. The claim is small and, perhaps for customer service reasons, the insurer chooses not to raise the material misrepresentation.

While it may never specifically address the misrepresentation, the insurer is, in essence, electing to treat the insurance contract as valid and is waiving its right to rely on the misrepresentation as a basis to void the policy — now and in the future, as noted by the Supreme Court of Nova Scotia in *Snair v. Halifax Insurance Nationale-Nederlanden North America Corporation*.

The result is that if the insured presents a much larger claim at a later date, the insurer is unable to void the policy given the earlier election made with full knowledge of the material misrepresentation.

This situation was considered in *Gill v. Zurich Insurance Co.*, released in 1999 by the Court of Appeal for Ontario, where the insurer learned of misrepresentations made by the insured and, in spite of those misrepresentations, the insurer continued to accept the premium payment from the insured.

The court found that by continuing to accept the premiums, the insurer had elected to treat the contract as valid and subsisting and could not take the position that the policy was void upon occurrence of the loss.

VOIDING OR CANCELLING

Another potential pitfall can arise from the choice between voiding or cancelling the policy. In the former case, the position normally taken is that the contract is void from inception given the material misrepresentation.

If the insurer voids the policy, claims are not payable since the policy is treated as if it never existed. This is because the misrepresentation was "material," in that the insurer would not have written the risk, or would have charged a higher premium, had it known the true nature of the risk.

Conversely, when cancelling a policy, a contract is acknowledged, but a power of cancellation is exercised. A claim presented before cancellation is still payable and, in fact, some claims presented after cancellation may still be covered depending on the policy at issue.

By exercising the power to cancel the contract, the insurer has thereby waived its right to void the policy, as it has, in essence, affirmed that the policy exists. While the distinction appears minimal, the effect is considerable.

COMMUNICATION BREAKDOWN

Mishaps can occur when there is a breakdown in communication between the claims handler and those underwriting the risk. While the claims handler may still be investigating a loss and, in particular, whether there was a material misrepresentation, the underwriters may be unaware of the investigation and may cancel the policy based on other considerations.

Unfortunately, once that cancellation is made, it can affect the insurer's abil-

ity to void the policy, depending on how much information about the material misrepresentation was known at the time of cancellation.

Accordingly, before a decision is made to cancel a policy upon the happening of a loss, underwriters should first determine whether or not the claim might be denied based on misrepresentation or non-disclosure.

Once the insurer has made the difficult decision to void the policy for a material misrepresentation, the next consideration — and one that can be easily overlooked — is what becomes of the premium paid previously by the insured.

Typically, the insurance premium is returned upon voiding the policy and, in many cases, this is the appropriate response. However, two decisions stand for the proposition that in some instances the premium need not be returned at all, or only a portion of the premium need be returned.

In *Moscarelli v. Aetna Life Insurance Co. of Canada*, issued by the then Ontario Supreme Court in 1995, an insurer voided a policy on the basis of fraudulent misrepresentation. The court looked only at the issue of whether, when properly voiding a policy of accident and sickness insurance for fraudulent misrepresentation, the insurer can retain the premiums paid by the insured versus returning the premiums.

The insured argued that where one party is induced by fraud to enter into a contract with another, and then discovers the fraud, the party must, within a reasonable time after discovering the fraud, notify the other party of the contract's rescission and restore whatever consideration has been received under the contract. The insurer argued that when a policy of insurance is voided for fraudulent misrepresentation, there can be no claim by an insured for a return of the premiums.

The court noted that there did not appear to be a single case decided in Canada where an insured, having made a fraudulent misrepresentation, had been able to successfully sue for the return of premiums. Past cases had pointed to the "clean hands doctrine," and found that based on public policy, a contracting party could not plead restitution grounded on its own fraud.

Ultimately, the court concluded the authorities supported the position of the insurer, that there is no return of premiums in the case of fraud, stating that this was the "more principled and rational position."

FULL, PARTIAL RETURN OF PREMIUM

Shortly after this decision, the Ontario court considered a similar issue in the 1996 decision, *Lloyd's London, Non-Marine Underwriters v. National Armoured Ltd*. In that case, National Armoured Ltd. was insured with Lloyd's under three policies of insurance, which were put in place in September 1991, and renewed in September 1992.

