CANADA'S INSURANCE AND RISK MAGAZINE. CANADIANUNDERWRITER.CA

CANADIAN UNDERWRITER

FEBRUARY 2015
PM40069240

Bringing Data Home
BY CRAIG HARRIS

Drone On
BY JOE COLBY & NELLIE ROOT

Cognitive Thoughts
BY JAMIE BISKER

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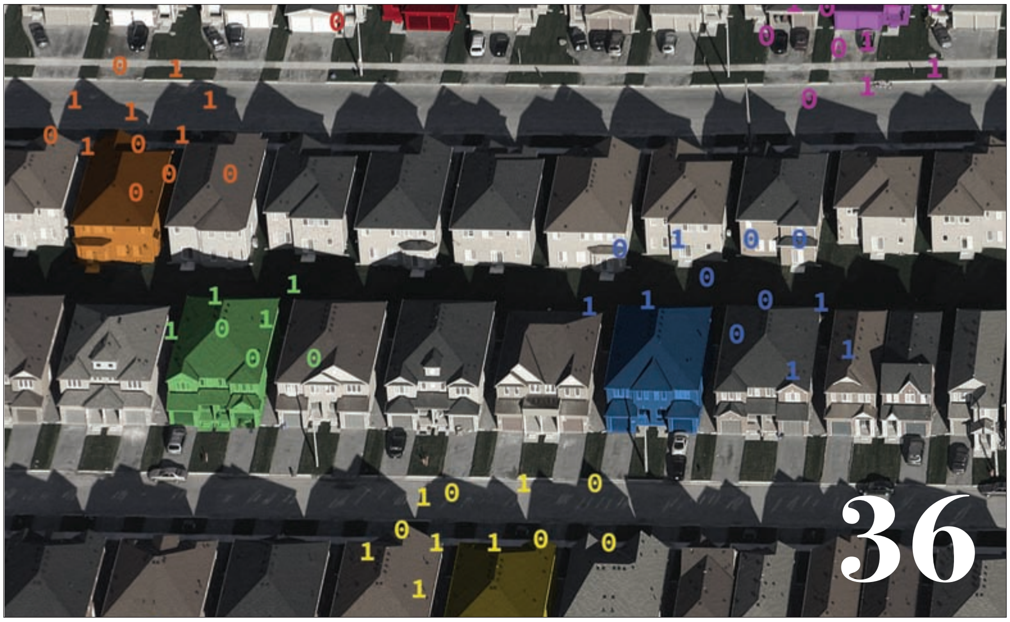
CANADIAN UNDERWRITER

VOL. 82, NO. 2, FEBRUARY 2015

CANADA'S INSURANCE AND RISK MAGAZINE.
PUBLISHED BY
NEWCOM BUSINESS MEDIA INC.

www.canadianunderwriter.ca



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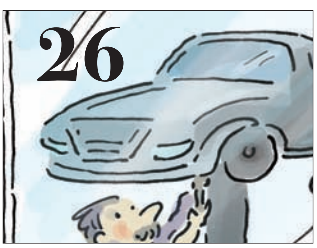

VOL. 82, NO. 2, FEBRUARY 2015

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Photo: Patrick Thompson

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INSURANCE MEDIA GROUP
CANADIAN UNDERWRITER
InsuranceMediaGroup.com

CU80Years.com
CANADIAN UNDERWRITER.ca

Published by
NEWCOM
NEWCOM BUSINESS MEDIA INC.

Canadian Underwriter is published thirteen times yearly (monthly + the Annual Statistical Issue) by NEWCOM BUSINESS MEDIA INC.

Canadian Underwriter is located at 80 Valleybrook Drive, Toronto, Ontario, M3B 2S9
Phone: (416) 442-5600.

© Published monthly as a source of news, technical information and comment, and as a link between all segments of the insurance industry including brokers, agents, insurance and reinsurance companies, adjusters, risk managers and consultants.

Subscription Rates: 2013 Canada
1 Year $49.95 plus applicable taxes
2 Years $73.95 plus applicable taxes

Single Copies $10 plus applicable taxes

Elsewhere
1 Year $73.95

Annual Statistical Issue
(included with above subscription)
or separately $38 plus applicable taxes

Subscription Inquiries/Customer Service
Bona Lao (416) 442-5600 ext 3552
blao@bizinfogroup.ca

GST Registration number 890939689RT0001
Second Class Mail Registration Number: 08840
Publications Mail Agreement #40069240

Return undeliverable Canadian addresses to:
Circulation Dept.
Canadian Underwriter
80 Valleybrook Drive, Toronto, Ontario
M3B 2S9

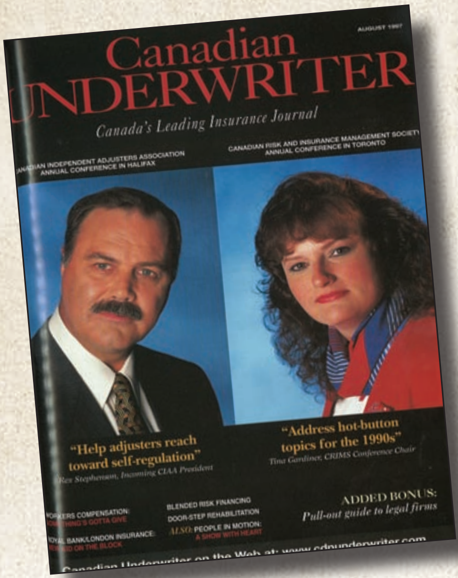
We acknowledge the financial support of the Government of Canada through the Canada Periodical Fund of the Department of Canadian Heritage

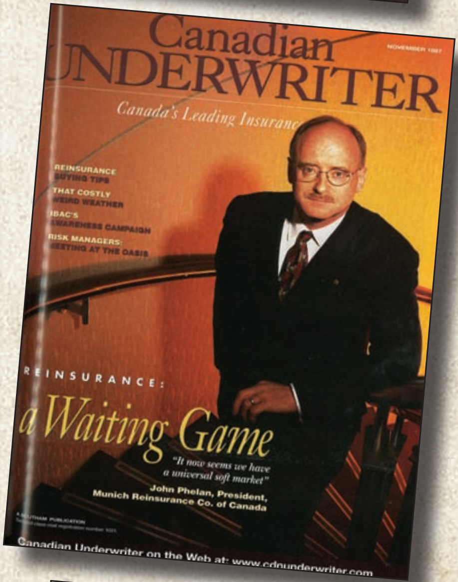
Canada

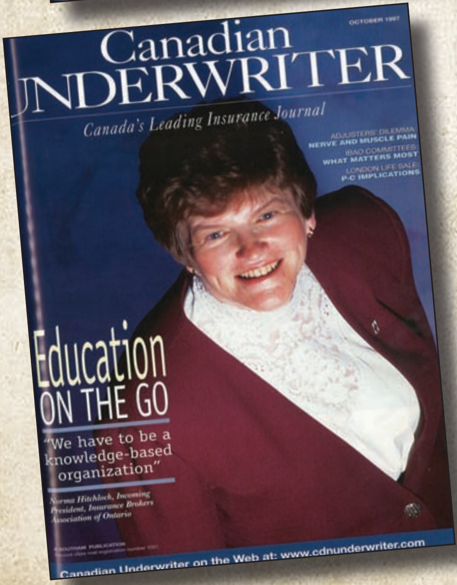
Alliance for Audited Media

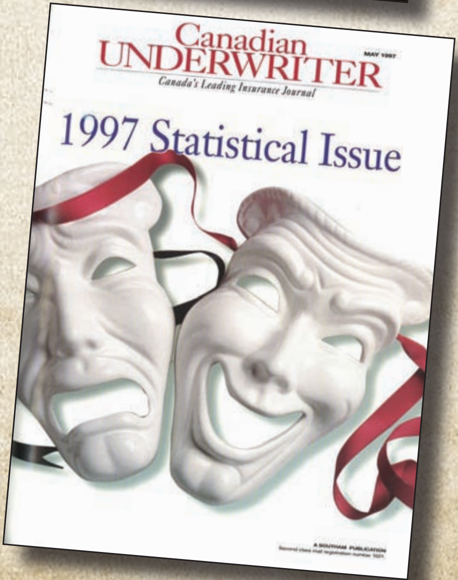
ISSN Print: 0008-5251
ISSN Digital: 1923-3426

CU80Years.com Covers: 1997









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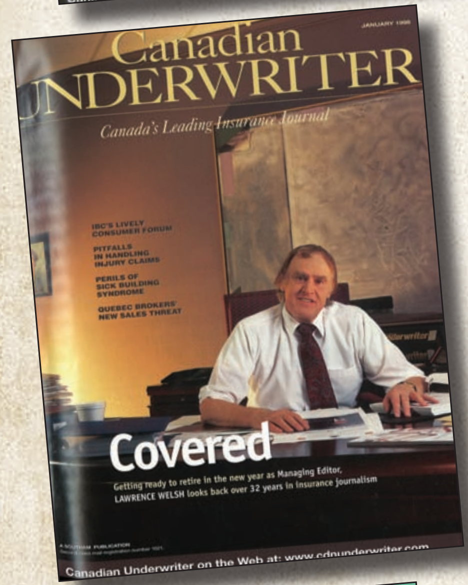
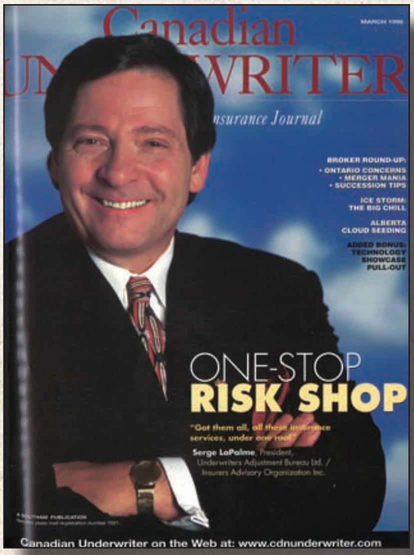
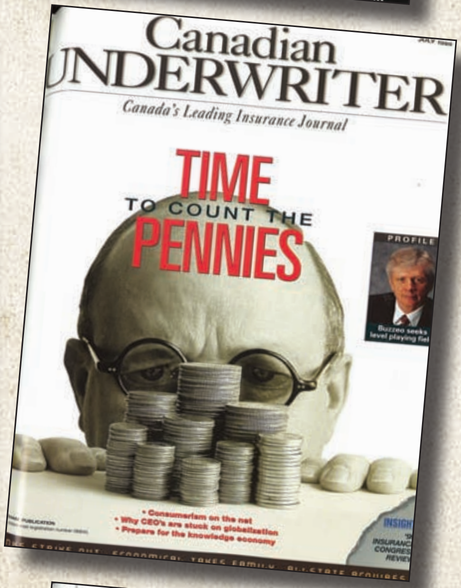
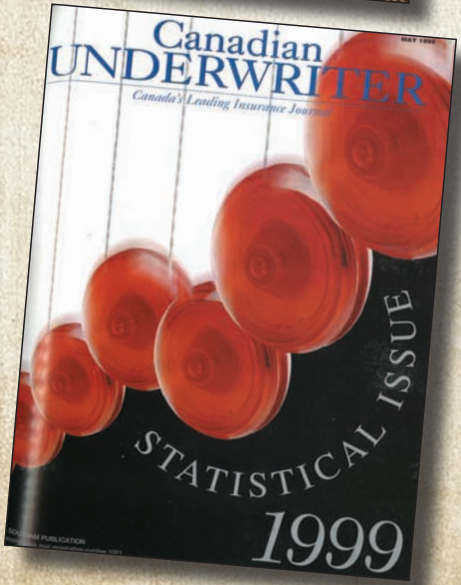








CU80Years.com Articles: 1984

BY ANGUS H. ROSS, SENIOR VICE PRESIDENT, THE NATIONAL REINSURANCE COMPANY OF CANADA

Do we need the Ontario Insurance Exchange?

The Canadian insurance industry in recent years has operated in the most natural of fashions; just as nature abhors a vacuum, so Canadian underwriters also seem to eschew an underwriting profit. Net results of the industry (private sector) over the past five years can be seen in Table 1. An analysis of companies' gross figures suggests that the overall result of the entire market is substantially worse.

TABLE 1

are for agents and brokers. In no special order, they are:

- Which company has the best overall system?
- How best can I make use of it?
- What hardware and software will I need?
- Can I interface easily and efficiently?
- What's in it for me?

The fundamental considerations for the brokers are to:

- Be aware of what technology is available to help him become more productive;
- Know the needs of his or her business;
- Match these needs with the technical solution;
- Identify the net benefits both in the short and long term;
- Maintain a balanced transition in moving to the new system, and the new way of handling business.

Before deciding on a system, agents and brokers should give serious con-

FIREMAN'S FUND INSURANCE COMPANY OF CANADA

James L. Kirschbaum, President and Chief Executive Officer of Fireman's Fund Insurance Company of Canada, is pleased to announce the appointment of Noel Walpole, FIIC, as Resident Vice-President and Manager of the

Canadian Association of Insurance Women hold annual meeting

(Above): Iain K. Galbraith, vice president marketing, Canadian Surety, presents Sherry Gerber of Waterloo County Insurance Women's Association with the trophy as winner of the Public Speaking contest.

(Above): Newly elected CAIW executive (from right) past president Mildred Kowalchuk, Toronto Insurance Women's Association; president Betty Walker, Nova Scotia Insurance Women's Association; first vice president Margaret Stanton, Hamilton Insurance Women's Association; second vice president Joan Hall, Windsor Insurance Women's Association; secretary Irene Dunbar, London Insurance Women's Association; treasurer Gail Stanton, Saint John Insurance Women's Association.

EDITORIAL COMMENT

BY KENNETH E. MacLEOD, MANAGING EDITOR

Big Brother Bank?

If he was alive today, one wonders what George Orwell — author of 1984 — would predict for the year 2084, remembering that he died before the advent of the computer.

What would he think, for example, about the idea of a one-stop financial services outlet, backed up by a centralized computer network loaded with personal and business information about you and I and everyone else, and controlled by one super bank in Canada. The other banks, you understand, having been merged in the interests of efficiency.

Big Brother Bank?

Far fetched, you might say. But is it?

When this writer was growing up, it was unthinkable to ask a person how much money he/she was making — if he/she was working at all during... sion. That sort of information...

Well now, the term "status quo", through innuendo, has reached the point where it conjures up a picture of progress being held up by entrenched and self serving interests, and no organization wants to be associated with it. However, a degree of personal and business privacy and individual freedom is also a part of the status quo in this country, at the moment, and represents something that Canadians are not prepared to give up willingly.

Lobbyists working on behalf of the industry might keep in mind that the concern of Canadians about the... economic...

PILOT INSURANCE COMPANY

STUART M. KISTRUCK

Mr. B. Greenslade, President & Chief Executive Officer of Pilot Insurance Company announces the appointment of S.M. Kistruck as Vice-President, ...troller and Corporate Secretary. ...joined the Company

authorities and the boards of directors of the companies involved.

Anglo-Permanent Corporate Holdings Limited provides management, investment, computer, actuarial and administrative services principally to its subsidiaries, Laurier Life Insurance Company and A & C Insurance Brokers Limited. Its consolidated assets are approximately $9.4 million.

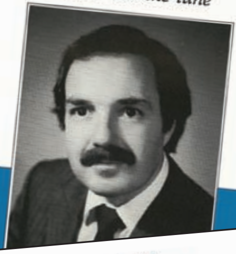
Laurier Life is a federally-chartered life insurance company. Its head office is in Toronto and it deals through brokers in Quebec, Ontario, Manitoba, Alberta and British Columbia. Assets are $7.4 million and insurance in force is $1,072,000,000.

A & C Insurance Brokers sells property/casualty insurance to Laurier Life groups. Assets are $396,000.

Imperial Life is a Canadian life insurance company of which more than 99 per cent of the common shares are held by The Laurentian Fund Inc., a member of The Laurentian Group of companies.

The company directly and through subsidiaries offers a range of life, health and annuity products to individuals and groups in Canada.

Reinsurance: *Profits call the tune*



ONTARIO GENERAL INSURANCE COMPANY

G.S. (STEVE) SMITH

Alan G. Symons, President Of Ontario General Insurance Company, is pleased to announce the appointment of G.S. (Steve) Smith as General Manager for Ontario General Insurance Co... The Sym...

Springfield in 1959 at age 65 but actually they put him on full pension a year earlier when it became apparent he would not agree to cancel out the general agents the company had profitably used for years in the Maritimes, Saskatchewan and British Columbia as recommended by a team of American efficiency experts from Head Office. Then and now Llew believed, at that time and in those territories, general agents made sense.

"There were tremendous changes that took place in my time" he said. "When I started in Saskatchewan a lot of the insurance business was controlled by mortgage companies who dictated where insurance would be placed and who often had arrangements with big general agents like Osler, Hammond & Nanton or Black & Armstrong. Very Powerful. I was busy in Winnipeg lobbying for the legislation that eventually broke their hold on this business.

"But let me tell you the greatest experience of my career," he continued. "I was President of the Canadian Underwriters' Association from 1953 to 1954 and at the end of my term, Roy Whitehead, then Insurance Superintendent of Insurance in O... me to be...

ling. "That does it."

Fred Bossons Appointed Canadian Co-ordinator for RIMS

On January 1, 1984, Fred Bossons succeeded Donald M. Stuart as Canadian Co-ordinator for the Risk and Insurance Management Society (RIMS) headquartered in New York.

Don Stuart left an enviable legacy since becoming the first to fill this position when it was created in 1979. Along with his professional efforts in the areas of legislation, education, research, industry liaison and promotion of membership in RIMS, he succeeded in doubling the number of Canadian Chapters to ten.

Fred Bossons is well qualified to continue the mandate of Canadian Co-ordinator to help Canadian members maximize the benefits of corporate membership in RIMS and to promote the aims of risk management in general.

Fred graduated from the University of British Columbia with a...

With this kind of background it is not surprising that Fred is a strong believer in continuing education. He supports the Insurance Institute Associateship and Fellowship programs

and especially the Canadian Risk Management (C.R.M.) course offered by the Canadian Chapters of RIMS in co-operation with the University of Toronto and McGill University in Montreal.

He hopes to continue the good work begun by Don Stuart and to assist in the growing movement to have risk managers achieve a more significant place in the corporate structure. He would also like to see more meaningful input by risk managers in employee benefits matters.

Fred and his wife Irene now live in Nepean, a suburb of Ottawa. Their 20-year-old son, Bruce, is a third year economics student at Carl...

CONTINUED FROM PAGE 26

through the 1970's: 2.1%; 1980/81: 1.8%; and 1982: 1.9% — again, a very stable position, and solid evidence of stability and maturity.

In considering the overall financial strength of the industry, please make the necessary distinction between unsatisfactory profit levels (which have been common) and a continually more than satisfactory balance sheet position. For example, looking at the years 1970 to 1983 the industry in Canada produced underwriting losses of $3.1 billion. This was offset by investment income of $7.3 billion. As a result, during those 14 years the industry added $4.0 billion to capital and surplus, 70% of which was generated from retained earnings, with 20% coming from new share capital and contributed surplus. Our industry, indeed, has a very strong balance sheet position.

More direct evidence of the adequacy of the industry's financial position is shown by examining more recent data for the past 5 years. From 1979 to 1983 net written premium growth in Canada was substantial at 50.0%. However, during the same time the equity or capital and surplus account of C-P insurers grew by 55.0%. Invested assets increased by just over 150%.

strength is growing faster than premium writings.

Our Industry generally has always been and will continue to be very adequately reserved for both claims and unearned premiums, and the assets behind those reserves are of the highest quality, as required and controlled by government regulation. As of December 31, 1982, 65% or two-thirds of those assets were invested in Federal, Provincial, Municipal and Corporate bonds — recognized as first class investment experts and prescribed by government authorities.

The recent problems of a very small number of C-P insurers cannot be overlooked — indeed, they have caused our entire industry, from insurers to producers, to become much more sensitive to financial integrity. However, in total I believe our industry's financial position and ability to meet its obligations is very strong.

In addressing the area of thoughts for insurance purchasers in monitoring the financial security of insurance carriers, a starting point — at the risk of being overly simplistic — is the age old axiom of "don't buy solely on the basis of price". Evaluate also the financial strength and track record of the insurer involved. The dilemma, however, is that the financial evalua-

SYMONS GENERAL INSURANCE COMPANY

J. CAMERON, F.I.I.C.

G. Gordon Symons, Chairman of The Board and Chief Executive Officer of Symons General Insurance Company is pleased to announce the appointment of James Cameron, F.I.I.C., Claims Manager for Toronto Branch. Symons General Insurance Company...

Self regulation arrives in B.C.

B.C. Agents Executive Committee: (from left) Bob Jones; Harry Golden, vice president; Barry Amies, president; Derek Francis, past president; Sandy Neilson.

is relatively simple since they only police real estate agents and their principals or proprietors. However, to have one insurance council speak for five diverse insurance groups is quite another matter. Lumping the interests of the property casualty insurers, the life insurers, the insurance adjusters, the life agents, and the other-than-life agents into one pot may make for quite a stew.

George Rickart, Secretary of the Insurance Council of B.C. thinks not. He points out that the Council has been operating since 1936 and the nine members, who are appointed by Order in Council, agree that their main function is to protect the public and that they get along very well. There are two members each from the life companies, the life agents, the general insurance companies, the general agents, and one member from the adjusters. The permanent staff consists of five to run the office. The

IBAO honours top students

At the Basic Broker Registration Course sponsored by the Insurance Brokers Association of Ontario, at the School of ... four students won cash awards for ...

left, others are Keith Hodgson, I.B.A.O. staff; Peter Acmens, Regional Vice-President, Phoenix Continental Management Limited, donor company of the awards and Bob Coughlin, Asst. Regional Manager, Phoenix Con...

Atlantic Alliance Meets.

"I'se the b'y that builds the boat,
And I'se the b'y that sails her!
I'se the b'y that catches the fish
And takes 'em home to Lizer."

The b'ys and gals that place the insurance coverage on the boats, and homes and cars and businesses, in Newfoundland, Nova Scotia, Prince Edward Island and New Brunswick, gathered in St. John's, Nfld., during October for the fourth convention of Atlantic Alliance. It was, as they say in Newfoundland, "some good."

The theme of the meeting was "search for excellence" and in pursuit of it the organizers of the event brought in Don Eve, Eve Insurance Agency Inc., Flint, Michigan, who held a day long seminar on "agency business management", and Blyth Brown, Canadian General Life Ins. Co., and Claudette Deschesnes, Gaulin Leveille et Associes Inc., whose presentation was entitled "total account marketing".

In addition, Robert Morgan, Sovereign General Insurance Company, was on hand to present a witty and well received talk on "motivation — developing excellence."

Luncheon speakers were Thomas F. Fagan, Superintendent of Insurance for Newfoundland, and Pat Dunphy, newly elected president of the Canadian Federation of Insurance Agents & Brokers Associations.

The Insurance Bureau of Canada film "Drunk Driving — 1984" was also a feature.

The most telling statistic produced by Mr. Brown in urging agents and brokers to add life insurance to the general insurance lines they sell was that surveys show that the retention rate where one agent had all an in-

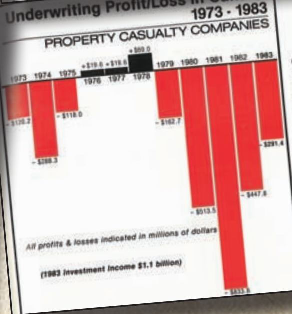
sured's business was "95%."