Unfortunately, once that cancellation is made, it can affect the insurer's ability to void the policy, depending on how much information about the material misrepresentation was known at the time of cancellation.

Lloyd's voided the policies *ab initio* on the basis of misrepresentation and non-disclosure of material facts. However, upon voiding the policies, Lloyd's only returned the premium from the current policy period. It did not return the premium from the previous policy year, even though the same misrepresentations were operative during that period.

The insured argued that Lloyd's lost the right to void the policies on the ground that it was required to void the earlier policy, as the same misrepresentations were operative during the previous policy period. While the case is not entirely clear on this point, the insured appeared to be saying that by failing to void all policies and return all premiums, the insurer was estopped or waived from voiding the single policy period at issue.

The court found that there was no reason why the insurer should forfeit its right to void the policies, "on the ground that it could have taken a more drastic action."

While not specifically stating there was a fraudulent misrepresentation, the court then pointed to the decision in *Moscarelli* for the proposition that where an insurer voids the policy because of fraudulent misrepresentation, it is not obliged to refund the premium.

It is unclear whether this case stands for the proposition that only the current policy has to be voided (and only the current premium returned) in the case of an innocent material misrepresentation present from inception of the policy. It seems more logical that if the material misrepresentation made at the time of application renders the policy void from the inception of coverage, then all policies and renewals are affected equally and premiums from all years should be returned.

Certainly, it is the safer practice to return the entire premium in the case of an innocent material misrepresentation, so as to avoid the type of argument advanced in National Armoured Ltd.

Based on the foregoing, when an insurer learns of facts that could give rise to a material misrepresentation, consideration must be given to voiding, cancelling or confirming the policy.

For the reasons set out above, the choice made at that time should be very carefully thought-out. If the decision is made to void the policy, the specific circumstances surrounding the material misrepresentation should then be reviewed to determine the appropriate manner of dealing with the premium.

Alexander Holburn Beaudin + Lang LLP is a member of The Arc Group of Canada, a network of independent insurance law firms across Canada.

Smart Thinking

Ian Pattinson
Vice President,
Rogers Smart
Home Monitoring

When it comes to a person's home, reducing risk is a top priority. Home automation has become an extension of home security, offering a means to detect an unlocked door or view video feeds in rooms. But it can also be used to detect potentially damaging events, such as a leaking pipe, that might otherwise end up in a claim.

Informed consumers who adopt always-on technology and find new ways to stay connected to home are not only living smarter, they are eliminating risk.

2013 — a year of floods, fires and ice storms — changed the course of the Canadian insurance industry in more ways than one. Environment Canada reports that extreme weather events that used to happen every 40 years are now expected to take place every six years. Canadian insurance claims caused by home damage from severe weather now account for more than half of property insurance claims.

The unpredictable climate and damaging weather events is encouraging some property and casualty insurers to look for new ways to make insurance more affordable for Canadians.

HOME SECURITY BECOMES HOME AUTOMATION

Now, more than ever, technology is pervasive in our daily lives. Advances in devices and networks, combined with the rise of social networking, have changed the way people communicate with one another.

As technology evolves, so does related security. The home security business is among those that has had to adapt to the rapid advances in technology. More than 150 years ago, the first patent on electromagnetic burglar alarms was issued to Augustus Pope, who applied then-revolutionary discoveries about electricity to create a groundbreaking security device.

Today, the face of home security is changing again. But this time, the change revolves around connected consumer electronics and wireless devices.

Canadians have become increasingly connected; rates of smartphone usage and data consumption have never been higher. This evolution has led to traditional, hard-wired alarms being replaced by fully integrated, wirelessly connected and low-cost systems known as home automation or home monitoring systems.

Not only are these new systems more portable, flexible and easier to install, they are changing the size and scope of the home security market.

Home automation, now an extension of home security, is comprised of technology and solutions that automate and manage devices and appliances located within residential dwellings and small businesses. These in-home devices can then be controlled through a smartphone, tablet or computer.