Chaired by Lloyd King of St. John's, the Atlantic Alliance convention committee consisted of Blain Leonard, Ian Campbell, Bren Paul, Betty and Doris Cook and Daphne Mullaly. (pictured below).

(Below) Claudette Deschesnes and Blyth Brown

BY GERALD A. WOLFE, JR., FACULTATIVE MANAGER, CASUALTY & SPECIALTY PRODUCTS DIVISION, GENERAL REINSURANCE CORPORATION

Umbrella Underwriters Beware!



yes Und. Profit, no

"The Lord gave and the Lord hath taken away." - **Job 1, 21**

For a heady six months it looked as though the property-casualty insurance industry in this country would end up in the black on its 1983 underwriting portfolio.

A balmy spring (by Canadian standards) and a sluggish economy had combined to produce a halfway earned loss ratio of 65%, a combined ratio of 98.2%, and according to STATS Canada, a very acceptable underwriting profit of approximately $62.7 million.

Things were looking great.

Then the roof caved in.

The economy began picking up and so did auto claims frequency.

The result at yearend for the primary prop.-cas. markets (excluding the life and purely accident and sickness companies) was an underwriting loss of $291.4 million (−$447

QUOTABLE QUOTES

FROM FEDERATION

Robert Viau
Chairman of the Board

"I think that our future is bright but all of us will have to accept and digest a few changes. We will have to be closer to our customers and make sure that they know we are at their side. We will also have to deal with fewer insurers. This does not mean that we have to become captives..."

Tom Dutton
Chairman, Professional Development Committee

"The A.I.B. programme will be launched in selected areas of British Columbia, Saskatchewan and Ontario. The first semester of courses will be delivered in the spring of 1985. Other provinces and locations will be able to come into the programme within a further four to six months..."

Ron Griffiths
CIABA Representative on Facility Association

"The charts indicate that Facility Association insures 2.83% of the automobiles insured; in fact, that percentage is slightly depressed because the industry include Newfoundland and the Territories where the F.A. is not yet operative..."

The Canadian Insurance Claims Manager's Association held its annual meeting in Calgary, Alta., recently and the new slate of officers elected are shown above. Standing, left to right are Glenn Rogers, Wawanesa Insurance, Director; Andre Mallette, La Prudentielle, Director; Lorne McCubbin, Dominion of Canada, Treasurer; Ken Craig, Co-operators Insurance Services, Director; Bill White, Laurentian Pacific Insurance, Director; and Neil Stuart, General Accident, Director; and seated left to right, Claude Blais, Les Cooperants, Vice President; Brian McNabney, Hartford Insurance, President; George Bryant, United States Fidelity & Guaranty, Secretary; and Claude Guevremont, Guardian du Canada, Past President

Now largest Canadian-owned broker
Morris & MacKenzie keeps growing

By LAWRENCE WELSH

Now that control of Reed Stenhouse Cos. Ltd. and Tomenson Saunders Whitehead Ltd. has gone to U.S. owners, can the sale of Morris and Mackenzie Ltd. be far behind?

With annual premium billings of more than $60-million and revenue at close to $9-million last year, Morris and Mackenzie, now Canada's largest independent insurance broker, appears to be a juicy plum.

But it just won't happen, says Frank Dougan, the firm's president. The company's owners are set against selling and, more positively, markets are definitely looking more spring-like for insurance brokers in Canada.

Not that Morris and Mackenzie lacks suitors. "We have already had three approaches — two from U.S. companies and one from a British concern — since the turn of the year. But, given our control set-up, we cannot be acquired, as long as we resist," he said in an interview.

... courted. Many will be absorbed, but those firms that specialize and hire sharp guys will find a niche."

Mr. Dougan has been quick on his feet to follow his own advice. "In 1984, our staff was increased by 8 per cent to 168 persons. The new hirings included two professional engineers and two qualified risk management consultants.

"In the area of high tech, we completed the installation of an automatic policy insurance program in our Montreal office and plan to install the program in our other offices, once testing has been completed. In Toronto, our computerized claims reporting and analysis program has been enhanced with the addition of a graphics capability. In Vancouver, we added a computerized time accounting system for fee billing of unbundled risk management and brokerage services."

Canadian brokers must compete in a domestic market now dominated by five multi-national brokers that control more than one-third of the commercial insurance business placed in the country.

"If we and other Canadian brokers are to compete effectively with these mega-brokers, what we lack in size and market clout, we'll have to make up for in determination, aggressiveness, marketing skills, professional ...

Dougan added. The market has been tightening dramatically, with commercial property premiums up 10 to 15 per cent and premiums for standard specialty risks up 20 to 25 per cent.

Commissions from new business, especially in the large specialty and umbrella coverages, directors and officers liability and errors and omissions coverages are showing hefty gains.

For the first four months ended Jan. 31, Morris and Mackenzie recorded a 24 per cent rise in revenue, he said. Total billings showed a 20 per cent

CONTINUED ON PAGE 46

DOUGAN

"We cannot be acquired as long as we resist."

SOVEREIGN GENERAL INSURANCE COMPANY

GERALD T. SQUIR

Economical to buy building

Economical Mutual Insurance Co. of Kitchener has entered into an agreement to purchase the head office building of the Dominion Life Assurance Co. of Waterloo. The transaction will not close until mid-1988. In February, Manufacturers Life Insurance Co. purchased Dominion Life. Since then, Manulife's preferred option has been to find a buyer for the Westmount Building who did not need immediate occupancy. By the end of 1986, Manulife expects to have about 850 employees in four separate locations in Waterloo and Kitchener as a result of the merger. This situation will be for the short term as Manulife is currently considering several sites for a new building to house its Canadian operations.

NOTE

The article on Transborder Data Flow (June, 1985) was a summary reprinted from the Canadian Computer Law Reporter article by the authors and was originally published in November, 1984. It was reprinted with permission of the Canadian Computer Law Reporter.

SUN ALLIANCE INSURANCE

BARBARA HAYNES

J.W. Evans, A.I.I.C., President, Sun Alliance Insurance Company, is pleased to announce the appointment of Barbara Haynes, A.I.I.C., as Assistant Branch Manager at the Central Ontario Branch, Toronto.

GRAIN INSURANCE AND GUARANTEE COMPANY

R. LYALL HANDFORD

A.C. Affleck, F.I.I.C., President of Grain Insurance and Guarantee Company is pleased to announce the appointment of R. Lyall Handford, A.I.I.C. as Vice-President — Marketing & Underwriting. Mr. Handford has served as Marketing manager since joining the company in 1981.

Grain Insurance and Guarantee Company is a Canadian owned federally licensed company specializing in insuring grain handling facilities and commercial group accounts on a Canada-wide basis.

CRAWFORD & COMPANY

DONALD N. HULL

T.G. Germany, Chairman & Chief Executive Officer of Crawford & Company Insurance Adjusters Ltd. is pleased to announce the following promotion in the Company's Canadian Head Office in Toronto, Ontario.

Donald N. Hull has been appointed to the position of Vice President & General Manager for Canada. A graduate of the University of Western Ontario, Mr. Hull joined the Company in its London office before transfer to the Toronto branch in 1973. There he served as Supervisor and Assistant Manager. He was appointed Branch Manager, Kitchener, Ontario in 1978 and subsequently became Hamilton Branch Manager from 1981 to 1983. Immediately prior to his current appointment, Mr. Hull served as Director of Marketing for Canada. In his new capacity he will sit on the Company's Canadian Board of Directors.

Mr. Hull presently acts as the Company's representative on the National Executive of the Canadian Independent Adjusters' Association and is also a member of the Appraisal Centre Steering Committee Insurance Bureau of Canada.

Crawford & Company is a leading provider of Risk Management Services to both the insurance and corporate markets, having 40 locations throughout Canada, and 650 locations throughout North America.

Pictured at the official opening of Holman Insurance Brokers Ltd. of Markham, Ont., are from left to right, Mark Holman, Christopher Holman, Paul Holman and Frank Holman, front row Mayor Carole Bell and Sylvia Holman.

"KEN MACLEOD RETIREMENT ROAST"

This montage of happy faces is ample proof that the Ken MacLeod farewell roast more than lived up to its advance billing. After picking up the tab for the Nova Scotia salmon dinner that delighted all the friends, colleagues and guests who attended, the remainder of the ticket fund was invested in a special project, reports Jan Lowther. A few weeks from now, Ken and his delightful wife Clare will be winging it to one of the most beautiful holiday spots in the world—the Canary Islands.

BY KENNETH E. MACLEOD

NO RELIEF IN SIGHT for battered property-casualty insurers.

... the hail and tornado losses that came on ... first quarter, president Ted ... Organization

SYMONS GENERAL INSURANCE COMPANY

J. TOD SLOAN — J. ROBERT TISDALE

Alan G. Symons is pleased to announce the following appointments to the management company of Symons General Insurance Company: J. Tod Sloan to Branch Manager, Canadian Central Region; J. Robert Tisdale to Assistant Branch Manager, Canadian Central Region. Mr. Sloan comes to us with many years experience in the property/casualty field. Mr. Tisdale has been with our group since 1980 and recently was awarded the F.I.I.C. designation along with the James Richardson Award. Symons General Insurance Company is a major in ... of property/casualty insurance.

... tion so far as it is in their power". Most provincial Insurance Acts provide for "investigation of insurers." ... the same effect as the federal ... duties are increased in two respects. First, there is a duty to furnish information with respect to any contract of insurance on request of the Superintendent. Second, an insurer must produce its "books and records" at its head office or chief office in the province, or at such other convenient place as the Superintendent directs. ... In the event that the "convenient place" is out of the province, the insurer bears the expense of the examination there by the Superintendent.

At the time of enactment of most federal and provincial insurance statutes, computers were not in use in the insurance industry. Documentary record-keeping was the normal industry practice. Therefore, the federal legislation used phrases such as "records and documents," "original records and documents," and "books, records, vouchers, receipts and other documents" ...

... posures they face.

... times previous levels.

"Given the rather high loss reserves set up this year, plus the fact that the 1984 experience is beginning to have an impact on the market, liability insurance premiums are expected to harden quickly," said Art Despard, senior vice-president of Reed Sten-

... Established reinsurers have been turning away business if they are not satisfied with the terms in an effort to improve the underwriting results of the market. North American insurers are trying to retain their business in

LAWRENCE WELSH,

Ken MacLeod, managing editor, is pleased to announce the appointment of Lawrence Welsh as associate editor of both Canadian Underwriter and its sister publication Pensions & Benefits. ...

Brokers! It's time for real time

INSURANCE BUREAU OF CANADA APPOINTMENTS

HENNING M. NORUP, A.I.I.C. — STANLEY I. GRIFFIN, M.A. — DAVID E. JACKSON, F.I.I.C.

Robert L. Monte, Vice-President, Insurance Operations, Insurance Bureau of Canada, is pleased to announce the appointment of Henning M. Norup to the position of Assistant Vice-President, Claims and Field Services; Stanley I. Griffin to the position of Manager, Economic Research, and David E. Jackson to the position of Manager, Insurance ... Insurance Bureau of Canada is the association of private general insurance companies ...

LaPalme takes the helm at Gore Mutual

He is counting on two new products a year and expense reductions to improve margins.

By LAWRENCE WELSH

Serge LaPalme comes to the presidency of Gore Mutual Insurance Co. with unusual credentials. ...

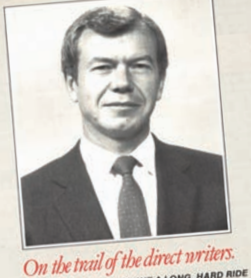
... Maritimes) for Allstate Insurance Co. of Canada, a leader among the direct-writing insurers. For an independent agency company, now with operations confined to Ontario, Alberta ...

However, Gore chairman George Egoff moves quickly to dispel any misconceptions. Mr. LaPalme, who replaced the retired Donald McKay as president in November, "was hired ...

Farewell to an old friend

Ken– Thanks for the memories. Your wit wisdom and insight will long be remembered. May you enjoy an easier life!

The Board of Directors and staff of the INSURANCE BROKERS ASSOCIATION of ONTARIO



On the trail of the direct writers.

BROKERAGE COMPANIES HAVE A LONG, HARD RIDE TO IMPROVE EFFICIENCIES, ... MCARTHUR OF SAFECO INSURANCE COS.

... WELSH

As U.S. and British insurance companies move to eliminate pollution from the general liability form, their Canadian subsidiaries will follow and the market will shrink. While the role of insurance is unclear at this time, "what is clear is that if we continue to offer occurrence pollution coverage, we are signing on for future liabilities, the extent of which we cannot estimate, and we are jeopardizing the very existence of our organizations," warns a specialist in the field.

Pollution is a bitter, if not lethal, pill for insurers.

BY MICHAEL MCLACHLAN, CASUALTY MANAGER, PHOENIX CONTINENTAL MANAGEMENT LTD.

How the Private Companies Rank (Total Business) (Excluding Life & Purely A&S Companies & Their Business) (Net Writings over $1 million)

	% of Market	This Year's Volume	% Inc. Dec.
Co-Operators General	5.64	440,740,000	+2.83
Royal Insurance	5.16	403,016,000	+7.74
Lloyd's Non-Marine	4.62	360,985,000	+5.90
Economical Group	3.25	254,006,000	+7.00
Travelers Canada	3.16	246,710,000	+6.89
Allstate of Canada	3.14	245,457,000	−1.59
Wawanesa Mutual	3.10	242,372,000	−2.16
General Accident	3.09	241,605,000	+8.69
Commercial Union	2.92	228,349,000	−8.96
Phoenix Continental Management	2.75	215,313,000	+0.81
Prudential Assurance Group	2.62	205,233,000	−1.96
State Farm	2.53	197,969,000	+12.52
Zurich Canada	2.47	192,886,000	+1.56
Wellington Insurance (Fireman's)	2.13	166,306,000	−2.94
Guardian Insurance	2.09	163,642,000	+11.82

... It is that approach ironically seems to be reinforced in the ... case.

There is at most a remote taint of discrimination in auto insurance statistics. First, there is no question of discrimination against any race, etc. Second, overt discrimination against this particular individual cannot be proven, as in favoritism in a ... for statistics deal with ... This leaves the vague matter of inadvertent discrimination against individuals. This is an unintentional ... of the correlation of age or ... with accident rates. Specific individuals are not involved by name. They are implicated in a highly indirect fashion, that is, only as members of an age or sex group. ... to speak of discrimination against individuals beggars belief. It is an abuse of the law to make findings on such logically loose linkages.

Nor can one charge unconscious, "systematic discrimination" against groups, of the kind noted in the Abella report on employment equity, especially if the statistics used represent a fair, representative sampling. One might claim that the classifications represent discriminatory stereotypes. But as long as the accident rates actually do correlate with age and sex this too is stretching the point. For if ...

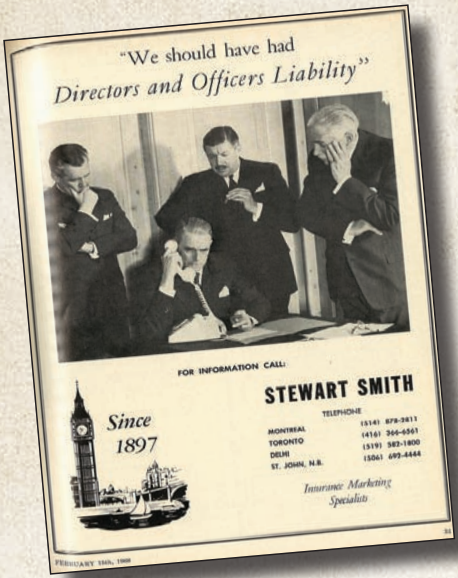
CRAWFORD & COMPANY INSURANCE ADJUSTERS

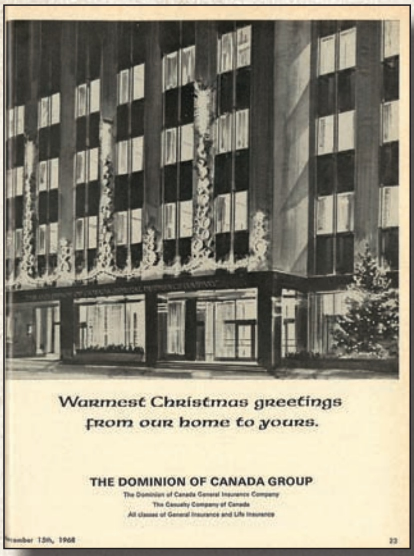
MARTIN D. PINNEY — CAMERON R. LOWTHER

Donald N. Hull, Vice President & General Manager for Canada of Crawford & Company Insurance Adjusters Ltd. is pleased to announce the following appointments to its Canadian Head Office in Toronto, Ontario.

Martin D. Pinney has been appointed to the position of Assistant Operations Supervisor. A graduate of the University of Waterloo, Mr. Pinney has served nine years with the Company, involved primarily in claims services in London and Toronto. Prior to his recent appointment he was a Branch Supervisor in Toronto, a position he held since 1982.

CU80Years.com Advertisements: 1968





World gathering

International insurance seminar to attract world's top insurance executives

Dr. Norman Hackerman, Vice Chancellor for Academic Affairs of The University of Texas, has announced that Austin, Texas has been selected as the site for the fourth annual International Insurance Seminar.

The Seminar, which annually attracts hundreds of top insurance executives and educators from throughout the world, will be held April 7-11, 1968.

It was conducted in London last year, and Honolulu in 1966.

The decision to hold the 1968 Seminar in Austin was reached following discussions between Dr. Harry Ransom, Chancellor of the University of Texas, and members of the Board of Governors of the International Insurance Seminars, which has among its membership representatives from fifty-five countries.

"The International Insurance Seminar provides a medium for the exchange of ideas and views on managerial and technical subjects among the top executives of insurance-related organizations throughout the world," Dr. Hackerman stated, "and we are delighted that these international industry leaders and educators have chosen Austin for their 1968 meeting."

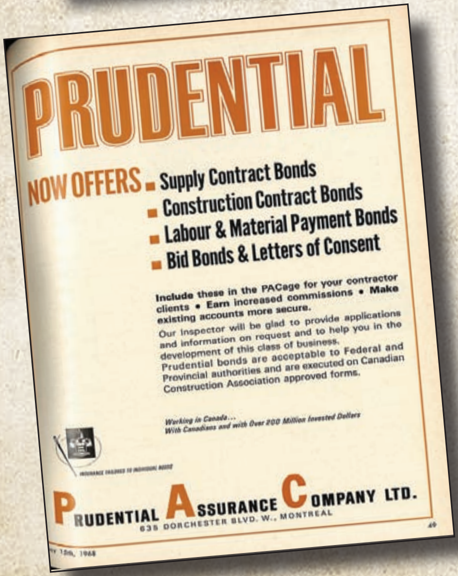
Sessions of the five-day international meeting will be conducted on the campus of The University of Texas at Austin, and at the Commodore Perry Hotel, in downtown Austin.

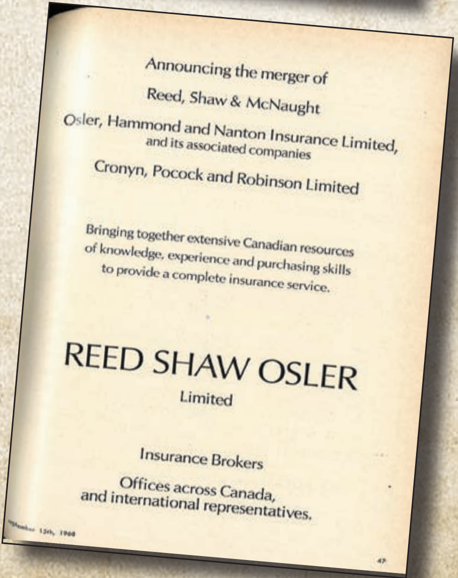
Several social events, including a trip to the HemisFair in San Antonio, are being planned for Seminar participants and their families.

Dr. Hackerman announced that Dr. John S. Bickley, Chairman of the Department of Finance at The University of Texas at Austin, has been designated as Director General for the Seminar.

Other major assignments, announced by Dr. Hackerman, include: Chairman, Program Directorate, Benjamin Woodson, President American General Insurance Company, Houston, Texas; Chairman, Development Directorate, Charles R. Rathbun, President Ranger Insurance Group, Houston, Texas; Chairman, Logistics Directorate, Harold E. Riley, President National Western Life Insurance Company, Austin, Texas; Chairman, Protocol Directorate, Dr. Melvin D. Jones, President American Founders Life Insurance Company, Austin, Texas; Secretary General, Lewis R. Timberlake, President Western Republic Life Insurance Company, Austin, Texas; and Director of Public Relations, Dave Smith, Austin, Texas.

The International Insurance Seminars are administered at The University of Texas, where the idea of bringing together top insurance leaders and educators from throughout the world originated, and where the first such Seminar was held in April 1965.





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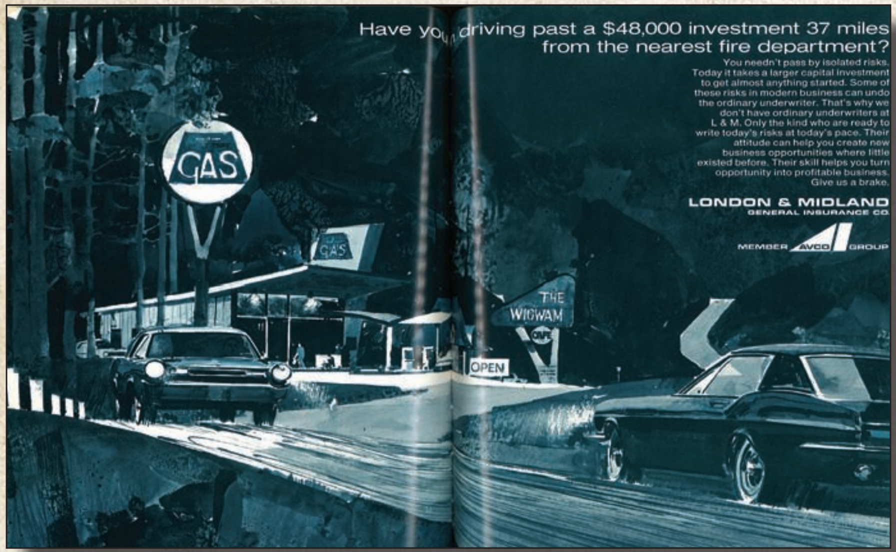
1934 - 2014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You needn't pass by isolated risks. Today it takes a larger capital investment to get almost anything started. Some of these risks in modern business can undo the ordinary underwriter. That's why we don't have ordinary underwriters at L & M. Only the kind who are ready to write today's risks at today's pace. Their attitude can help you create new business opportunities where little existed before. Their skill helps you turn opportunity into profitable business. Give us a brake.
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EDITORIAL

Huffing and Puffing

"Competition in the insurance industry could quickly intensify as consumers become open to buying insurance not only from traditional competitors, such as banks, but also from Internet giants."

Angela Stelmakowich
Editor
Canadian Underwriter
astelmakowich@
canadianunderwriter.ca

Is the big bad wolf coming? Perhaps yes; perhaps no.