Rogers is among those providing a smart home monitoring solution. Certified by Underwriters Laboratories (UL), it uses constant broadband and wireless connections. Users get real-time updates on activity in their homes via e-mail or text on activity, and can remotely control the system — such as automating thermostats, turning off water, randomly turning off and on lights and appliances when away from the home, and viewing real-time video feeds of specific rooms — through a smartphone, tablet or computer.

Smart door locks also allow users to remotely disarm their security system and unlock the door for, among others, repair people, cleaning services and babysitters. Should the system detect a leaking pipe, a door left open too long or a door left unlocked, it sends a message to notify the homeowner.

HOME AUTOMATION POISED FOR GROWTH

The home automation industry is projected to grow — predominantly within North America — to US$14.1 billion in worldwide revenues by 2018, note figures from ABI Research. This would mean an 11.5% increase over 2014. And globally, IMS Research reports that the market is expected to more than quadruple in the next five years.

Home automation is moving into the mainstream, with numerous companies entering the market. Among the factors driving new entrants are Internet connectivity rates in the home that are nearing full penetration, and wireless networks that are delivering faster and more reliable speeds.

As connectivity options make devices and systems more accessible, the growth of smartphones, cloud-based interfaces and broadband cable are making home automation systems dramatically more affordable.

As connectivity options make devices and systems more accessible, the growth of smartphones, cloud-based interfaces and broadband cable are making home automation systems dramatically more affordable. Traditional large, up-front installation costs and equipment purchases are being replaced by systems that leverage existing technology in the home and require minimal additional hardware.

MITIGATING RISK, REDUCING CLAIMS

Statistics Canada reported about 200,000 break and enter violations and more than 1 million property crime violations in 2012. Break-ins cost Canadian insurance companies millions of dollars each year in claim payments.

New home automation and security systems provide insurers with an opportunity to differentiate their offering and reduce costs. Many insurers offer discounts of at least 5% if a client's home is equipped with a smoke detector or a traditional home alarm system.

However, a company could lower a premium by 15% to 25% if it installs a system that combines the two, as well as notifies the police, fire department or central monitoring station.

An all-in-one system that manages water leak notifications, carbon monoxide detection and security can help homeowners better manage risk, which could help reduce the number of claims filed and reduce insurance premiums.

A report issued last summer by J.D. Power indicates that overall customer satisfaction levels with Canadian home insurance companies decreased from 769 to 761 (on a 1,000-point scale) since 2012. This decline is largely caused by insurance price increases and a lack of awareness by customers about how to mitigate additional expenses.

ENHANCING INDUSTRY PARTNERSHIPS

Today, many insurers are testing new product lines, exploring additional target markets and considering expansion of distribution channels to reach a wider base of prospects. They are also contemplating opportunities for new partnerships.

Take, for example, Allstate Canada, which currently offers homeowners a discount of 25% on their premiums if they sign up for the Rogers product (in available markets).

"A well-protected home is one of the best ways to save customers from unnecessary stress, inconvenience and increased costs in the long term," says Ryan Michel, vice president and chief risk officer for Allstate Insurance Company of Canada. "We are partnering with Rogers to offer our customers a reliable, UL-certified home automation system that can help create a protected, connected life in the areas that matter most to them — their families, homes, health and businesses," Michel adds.

UPCOMING EVENTS: FOR A COMPLETE LIST VISIT
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1 Toronto commercial broker Aligned Insurance Inc. officially launched operations in Ontario March 25. Led by president and chief executive officer Andrew Clark [1], Aligned Insurance is targeting organizations in and around the Greater Toronto Area. The new independent firm is offering a 0% commission (fee-only) structure, says Clark, who has worked with Aon's business insurance division in Toronto and with Marsh Canada. A Chartered Insurance Professional, he has an MBA from Wilfrid Laurier University.

2 Saskatchewan Mutual Insurance Company — which operates in Alberta, Saskatchewan and Manitoba, with service offices in Calgary, Edmonton, Regina and Winnipeg — has named Matina Kipouros [2] as its new vice president of underwriting and marketing. Previously a branch manager at Winnipeg-based Wynward Insurance Group, Kipouros has also worked as a commercial underwriter at Economical Insurance, notes her LinkedIn profile.