All the talk of Google entering/possibly entering the insurance market — depending on one's locale — has created quite a stir.

"Google is getting the approval for selling insurance on their compare site in a large number of states via a number of different insurance partners," Denise Garth, a partner with Strategy Meets Action (SMA), writes in a recent blog.

A survey from Accenture, issued a year ago, showed that 67% of polled insurance customers would consider purchasing insurance products from organizations other than insurers. The survey attracted responses from 6,000-plus customers in 11 countries, and multiple responses could be given.

In all, 43% of respondents reported they would consider buying insurance from banks, 23% from online service providers like Google or Amazon, 20% from home service providers such as telecommunications or home security companies, 14% from retailers and 12% from car dealers.

"Competition in the insurance industry could quickly intensify as consumers become open to buying insurance not only from traditional competitors, such as banks, but also from Internet giants," said Michael Lyman, global managing director for management consulting within Accenture's insurance industry practice.

Garth notes in her blog that "companies like Google would not underwrite the risk, but they would be the primary point of contact for the customer relationship, making insurers the providers of the insurance product within Google's ecosystem."

Insurance comparison shopping site Google Compare rolled out in the United Kingdom in 2012.

It allows vehicle owners to compare a range of insurance policies from various providers to which Google has access and that may be available to those consumers. It does not provide advice or endorse specific products or providers.

That is good news for insurers... if that approach continues. Were it to change, though, it would not be so good for insurers (except, perhaps, those that receive endorsements) in light of Google's considerable reach and dedicated audience.

Keefe Bruyette of Keefe Bruyette & Woods was recently quoted as saying it would be more impressive "in terms of industry impact if a tech company like Google were to deploy its analytical firepower at actually pricing (i.e., underwriting) auto insurance policies rather than simply acting as a comparative shopping tool."

That not being the case (yet), insurers would be well-advised to rethink how they will do business in an environment where technology reigns supreme and ever-increasing customer demands will have the power to drive change in how products are configured and delivered.

Timely response, insight and having options available to suit customer needs will likely be critically important. And that will demand having in place systems that can serve customers the way in which they want to be served both now and in the future.

Many in the insurance industry have lagged other sectors with regard to investing in and beefing up technology and systems to make those objectives a reality.

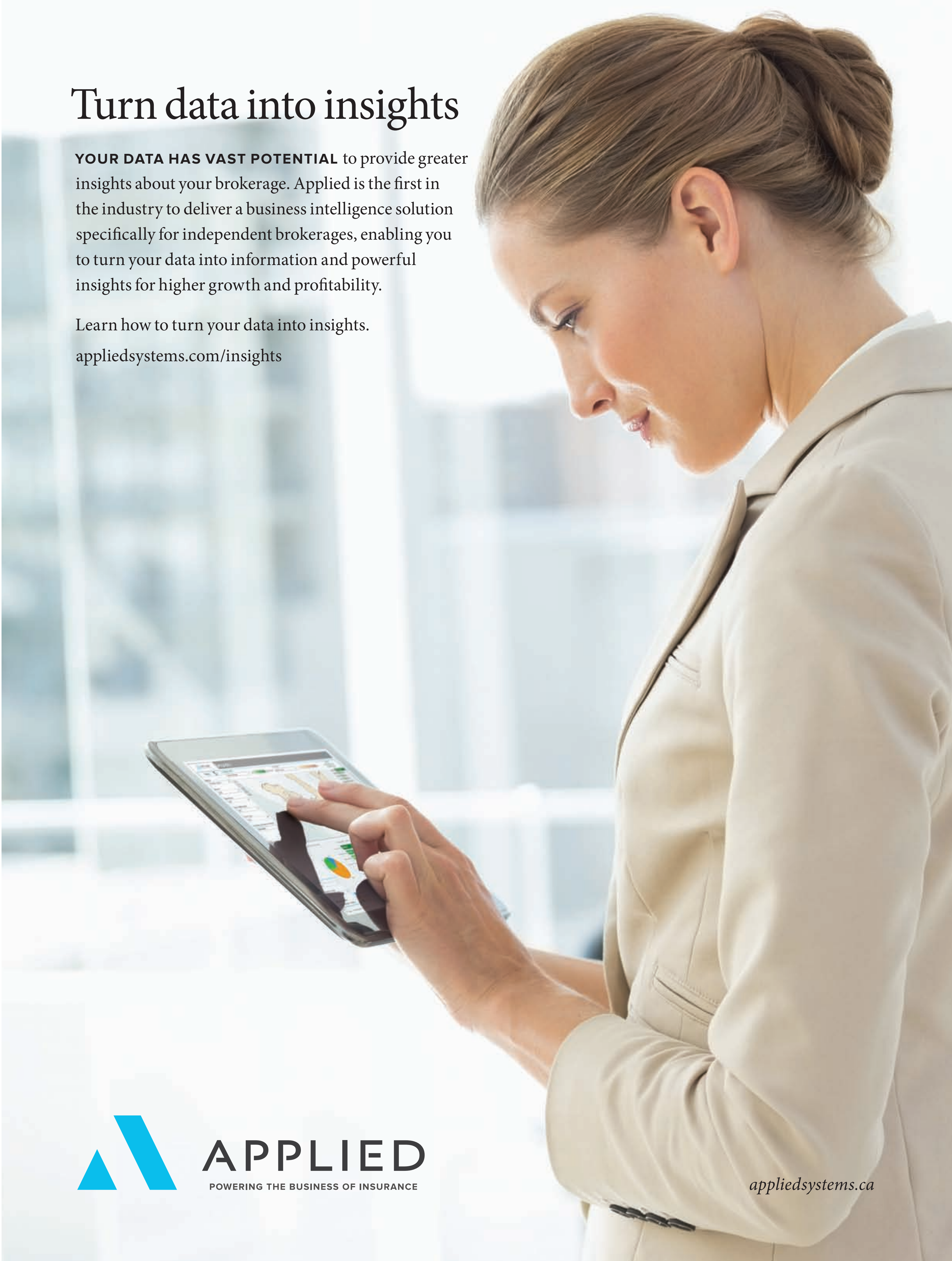
Responsiveness will surely also be about product offerings and partnerships that help keep customers happy and on side.

Armed with data — and a willingness to invest and innovate — future competitors may take many forms. Those able to offer choice and lower costs will, at the very least, get a look from customers.

Recent survey results from Accenture — based on input from 141 insurers in 21 countries — shows 72% of polled insurers have formed or are planning to form new distribution partnerships.

Of those intending to do so, 69% are considering partnering with banks and 44% are considering tech companies like Google or Facebook.

Garth cautions that Google is not just some aggregator site. "It represents a major disruption by a recognized innovative giant who brings an outside-in approach to customer-driven engagement and empowerment."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Technology

POTENTIAL ECONOMIC BENEFIT OF DRIVERLESS CARS $65 BILLION ANNUALLY

Automated vehicles (AVs) — or self-driving cars — could be on Canadian roads between 2020 and 2025, with the economic benefits being more than $65 billion annually, reports the Conference Board of Canada.

That benefit could be seen through collision avoidance, fuel cost savings and avoiding congestion, states the report conducted with the Van Horne Institute and the Canadian Automated Vehicles Centre of Excellence.

"Self-driving cars could free up driving time, significantly reduce the number of car accidents, minimize road congestion and reduce the amount of fuel that we consume," says Vijay Gill, director of policy research at the conference board.

Overall, the report notes economic benefit are as follows: fewer collisions, $37.4 billion; saving drivers' time, $20 billion; fuel cost savings, $2.6 billion; and reduced traffic congestion, $5 billion. "There will be new business opportunities for the auto and technological industries related to the design and manufacture of sensors, software, etc. for AVs."

APP SEEKS TO FAMILIARIZE DIRECTORS, OFFICERS WITH LIABILITY ISSUES

Reinsurer Munich Re has announced the availability of a mobile app for Apple iOS devices designed to provide corporate managers with information on directors' and officers' (D&O) liability.

The app allows corporate directors and officers to "quickly gain an overview of their personal risk," Munich Re reports. Beyond providing background information on D&O liability, it "asks about and evaluates the most important factors that influence a manager's risk."

The risk assessment "does not apply to any specific territory or legal environment, but can be applied to most of the concerned territories," notes a company spokesperson.

Users can find contact information for primary insurers with global know-how, the company reports. Those companies "are mostly licensed in Canada as well," the spokesperson adds.

The app is available from the Apple Store. A version for devices running on Google Inc.'s Android operating system is under development.

TIME-BASED TELEMATICS OFFERING FOR COMMERCIAL FLEETS LAUNCHED

Calgary-based insurance brokerage InsureMy Ltd. has launched a new time-based insurance (TBI) product for commercial drivers and fleets in Alberta and Ontario.

Called the first such offering of its kind, it uses telematics technology from Intelligent Mechatronic Systems (IMS), allowing fleet operators and managers to receive insurance premium refunds based on actual vehicle usage.

The company reports commercial vehicle operators pay regular insurance premiums based on traditional rating criteria, but with the TBI product, they can receive a refund at the end of term for vehicle inactivity. Operators can also receive a premium refund based on use while receiving full-term coverage.

PRICING FOR E-SIGNATURE PRODUCT AVAILABLE TO IBAO MEMBERS

The Insurance Brokers Association of Ontario now has an affinity partnership with the electronic signature vendor, Silanis Inc.

The service allows users to capture signatures on their websites, at a point of sale, or while using desktop, laptop and mobile computers.

"Signers are not required to download anything and can e-sign using only a standard web browser," Silanis reports.

Canadian Market

XL GROUP ANNOUNCES OFFER TO ACQUIRE CATLIN GROUP FOR US$4.1 BILLION

XL Group plc is seeking to acquire all capital stock of Catlin Group Limited, a move that, if approved, will create a Top 10 reinsurer with expanded alternative capital capabilities.

XL Group has entered into an agreement under which it will offer to acquire all of Catlin Group's common shares for "consideration of 388 pence in cash and 0.130 share of XL for each Catlin common share."

Based on the closing price of an XL Group share at January 8, 2015 of US$35.42, "the offer values Catlin at 693 pence per share. This represents a transaction equity value of approximately US$4.1 billion."

The name of the parent company of the combined group will remain XL Group plc, while the newly combined company will be marketed as XL Catlin, reflecting the strong reputation of both brands. Structured as a scheme of arrangement, the transaction is expected to close mid-2015.

Stephen Catlin, chief executive officer of Catlin Group, is expected to serve on the XL Group board as executive deputy chairman.

CNA EXPANDS SPECIALTY LINES IN CANADA

CNA began offering specialty products in Canada as of January 1, 2015 through its Specialty Lines business.

"By tapping into the company's deep expertise and the strengths of our current products and services, we were able to create an insurance solution that is tailored specifically for Canada," says John Hennessy, president and chief operating officer for CNA Canada.

The company notes that, in Canada, CNA Specialty will begin accepting submissions for management liability and professional liability.

Claims

NOVEMBER STORM TOPS $90 MILLION IN INSURED DAMAGE: IBC

A preliminary estimate from Property Claim Services indicates the late-November storm that brought with it heavy rains and winds across Ontario and Quebec caused $90 million in insured damage, reports the Insurance Bureau of Canada (IBC).

The storm November 24 to 25 featured wind gusting as strong as 100 kilometres/hour, resulting in widespread damage when trees fell on buildings and vehicles, and downed hydro lines caused power outages, IBC notes.

"In 2014, weather-related insured damage in Ontario hit $200 million; that includes claims from the Burlington floods and the tornado in Angus," says Ralph Palumbo, IBC's vice president, Ontario.

In the United States, the Insurance Information Institute reported in November that 2014 insurance losses from winter storms could reach US$2.5 billion, making 2014 the fourth costliest year on record for winter storm losses.

CIAA, PCS PARTNERSHIP AIMS TO IMPROVE CAT INFO FOR ADJUSTERS

The Canadian Independent Adjusters' Association (CIAA) and Property Claim Services (PCS), part of Verisk Analytics, have partnered to allow CIAA members access to PCS's cat loss information.

The access "will help independent adjusting firms plan for catastrophe events, allocate resources more effectively, and reduce cycle time, ultimately contributing to lower loss adjustment expense," PCS reports.

The CIAA, for its part, will provide post-cat event insights, photos, videos and commentary from adjusters on the ground. It will also collaborate with PCS for an enhanced PCS Canada app that allows adjusters to upload, share and view content from cat sites.

Risk

CANADIAN CEOS CONCERNED ABOUT DATA SECURITY: PWC

About two-thirds of Canadian chief executive officers taking part in a survey by PricewaterhouseCoopers (PwC) LLP identified cyber threats as a concern, while 75% identified cyber security as "strategically important."

In the Canadian results of PwC's *18th Annual Global CEO Survey*, 84% of polled CEOs also cited "mobile technologies for customer engagement" and 59% identified the "Internet of things" as strategically important.

Survey results reflect interviews with 1,322 CEOs from 77 countries, including 44 from Canada.

"Compared to last year, Canadian CEOs are more concerned about the cost of regulation, the threats of cyber security and changing customer preferences," notes Bill McFarland, CEO and senior partner at PwC Canada.

"Technology matters lead the way when it comes to business threats to Canadian organizations," PwC reports.

"Cyber threats, including lack of data security (64%) and the speed of technology change (64%) were identified equally as a concern by Canadian CEOs, although substantially more U.S. CEOs, 86%, voiced concern about cyber threats."

Reinsurance

FEDERAL COMMITMENT TO BETTER FLOOD MITIGATION WELCOMED: IBC

The Insurance Bureau of Canada (IBC) has welcomed Ottawa's move to make $200 million available for flood mitigation projects.

"We have seen how the world has changed in recent years and understand how severe weather events are hurting Canadian families," says Don Forgeron, IBC's president and chief executive officer.

"We also believe it is vitally important that the government work toward mitigating risks of earthquake in Canada."

INSURERS MUST COVER MORE CATS WORLDWIDE

Property and casualty insurers must work toward covering more catastrophes worldwide, or risk marginalizing the industry, Phil Cook, chief executive officer of Omega Insurance Holdings, said recently in Toronto.

"This is a huge problem for our industry," Cook said.

2014 was benign in terms of insured losses from catastrophes, he noted. Still, that "US$34 billion only represents about 20% of the actual economic damage suffered around the world, excluding loss of life."

Echoing a recent report from the Geneva Association, Cook said that ideal insurance penetration should be 10% of gross domestic product, but at present, the global penetration is at just over 6%. This underinsurance problem is even more evident in emerging countries.

CANADIAN QUAKE COULD CAUSE HALF OF LOSSES IN 100-YEAR RETURN PERIOD

AIR Worldwide estimates the current 1.00% exceedance probability loss — or the 100-year return period loss — is US$231.5 billion, while the long-term average annual loss from natural cats and terrorism is US$72.6 billion.

AIR notes that figure compares to US$219.4 billion for the 100-year return period in 2013, and US$205.9 billion in 2011.

"A single North America earthquake — an M6.7 earthquake that strikes just 7 miles outside downtown Montreal and damages properties in parts of Ontario and Quebec provinces in Canada, as well as parts of New York and Vermont in the United States — accounts for US$115.3 billion, fully 50% of the global insured loss total for all perils."

Spice of Life

Angela Stelmakowich
Editor

Lynn Oldfield, honoured with The CIP Society's Established Leader Award, is well-aware of how important education and engagement are to playing in the constantly evolving p&c insurance space.

Lynn Oldfield, president and chief executive officer of AIG in Canada, has no problem explaining why she loves talking about, learning about and encouraging others to get excited about insurance.

"The big attractors in this industry for me are that it's absolutely foundational to allow the Canadian economy to grow and expand and develop," says Oldfield, who has been in the property and casualty insurance business for three decades. "The variety is constant. You're talking to a mining client one day, a transportation client the next day and a financial institution the third day."

It may be this variety that has provided the spice to what some outsiders — wrongly in Oldfield's mind — view as a bland industry.

It also may be this variety that has fuelled her commitment to lead by example and inspire others to get involved and stay engaged.

GET EDUCATED

Oldfield's efforts around education and mentoring are meant to spark that fire and engagement. These include teaching Principles and Practices of Insurance at the Insurance Institute of Canada (IIC), contributing to updates to IIC's Chartered Insurance Professional (CIP) program, creating AIG Canada's Emerging Leaders program and launching a Pay It Forward campaign, which connects experienced and younger professionals.

"Mentors were incredibly important to my career development," Oldfield says. "I pestered to join meetings, to attend clients' events and to learn from the seat of masters, and I was very fortunate to learn this business from some of the best minds."

As such, she made a commitment very early on to pay it forward."Ironically, I end up learning, I think, as much from one-on-one mentoring experiences as the individuals take from them."

Oldfield's decades-long efforts were recognized last year by the CIP Society, part of the IIC, with an Established Leader Award.

"It's an organization I hold in the highest of regard," she says of IIC, calling it "the premier educational body for insurance professionals in Canada."

The industry affords ample opportunity for learning — and education is something in which Oldfield sees great value, crediting it with being a foundational key to her development and success.

"I'm fortunate in my career that at an early age, I decided education was going to be an important differentiator for me and it did not disappoint," she says.

Outside of the insurance world, Oldfield has an undergraduate degree from Wilfrid Laurier University and an MBA from McMaster University; inside the insurance world, she has Fellow Chartered Insurance Professional and Canadian Risk Management designations.

SOLID PLATFORM

Beyond the honour of the award, Oldfield says it offers a platform from which she can discuss issues of importance to the p&c industry in Canada, and from which she can reach out to those not currently in the industry.

"We are competing for top talent with many other industries," she points out, welcoming any platform that allows her to sell the merits of what she regards as "a fascinating and ever-changing industry" and opportunity for young professionals.

"The property casualty industry in Canada is directly related to the economic volatility that we've seen in the last decade. There are ups; there are downs. We need a highly educated and engaged workforce," she emphasizes.

"If we can attract the best and the brightest, the industry is better for it."

But how does one sell the industry when the competition is so stiff?

"It's an industry that absolutely demands a fulsome understanding of the Canadian business environment and, most importantly, a very high level of curiosity."

"I think you sell it as an industry that is the foundation of economic growth and development in Canada," Oldfield says. "It's an industry that absolutely demands a fulsome understanding of the Canadian business environment and, most importantly, a very high level of curiosity," she says.

"The question we always ask our commercial clients is, 'What are some of the obstacles of meeting your


Photo: Patrick Thompson

business objectives? If you're trying to grow your business, what's holding you back?'" she relays. "If you can bring a solution to the table to assist in breaking down those barriers or augmenting some business process or working capital that's going to move forward a Canadian corporation's growth objectives, that's a very heady experience."

LEARNING THE ROPES

With AIG Canada since 1991, having joined as manager of professional liability, Oldfield has held a number of senior roles (some promotions; others lateral moves).

Among other things, she served in the Canadian lead position for what is now financial lines, led the national accounts practice, launched AIG's mergers and acquisitions products to the Canadian market, developed what is now called global risk solutions, and took on the senior leadership in the company's underwriting and distribution functions.

In 2008, at the height of the financial crisis, Oldfield was named president and, two years later, also CEO.

"I have learned so much from the day I walked into my first managerial position with AIG in 1991, and most of my learning has come from mistakes that I've made over the years. Those are the most powerful learning opportunities," Oldfield says.

"Hiring top talent, setting clear expectations and then providing constant feedback, for me, has been the greatest formula to allow team members to be successful."

CHALLENGES AHEAD

While much progress has been made in the p&c insurance space, both globally and at home, plenty of challenges lie ahead.

Having been in the p&c insurance industry in Canada for 31 years, Oldfield quips that she "predates the personal desktop computer and the Internet, so technology has been enormous."

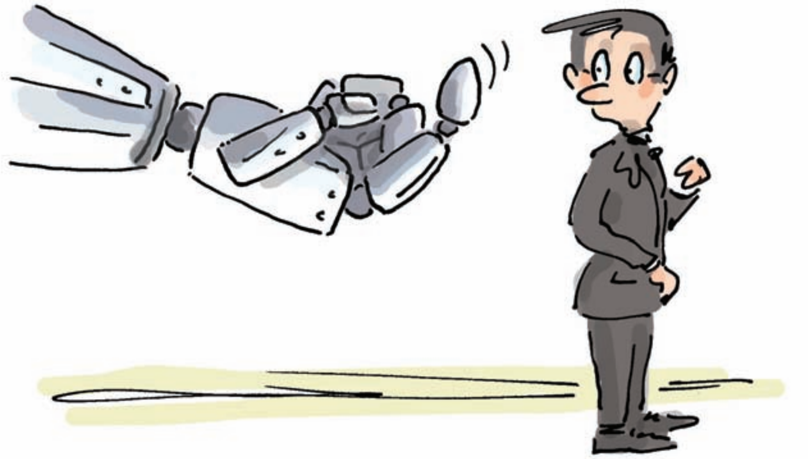
Oldfield also cites changes to weather, natural catastrophic loss development, changes to governance and the competitive nature of the marketplace. "Canada has always been a competitive property casualty industry, but I think some of the technology and innovation enablers have made it a more interesting competitive market going forward."

How has industry fared? With regard to technology, various companies have responded in various ways, Oldfield says, and industry's adaptation to increased natural catastrophe is what she terms a work in progress.

"As the industry comes together with government and with stakeholders, it's tackling climate change, it's tackling things like flood mapping and tracking," Oldfield notes. That said, "the property and casualty insurance industry in Canada, unfortunately, is not the only answer to some of these global trends. But it has to be an active participant with a voice and with meaningful contributions at the table," she emphasizes.

The industry must be prepared to answer challenges. At AIG Canada, for example, the company hosts and trains employees through a process called Innovation Boot Camp. Those efforts have "spawned some of the more interesting products that we have developed in the last five years."

Customers are more educated than ever before, she says. "An educated consumer requires a more responsive carrier and partner."



Rise of the Drones

The property and casualty industry in Canada has some work to do to determine the complex liability and coverage issues that are likely to unfold with the anticipated increase in use of drones. Globally, however, Canada is leading the way in permitting commercial drone and mandating that insurance protection be purchased.

Joe Colby
Vice President
of Claims,
Swiss Re

Nellie Root
Senior Treaty
Underwriter,
Swiss Re

The commercialization of drone technology is rapidly evolving and has created new insurance coverage issues that were not considered when current primary insurance policy language was originally developed.

Various industry estimates indicate that global spending on drones is projected to exceed US$100 billion in the next decade, with more than 10% of that spend expected to come from commercial (non-military) applications.

This rapid growth in drone use will require an insurance industry response as policyholders will be looking to their insurers for property and liability coverage options.

The top current and potential commercial applications are from the agricultural and crop management industries. Currently, 90% of aerial agriculture spraying in Japan is done by drones, notes information from the Association for Unmanned Vehicle Systems International (AUVSI).

The United States will lead all countries in commercial drone unit sales once the Federal Aviation Administration (FAA) develops regulations assimilating them into their airspace. AUVSI reports that in the next decade, the market is expected to reach 160,000 units sold per year in the U.S. alone, with more than 80% of the units being used in agriculture.