3 The Co-operators Group Ltd. will roll out usage-based insurance (UBI) technology, developed by Intelligent Mechatronic Systems (IMS), for auto clients in Ontario April 2. Clients will receive a 5% discount and could earn as much as 25% off their auto insurance, depending on their driving behaviour. The 5% discount is applied automatically upon enrolment, and once the policy comes up for renewal — and once the vehicle has passed 125 days and 1,000 kilometres — the discount will be recalculated based on collected data. Data collected through the small wireless telematics device plugged into a vehicle port include instances of sudden braking and rapid acceleration, total distance driven and times of day.

4 Beacon Underwriting Ltd., a managing general agency, has acquired Can-Sure Underwriting Ltd., a Vancouver-based MGA. The terms of the deal were not disclosed. The Can-Sure Underwriting operations will add a new office to Beacon's footprint in Vancouver, Beacon Underwriting notes in a press release. As a result of the acquisition, Can-Sure's Rick Roberts [4a] will become chairman of Beacon, while Jeff Hart [4b] will take on duties as president. Can-Sure Underwriting offers a range of MGA products to brokers in Western Canada and has offices in British Columbia, Alberta and Manitoba.


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5 New York City-based Guy Carpenter & Company LLC, the risk and reinsurance subsidiary of Marsh & McLennan Companies, recently launched a new cyber reinsurance practice. In 2013 Q4, the practice designed and implemented a new "Cyber Cat" product that responds to what it calls the "systemic risk inherent in cyber portfolios." The co-leaders of the specialty practice are Jeremy Platt [5a] and Mike Brown [5b]. "Rapidly developing computer technology and the unrelenting evolution of cyber risks presents one of the biggest challenges to the (re)insurance sector today," Platt says. Guy Carpenter clients "require comprehensive solutions to manage the accumulation and concentration of cyber liability to large loss and systemic events," Brown adds.

6 RSA Insurance noted in March that Jacqueline Friedland [6] has taken on duties as the carrier's chief actuary in Canada. Before joining RSA Insurance, Friedland led KPMG's property and casualty actuarial practice in Canada. With more than 25 years as an actuarial consultant, she has held positions in Canada, the United States and South Africa. Friedland has led numerous, large-scale engagements on behalf of insurance industry organizations that resulted in an extensive list of reports and textbooks, including the


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new research paper on *Water Damage Risk and Canadian Property Insurance Pricing* from the Canadian Institute of Actuaries.

7 The Guarantee Company of North America has partnered with Brovada Technologies Inc. to launch a new eDocs solution for personal lines brokers. The offering is designed to save brokers time by allowing for easy download of policy documents to a broker management system (BMS), the companies note in a press release. Brovada Technologies reports that the solution will also enable streamlined workflows and make it easier to do business with The Guarantee. The eDocs solution gives brokers an automatic download of electronic policy documents from The Guarantee's policy administration system. eDocs is available for use with BMSs such as TAM, sigXP, The Broker Workstation and Powerbroker.

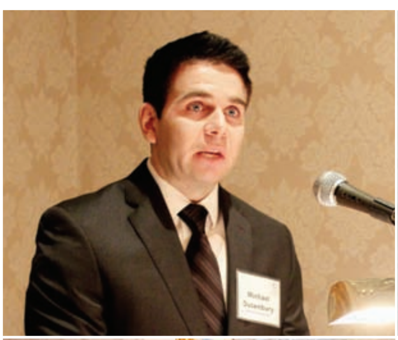
8 Keal Technology, a Toronto-based broker management system (BMS) software vendor, is integrating its sigXP product with Policy Works Inc.'s commercial management system. Calgary-based Policy Works and Keal announced their partnership in mid-March. "The integration will allow brokers to launch Policy Works transactions directly from sigXP and bring back activities and accounting details into the BMS," notes a joint statement. Beta testing of the integrated offering is scheduled to begin in the third quarter of 2014, with the final release set for the next quarter.