DRONE USE IN CANADA

Canada has quietly allowed the use of commercial drones since 2007, and drone use here has been largely uncontroversial. Commercial drone use in Canada is regulated on a federal level by Transport Canada, governed by the *Canadian Aviation Regulations*. A Special Flight Operation Certificate (SFOC) must be secured from Transport Canada prior to operating a commercial drone in Canada and a commercial operator must have $100,000 of liability insurance in place regardless of the size of the drone and its use.

Recent developments

There were a couple of recent developments at the end of last year in Canada with respect to drones. First, the Government of Canada launched

Illustration by Scot Ritchie

a new campaign that is designed to educate Canadians on safe drone use to ensure they are compliant with relevant laws. Second, Transport Canada has announced a couple of exemptions that will make it easier for small drones to operate by waiving the requirement for a certificate to be obtained for commercial drones under a certain weight class and for certain uses.

These new regulations were meant to streamline the process and reduce wait times required in obtaining a SFOC for large drone classes and to allow non-commercial and small-weight class drones to operate with a minimum of government interference.

Future developments and uses

The impact of drone technology is significant and has made a number of companies consider new applications for drones, such as agricultural monitoring/spraying, disaster management and claims evaluation.

The United Services Automobile Association (USAA) and State Farm Mutual Automobile Insurance Company have both recently applied to the FAA for approval to use drones in the United States to assist in accelerating claims adjudication.

Imagine how useful drones would have been during the 2013 Alberta flood event. An increased volume of claims could have been assessed in a shorter period of time instead of the delays customers and adjusters experienced as a result of access restrictions in the days following the flooding.

Thermal infrared power line surveys, law enforcement (Ontario Provincial Police currently uses drones to expedite scene investigations), television news coverage, sporting events, movie-making and oil exploration are other present applications for drone usage that enable increased efficiencies in Canada.

In 2014 in the U.S., the FAA provided six film production companies with exemptions to commercially operate drones. This was only the second time that the FAA has granted exemptions for commercial drone use.

By way of contrast, 945 SFOCs for commercial drone use were approved in 2013 by Transport Canada.

Figures from the Canadian transportation and airspace regulator show applications for SFOCs have increased 500% since 2011, when 155 certificates were issued.

ISSUES OF CONCERN

Personal privacy

Individual citizens' privacy is one of the principal concerns with the private and public use of drones in national airspace. In Canada, the federal government has taken the lead in regulating

privacy relative to drones. A drone operator may face a legal attack under the *Personal Information Protection and Electronic Documents Act* (PIPEDA) if he or she takes photos or videos of an individual in a private setting without consent.

Civil or criminal liability

There are also a number of potential legal issues involving the use of drones that could trigger civil or criminal liability for a drone operator. Physical damage and bodily injury are the two biggest exposures faced by commercial drone operators.

There have been a number of incidents reported in Canada and the U.S. over the last couple of years involving drones coming relatively close to commercial aircraft in flight.

Trespass and nuisance

Trespass and nuisance are other legal risks a drone operator faces in Canada, coupled with the failure to obtain a SFOC when required, which could lead to an enforcement action, including fines by Transport Canada.

Anyone operating a drone without a required SFOC may be subject to a fine of up to $5,000 for an individual and $25,000 for a company. If an operator does not comply with the requirements detailed in their respective SFOC, the Canadian regulator can issue fines of as much as $3,000 for an individual and $15,000 for a business.

DETERMINING COVERAGE

The drone industry is in its infancy and the property and casualty industry's understanding of this emerging risk continues to evolve. There are myriad complex liability and coverage issues, any of which are further hampered by complicated operational, procedural and technological challenges.

Current insurance contracts may be inadequate to address all of the issues posed by this rapidly changing technology. Conventional insurance coverage may have to be re-crafted in order to provide meaningful and sustainable coverage for the consuming public.

Insurers will have to decide whether they want to design insurance policy forms and endorsements, craft an application, and develop underwriting guidelines and manuals and rates based on current drone requirements. The biggest hurdle from an underwriting perspective is the lack of historical data from that insurers can draw to branch into this new territory.

Who within the industry should insure this new product? Does coverage fall under the purview of aviation insurers or would the consumer be better served by traditional p&c insurers?

There is a certain expertise within the aviation insurance industry needed to provide coverage for conventional aircraft. Some of that will, no doubt, be used to insure against the liabilities that will arise from flying these drones once their use or operation, take-off and landing location(s), whether or not they will be operating over populated areas, and their flying altitudes, have been established. However, this is only the proverbial tip of the iceberg.

Conventional p&c insurance coverage can certainly address bodily injury, property damage and lost income arising from the ownership, use and operation of a drone(s). That said, concerns about privacy and cyber liability posed by this technology may have to be separately addressed.

All lines of business may need an adjustment in contract language and coverage terms, including, for example, homeowners/tenants package insurance.

Since personal-use drones of less than 35 kilograms are not regulated by Transport Canada, they may be insured under a conventional personal property policy as long as there are no intended commercial uses of the equipment, and the drones are not operated with premeditated or illegal uses.

945 SFOCs for commercial drone use were approved in 2013 by Transport Canada. Figures from the Canadian transportation and airspace regulator show applications for SFOCs have increased 500% since 2011, when 155 certificates were issued.

Liability insurance coverage under these policies may be inadvertently triggered if contract language is unclear, thus providing legal liability from a trespassing drone. stalking or harassment, and other infractions that could be related to drone use. As carriers become increasingly more comfortable with this, just as they did with insuring certain employment practices or cyber liability in its infancy, the capacity to underwrite covers for drones will most likely increase.

REMAINING COMPETITIVE

Canada is leading the way in permitting commercial drone use at a higher rate than almost any other country globally and mandating that insurance protection be purchased. As drone technology marches forward, it will become critical for insurers wishing to write commercial businesses engaged in drone use to adapt their underwriting appetite and develop insurance products and services that cater to drone operators or risk losing business to rival companies that are more aggressive in addressing these needs.

21st-Century DIGITAL Brokerage

Jeff Purdy
Senior Vice President
of International
Operations,
Applied Systems

New entrants in the insurance industry demand that brokers reiterate their value as trusted advisors by delivering a differentiated level of client service. To help guard against commoditization in the marketplace, the 21st-century brokerage must continue to evolve into a digital workspace.

The proliferation of digital technology into society and the global economy has begun to blur the physical and digital worlds, triggering every industry to redefine its technology strategy to maintain and grow business profitability.

Technology is improving and streamlining internal operations, driving efficiency and accuracy of information. It is evolving customer engagement, thereby creating expectations for constant communication and customer servicing through multiple channels.

With the insurance industry's high rate of both organic growth and consolidation, it is essential for brokerages to develop differentiated offerings to remain competitive in today's consolidating marketplace. Simultaneously, new, non-traditional entrants are disrupting the insurance industry, forcing brokers to further elevate their individualized business proposition and reiterate their value as trusted advisors to avoid commoditization in the marketplace.

To deliver this differentiated level of client service and maintain effective and efficient internal operations, the 21st-century brokerage must continue to evolve into a digital workspace.

Paper files will be replaced by digital archives; mobile devices will deliver access to client information while away from the office; the cloud will provide increased security and flexibility for growth; and the adoption of business intelligence solutions will tap into the abundance of building data to enable more informed decision-making.

SCALABILITY, FLEXIBILITY, PRODUCTIVITY

To support growth goals, while continuing to attract and retain new clients and employees, brokerages require a brokerage management system (BMS) that delivers consistent workflows, standardized data and a modern architecture that is scalable for growth. Consistent workflows provide universal procedures across locations and office branches, as well as simplify employee on-boarding and training. Standardized data offers a single view into a brokerage's book of business, enabling the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RSA Insurance's in-house claims counsel is fluent in both law and insurance, which means that your clients not only benefit from our team's extensive knowledge of Executive & Management Liability, E&O, Fidelity and more, but also from our ability to resolve claims quickly and professionally. Plus, we closely monitor trends, legislation and legal actions to ensure our products continue to respond to your clients' needs.
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business to better service its clients and identify opportunities to cross/upsell.

By leveraging modern BMSs, brokerages can quickly scale business operations across multiple locations and more easily integrate acquired entities. Additionally, through digitally driven interactions and seamless workflows, leading brokerages have gone paperless — cutting costs associated with paper filing and creating additional physical space to expand their employee bases.

From a systems standpoint, technology like the cloud can provide brokerages flexible access to information while protecting important data in a secure online environment not located within the physical office. Cloud solutions provide hardware, networks, storage, services, applications and interfaces across the Internet, centralizing critical business intelligence and offering on-demand, remote access to information.

By leveraging cloud technologies, insurance brokerages capitalize on their benefits, including better user experiences, lower IT costs, increased business operations flexibility and stronger IT security.

To improve broker productivity, mobile technologies are breaking down the traditional workspace dynamics and enabling brokers to deliver personalized client service away from the office while maintaining access to the latest client information. By removing the need to make multiple phone calls back to the office to verify information, brokerages increase employee productivity and reduce time spent on duplicative administrative tasks.

Additionally, the next wave of insurance professionals are statistically more mobile-connected than any other generation, enabling brokerages that leverage mobile capabilities as part of their daily operations to attract and retain top talent to help drive business growth and profitability.

CONNECTING WITH THE DIGITAL CONSUMER

As 21st-century brokerages automate internal business operations and digitalize their workplaces, their clients will expect the same amount of online and mobile access to quote, renew and document their policies and file claims.

Survey results released in June 2014 by Bain & Company show that more than 40% of polled Canadian property and casualty consumers will move purchasing behaviour online in the next three to five years. To deliver superior online client servicing, leading Canadian insurance brokerages have built out their company website and amplified their social presence to provide multichannel servicing.

A recent Accenture study also reflected this online movement when it found that 72% of surveyed consumers would prefer to research products and pricing online. The 21st-century brokerage provides online self-service quoting and pricing for its clients, which is seamlessly linked to a BMS for automated exchange of information.

To ensure brokers continue to act as the insured's trusted advisor, insurance technology is available to document new quoting activities, triggering personal outreach from the broker to the insured for follow-up advice and product guidance. While operating a digital workplace, brokerages need to maintain the personal element of their multi-channel services, differentiating their business propositions from that of direct writers.

Whereas traditional reporting allows brokerages to examine "what happened" using data based on a defined set of criteria at a specific moment in time, advanced business intelligence solutions allow brokerages to study "why something happened" by using visual representations of data that are interactive and dynamic.

LEVERAGING DIGITAL DATA

For 2014, Gartner predicted that business intelligence and analytics would remain the top technology priority of chief information officers.

With the exponential growth of data, leading brokerages are now evaluating ways to extract and analyze pre-existing data in an intuitive visual format to make more informed business decisions. Brokerages can evaluate their books of business, enabling them to better understand retention rates, growth markets and leading lines of business.

Business intelligence solutions also provide information about business metrics, such as how efficiently the business is operating, how quickly tasks are being completed, workflow bottlenecks and which employees are hitting sales goals.

Business intelligence builds upon the capabilities of the traditional reporting that brokerages have relied on to date.

Whereas traditional reporting allows brokerages to examine "what happened" using data based on a defined set of criteria at a specific moment in time, advanced business intelligence solutions allow brokerages to study "why something happened" by using visual representations of data that are interactive and dynamic.

Business intelligence solutions enable brokerages to change criteria on the fly and drill deeper into a segment of the business or a subject matter to obtain greater business insights, as well as offer predictive statistical models to estimate likely future outcomes.

BROKERAGE GONE DIGITAL

Insurance Portfolio Inc., a third-generation independent insurance brokerage located in Toronto, relies on advanced technology to provide the capabilities it needs to build strong client relationships, the cornerstone of its business. The brokerage has moved from a paper-based, manually driven business to an automated, streamlined operation with advanced technology.

Key focal areas to modernize daily business operations through digital technology include the following:

- keep pace with changing customer expectations;
- provide the sales team with instant quote capabilities; and
- stay competitive by providing self-service access to customers.