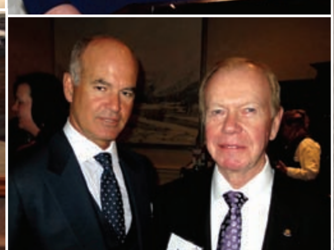
9 Creechurch International Underwriters Ltd. has announced that Cheryl Hobbs [9] is its new assistant vice president of business development. Hobbs previously served as American International Group (AIG) Canada's assistant vice president, sales and marketing, national accounts, and has worked for Aon, Willis and Marsh. In her new role at Creechurch, she will be involved in expanding the company's "Canadian footprint and sourcing new business opportunities," notes a statement recently issued by the company. Creechurch has offices in Toronto and Montreal. Hobbs is a Certified Insurance Professional, a Canadian Accredited Insurance Broker and is licensed with the Registered Insurance Brokers of Ontario.

10 Insurance Technology Solutions Inc. reports Affiliated Brokers Exchange (ABEX) Ltd., a managing general agent and a member company of The Precept Group Inc., has launched ABEXAccess using ITS's BindEasy policy administration product. Brokers can use a secure website to let current or prospective clients get quotes, initiate coverage changes, update policy information, fill out applications for new coverage and obtain copies of certain types of insurance certificates. "We expect that ABEX, by offering such a truly unique and beneficial solution to brokers, will dominate the market for the insurance products they offer," says Steve Kaukinen [10], president of ITS.

11 Aviva Canada has obtained certification for eDocs, the Centre for the Study of Insurance Operations (CSIO) reports. CSIO data exchange standards are company-neutral and help solve data compatibility issues, facilitate more efficient and seamless integration of information and improve implementation of technology solutions.

The **CIP Society – Ontario's Annual Fellows' Reception** was held at The National Club in downtown Toronto on February 13. The newest Fellow Chartered Insurance Professional (FCIP) graduates were greeted and recognized as part of a reception featuring good food and good company. Michael Dusenbury, supervisor of underwriting at Gore Mutual Insurance Company, delivered the valedictorian address to graduates and guests. This year, two individuals — Gregory Knowles, vice president of sales & producer management at CNA Canada, and Michael Moyer, assistant vice president of claims and risk control at HKMB Hub International, received the 2013 Greater Toronto Area Fellow of Distinction Award. The award, recipients of which have achieved their FCIP designations, is presented each year by The CIP Society, a division of The Insurance Institute of Canada, to recognize outstanding achievement in the insurance industry in Toronto. Colleagues nominate insurance professionals, and a nominating review committee makes the final selections of award recipients.





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











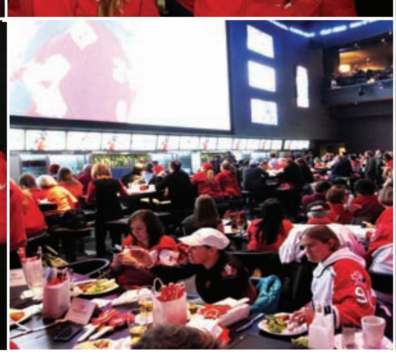








RRJ Insurance Group Ltd. and **KRG Insurance Brokers** hosted the **2014 Sochi Women's Hockey Olympic Final** at *Real Sports Bar & Grill* in Toronto on Thursday February 20. The gathering was in support of The Brampton Thunder of the Canadian Women's Hockey League, the feeder team in Sochi 2014, and WICC (Women in Insurance Cancer Crusade). The fundraiser turned into a dramatic gold medal game for Team Canada, with $18,000 being raised and the proceeds shared equally by WICC and The Brampton Thunder.



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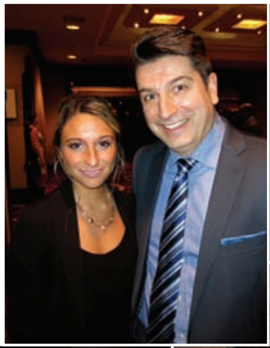
A cheque for $9,000 each was presented to both **WICC** and **The Brampton Thunder** of the **Canadian Women's Hockey League** on March 5 in Toronto, proceeds of the **RRJ Insurance Group Ltd.** and **KRG Insurance Brokers 2014 Sochi Women's Hockey Olympic Final fundraiser.** From left to right: Steve Wilson, WICC Ontario board member; Christina Martin and Paul Martin of KRG Insurance Brokers; Ellen Moore, WICC Ontario co-chair; Lori Dupuis, two-time Canadian Olympic Women's Hockey Team Medalist (Nagano and Salt Lake City), representative for the Canadian Women's Hockey League and The Brampton Thunder; and Marilyn Horrick, WICC Ontario co-chair.

The **Toronto Insurance Women's Association (TIWA) Wine and Cheese Reception** was held at The Hyatt Regency in Toronto on February 20. More than 1,200 guests attended the association's annual signature event.

















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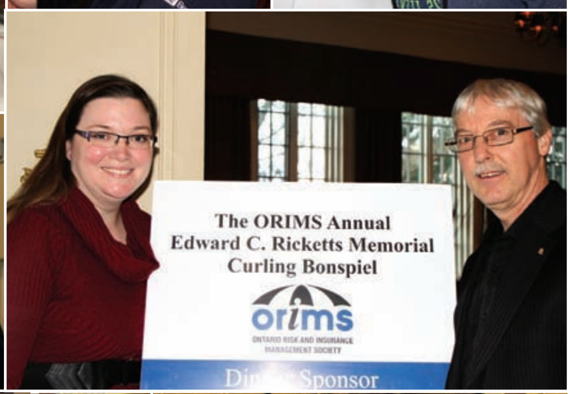

On February 24, **ORIMS** held its **32nd Annual Edward C. Ricketts Memorial Bonspiel**,held once again at St. Georges Golf and Curling Club. The sold-out event attracted 96 participants in all. A fun-filled day was had by both participants and attendees. As a result of donations and a raffle draw, ORIMS was pleased to be able to present a donation of $4,000 to WICC (Women in Cancer Crusade). Congratulations go out to the winning team from Allianz, which included Richard Newman, Thomas Paap, Andrew Cadogan and Sheila Campbell. Edward Ricketts was a respected member of ORIMS for many years and this year, Ed's widow Jackie, attended the event and had a chance to catch up with old friends.







GALLERY

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

On February 26, Aviva Canada officially announced its plan to relocate the company's head office to The Remington Group's "Downtown Markham" development in Markham, Ontario. The **Remington Group** held an **Aviva Canada head office groundbreaking event** at the **Downtown Markham** location, which included an address from Christopher Bratty, president of land development and investments for The Remington Group; Greg Somerville; president and CEO of Aviva Canada, and Markham Mayor Frank Scarpitti. Occupying the majority of the new 350,000 square foot Remington Group building, which will stand 12 storeys high and house more than 1,500 people, Aviva's new offices are scheduled to open in 2017. "The incredible amenities offered by this new urban centre provide our employees a place to work that is conveniently located to major highways and excellent transit," Somerville commented. "Additionally, the retail offerings, restaurants, art installations and green spaces will all contribute to a terrific environment and an engaged work force," he said. Added Bratty, "Aviva Canada joins other industry leaders, including Worley Parsons and Motorola, in selecting the LEED-certified commercial space offered by Downtown Markham."

APPOINTMENT

Francine Armel

Phil Baker, President of **Creechurch International Underwriters Ltd.** is pleased to announce the appointment of Francine Armel, B.A., LL.B. to the position of Senior Vice President & Chief Underwriting Officer.

In her new role, Francine will focus on product development to assist in maintaining and growing Creechurch's market presence as a provider of specialized insurance solutions to its clients. Francine will also be directing underwriting activities to ensure and enhance Creechurch's exceptional service and product offerings.

Francine has over 20 years experience as an insurance executive and lawyer. She began her career with a major law firm in Toronto, specializing in insurance coverage and insurance defence litigation, including professional errors and omissions claims, property and casualty claims, personal injury litigation and municipal law. She subsequently moved into the insurance industry, joining a large global insurer, as Senior Specialty Claims Counsel, handling specialty lines insurance claims. Francine spent the last 8 years in a Financial & Professional Services underwriting business unit for another large global insurer, most recently as Vice President of that business unit.

Francine holds a Bachelor of Arts from York University, an LL.B. from Osgoode Hall Law School and is a member of the Law Society of Upper Canada.

Creechurch International Underwriters, founded in 1996 is one of the leading underwriting management companies in Canada, offering specialized insurance to a wide spectrum of business sectors. Part of a large global insurance and reinsurance organization with 60 offices on four continents Creechurch underwrites exclusively on behalf of large A rated multinational insurers. Its products are distributed through licensed Canadian insurance brokers from our offices in Toronto and Montreal.

Creechurch
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GALLERY

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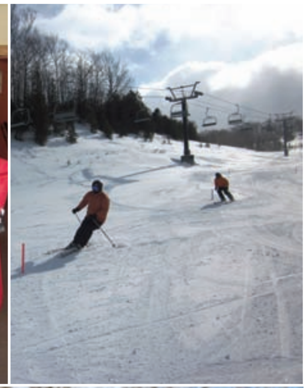
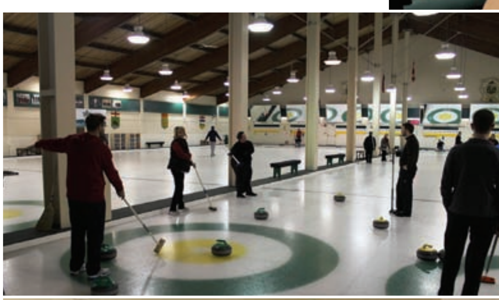


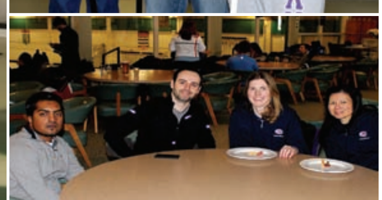
On February 27, **McCague Borlack LLP** hosted its **annual Winter Fest Celebration** at Alpine Ski Club in Collingwood, Ontario. Beyond the great downhill skiing, guests took part in snowboarding, snowshoeing and hiking activities. A great time was had by all.

GALLERY

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

The **Property Casualty Underwriters Club (PCUC)** held its **9th Annual Curling Bonspiel** at Toronto's Leaside Curling Club on February 7. The sheets were full this year with friendly competition among colleagues from brokers, insurers and reinsurers. Skip Jack Lee and "TEAM BFL" managed to clinch the highest score, while Peter Morris won this year's "Closest to the Button Contest." PCUC thanked all attendees for participating as well as sponsors for their generous donations.





APPOINTMENT

Peter Primdahl
Vice President, Specialty Operations

Rob Wesseling, Chief Operating Officer of Sovereign General Insurance is pleased to announce the appointment of Peter Primdahl as Vice President, Specialty Operations.

Peter joined Sovereign in 2010 as Assistant Vice President overseeing Central Region. He has been instrumental in creating a successful operation through his ability to effectively build and engage a talented team while developing key broker relationships.

Peter's career in the industry spans over 20 years and includes extensive technical and leadership experience in a variety of specialty segments. We are confident in his ability to provide senior leadership and strategic insight to enable us to effectively increase our presence in this market sector. Please join us in welcoming Peter to our Executive team.

Sovereign General is a Canadian owned and operated property and casualty insurer headquartered in Calgary, Alberta with 270 staff operating in eight regional and services offices from coast to coast. Sovereign provides solutions for the specialized and complex insurance needs of Canadian businesses through a national independent brokerage network. To learn more visit SovereignGeneral.com.

Sovereign General

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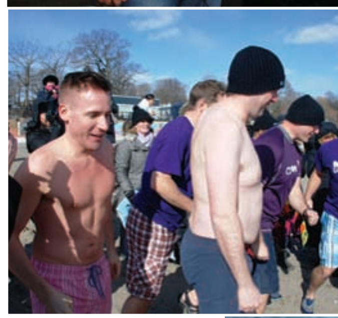
Six **RSA employees jumped into Lake Ontario** on February 26 to raise funds and awareness for **World Wildlife Fund Canada's Arctic conservation efforts**. Martin Thompson, senior vice president of global specialty lines; Mark Edgar, senior vice president of HR; Scott Tabachnick, director of external communications; Ben Buckton, brand director; Ewen Cameron, vice president of plan benefits & strategic products, Johnson; and Akhilesh Chandy, head of marketing, Central Region, Johnson; took part in a polar bear dip off the Toronto shoreline, along with WWF-Canada and other corporate supporters, as part of its National Polar Bear Week. "RSA has had a strategic partnership with WWF-Canada for many years. We have partnered together on a number of research projects and we felt this would be a unique way to support them in their Arctic conservation efforts," said Thompson. "Additionally, this is also about bringing awareness to the issue of climate change. As an insurance company, we are very much aware of the impact of severe weather on our business and industry." The polar dip took place outside the Balmy Beach Club and, at the time of the jump, the participants had raised more than $7,000 with all donations being matched by Coca-Cola.



GALLERY

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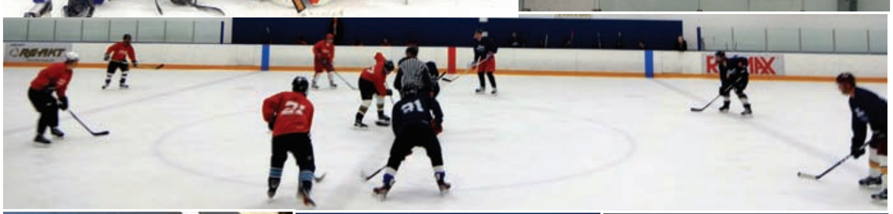
FIRST Insurance Funding of Canada held the **FIRST Championship Cup, 2014** in Burnaby, British Columbia on March 13. Select broker partners joined together for a friendly game of hockey, followed by an appreciation event at Moose's Down Under. The event was an opportunity for First Insurance Canada staff to spend the day with their broker partners and show appreciation for their continued support. In a very close competition, The Funding Fighters won the match again this year.



APPOINTMENT

Sharon Shore

Claude Blouin and Jamie Dunn, Partners at Blouin, Dunn LLP, are extremely pleased to announce that Sharon Shore has joined the firm as an associate lawyer.

Sharon was called to the Ontario Bar in 2006 after completing a CGA degree and working in a private business in the U.S. for several years.

Since becoming a lawyer, Sharon has worked exclusively in the insurance defence area, initially at a downtown Toronto law firm, then as an in house lawyer at AXA Insurance Company (now Intact) and most recently as the Director of the Litigation and Risk Management Department at Loblaw Companies Ltd. She has a broad range of litigation experience and a solid background in personal injury claims, both auto-related and slip and fall situations, and she has routinely acted for insurers on CGL claims and coverage matters. At Loblaw she oversaw all litigation/claims files and had a staff of 13.

Sharon is a member in good standing with the Law Society of Upper Canada, and is a member of the Canadian Defence Lawyers and The Advocates' Society.

Outside of work, Sharon enjoys watching all things fantasy and science fiction, attending Blue Jays games and spending time with family and friends.

Sharon's contact information is:
sshore@blouindunn.com
(416) 365-7888 ext. 149

Blouin Dunn is one of Ontario's leading insurance defence firms whose members have been providing quality legal support to the insurance community for over 30 years. We offer services in Ontario to property and casualty insurers throughout North America, at all levels of experience, at appropriate and competitive rates.

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The **5th Annual St. Patrick's Day Charity Social** was held March 13 at Grace O'Malley's Irish Pub. The event was sponsored by **SCM Insurance Services**, which includes RMS, OPTA, ClaimsPro, CIRA Medical Services and Forensic Investigations Canada. More than 400 insurance industry professionals enjoyed live music, refreshments and appetizers at the sold-out event. More than $4,000 was raised for the Juvenile Diabetes Research Foundation over the course of the evening.