Increasingly, clients expect sophisticated technology and capabilities. "We're operating in a time and industry where people demand information 24/7," says Jennifer Tyrwhitt-Gory, president of Insurance Portfolio Inc.

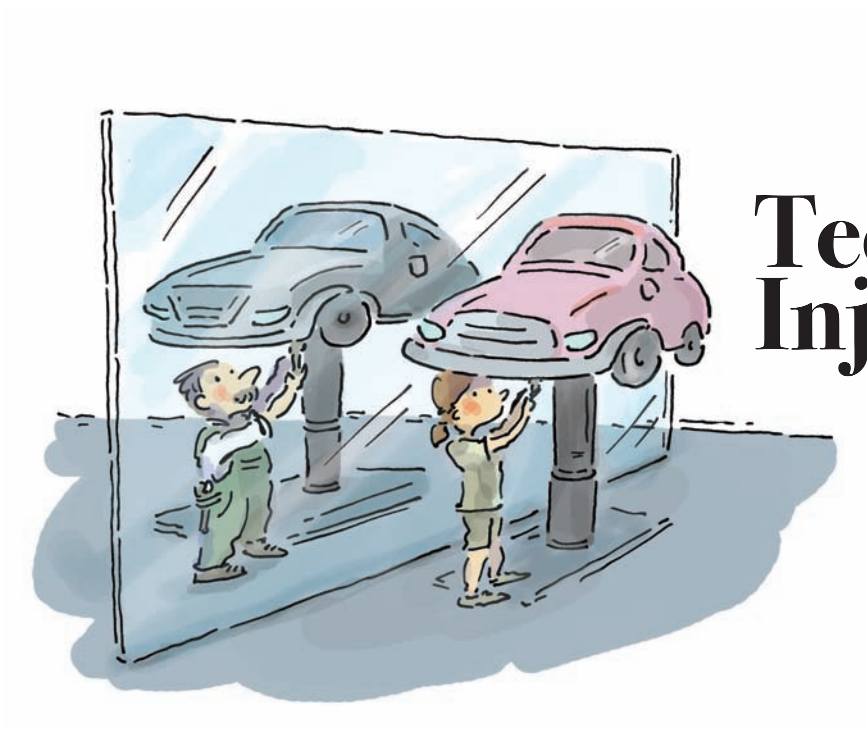
"It's no longer acceptable to get back to them the next day with information about their policy. They want answers right away, and that can mean the difference between winning and losing new business," Tyrwhitt-Gory points out.

To meet changing demands, Insurance Portfolio is also providing self-service capabilities and broker access to policy quotes and customer information. By using an online self-service portal as part of its client management program, the brokerage reports that the 24/7 access has helped it win major new business. As the company continues to grow, it has increased customer retention to approximately 90%, and has improved overall staff productivity with its digitized business environment.

LOWERING COSTS ESSENTIAL TO PLAY

Today, the brokerage channel needs to harness the benefits of advanced technology to manage its business. Insurance consumers expect greater access to information and more control over their decisions, while insurers continually seek new and better ways to market and sell insurance products.

The future of insurance will be shaped by the ability of independent brokerages to lower the cost required to sustain revenue growth and properly service their clients. By implementing technology innovations, independent brokerages can enhance the growth, profitability and agility of their organizations now and in the future.



Tech Injection

Marc Brazeau
President and Chief Executive Officer, Automotive Industries Association of Canada

Canada witnessed record vehicle sales in 2013, only to be topped by sales in 2014. Still, concern over the availability of service bays and skilled workers is also on the rise. Canadian vehicle fleet and technological advancements that increase the life expectancy of vehicles, however, are expected to contribute to the growth of the aftermarket.

Given its competitive environment, it is no wonder the automotive sector is constantly evolving, with each brand working to improve its edge over the competition by employing the latest and greatest technology. The automotive aftermarket industry is not immune to these changes, but is fortunate to have at its disposal reliable insight into its future.

Part of that insight comes with the latest installment of the Automotive Industries Association (AIA) of Canada's recently issued 2014 *Outlook Study*. The biannual report, produced by DesRosiers Automotive Consultants Inc., examines the state of the Canadian automotive sector as a whole to predict the future conditions of the aftermarket and to help the industry prepare for upcoming changes in work volume, customer demographics and technology.

THE AFTERMARKET

The automotive aftermarket is the $19.1 billion sector of the automotive industry concerned with manufacturing, distributing, retailing and installing automotive replacement parts, tools, accessories, equipment and chemicals.

In 2013, the Canadian aftermarket boasted a workforce of 403,800 in communities across the country. Although the total accounts for only half of those employed by the automotive sector, employment in the aftermarket has been more stable than that in the original equipment (OE) sector because, much like doctors and teachers, the demand for the services of aftermarketers is independent of consumer whims.

Illustration by Sot Ritchie

The automotive aftermarket industry can be divided into two main categories: Do-It-Yourself (DIY) and Do-It-For-Me (DIFM).

The DIY segment consists of retailers supplying consumers with necessary parts and materials to complete their own maintenance and repairs.

Though this segment is popular for certain maintenance jobs, such as oil changes and fluid top-ups, it has experienced a steep decline in recent years as vehicles become increasingly complex. Today's vehicles are like computers on wheels, requiring specialized skill and technological tools to maintain.

As such, it is no surprise that more and more Canadians are bringing their vehicles to the more than 23,500 Canadian service outlets for DIFM maintenance and repairs.

VEHICLE SALES PAST, PRESENT AND FUTURE

Figures from the latest *Outlook Study* clearly demonstrate the new vehicle market set an all-time sales record in Canada in 2013, having sold 1.74 million light vehicles. Yet another record has just been announced for 2014, with the sale of 1.85 million vehicles.

It is anticipated that that upward trend will continue, with sales projected to exceed 1.8 million units by 2016.

It should be noted that light trucks sales have continued to increase since 2009, and now represent 58.7% of all new vehicle sales. Attributed mainly to the growing popularity of compact sport utility vehicles, this trend will have important repercussions on the aftermarket in the next decade.

The study further found that large pick-up trucks have also gained popularity, while sales of intermediate sport utility vehicles, small pick-up trucks and vans have decreased.

The record sales posted are likely due to vehicle affordability and fuel prices. Canadian buyers required an average of 18.5 weeks of before-tax income to purchase a new vehicle in 2012, a decrease from the average 19.2 weeks of income required in 2010.

In contrast, buyers in the United States required an average of 21.3 weeks of before-tax income to purchase a new vehicle in 2012. This difference can be attributed to a reduction in the manufacturers' suggested retail prices for base models of passenger cars in Canada, as well as the country's more positive economic environment. Fuel prices, which increased steadily from 2009 through 2012, also finally stabilized in 2013.

The service and repair industry will, therefore, have to invest not only in new repair tools and technology, but also in skills training for employees. Outlets will also need to manage customer expectations since there will be more work that requires more time and not enough skilled workers to complete it.

NEW VEHICLE SALES AND THE AFTERMARKET

The record number of new vehicles on Canada's roads meant that new car dealerships were the most popular choice for maintenance and repairs in 2013, holding a 36.6% share of the service and repair market. This success is expected to ripple through to the aftermarket as these vehicles age.

Though many Canadians purchased new vehicles in 2013, consumers are now keeping their vehicles longer, such that the average age of a light vehicle in Canada is now 9.3 years. Vehicles between one and five years old are typically brought to the dealer for repairs because they are still under warranty, but once warranties expire, the vehicles are typically brought to the aftermarket for service.

Aging of the record number of vehicles sold in recent years combined with the increasing size of the Canadian vehicle fleet and technological advancements that increase the life expectancy of vehicles will contribute to the growth of the aftermarket in coming years.

In fact, aftermarket parts and labour sales are expected to reach $21 billion by 2017.

UPCOMING CHALLENGES

Overall, the future of the aftermarket in Canada looks bright, but the predicted growth will be accompanied by some challenges. First and foremost, there are questions about the industry's ability to accommodate the upcoming influx of vehicles, both in terms of available service bays and skilled workers.

In 2013, there were 23.4 million vehicles registered in Canada, and that number continues to increase. The growing volume of work for the service and repair industry will push the limits of existing service facilities and exacerbate the aftermarket's current labour shortage problem.

At this time, new workers entering the industry are not offsetting those retiring from the industry. Unabated, this risks keeping vehicles off the road longer as workers struggle to keep up with repairs.

Another likely challenge is the declining value of the Canadian dollar. Since the aftermarket relies heavily on imported products to meet consumer needs, as the Canadian dollar weakens, the cost of imported parts increases, making the industry extremely vulnerable to exchange rate fluctuations.

Finally, technological changes in the OE sector meant to meet new regulatory demands will dramatically affect the aftermarket.

EMISSIONS REGULATIONS AND VEHICLE TECHNOLOGY

In November 2012, then federal environment minister Peter Kent announced that Canada would implement stringent emissions regulations for 2017 and later-model-year vehicles, similar to those outlined by the U.S.-mandated Corporate Average Fuel Economy (CAFE) targets.

These regulations will require that passenger vehicles in Canada reduce greenhouse gas (GHG) emissions by 3.5% annually for 2017 through 2021 model year vehicles, and by 5.0% for 2022 through 2025.

To meet these new regulations, vehicle manufacturers are developing new technologies to improve the efficiency of engines through direct fuel injection methods and other forms of forced induction/enhanced combustion, using alternative energy sources to fuel new vehicles, and reducing the weight of vehicles by using new materials (for example, Ford's popular F-150 pick-up truck now has an aluminum body).

As OE manufacturers adopt new technologies to meet these regulations, the aftermarket will also have to adapt.

For example, electrical problems will likely require specialized diagnostic tools and advanced technical knowledge to troubleshoot, such that vehicle systems will become more difficult and more time-consuming to repair.

In addition, new body materials such as aluminum, magnesium and carbon fibre are also difficult to weld and bend back into shape, having major effects on auto body and collision repair.

The service and repair industry will, therefore, have to invest not only in new repair tools and technology, but also in skills training for employees.

Outlets will also need to manage customer expectations since there will be more work that requires more time and not enough skilled workers to complete it.

Despite the challenges, the Canadian automotive aftermarket holds the rare advantage of having a window into the future since the number and type of vehicles that will be in Canadian service bays in the next decade and the technology they contain is being determined now.

Though, by its nature, the industry must react to changes in the OE sector, market research and effective planning mean that the industry can cope with whatever technological changes are thrown its way.

Deeper Pool

As Ottawa plans to increase the absolute liability on Canadian nuclear operators from $75 million to $1 billion, the association writing most of the coverage for operators is looking to deepen the pool by attracting new insurers in anticipation of more required capacity by the end of 2015.

Greg Meckbach
Associate Editor

Some suggest Canada will need a larger pool of nuclear insurers when the *Energy Safety and Security Act*, the subject of Senate committee hearings this past December and not yet passed into law, comes into force. That expectation seems to be in line with current efforts by the Nuclear Insurance Association of Canada (NIAC) to attract new members to the existing pool since it is possible more nuclear insurance capacity will be needed as early as the end of June.

Some insurers may be interested in competing with NIAC, but a lawyer who previously worked for Ontario's electrical power utility says that federal officials responsible for authorizing new competitors to cover nuclear risk would need to ensure these insurers can handle claims that could arise from a large-scale evacuation.

If passed into law with no amendments, the federal *Energy Safety and Security Act* (Bill C-22) will increase the absolute and exclusive liability of nuclear operators (including electricity generation stations) in Canada from the current $75 million to $1 billion.

At least 50% of that liability will need to be covered by an insurer approved by the federal natural resources minister, while as much as half could be covered by "an alternative financial scheme," David McCauley, director of the uranium and radioactive waste division at Natural Resources Canada (NRCan), said during a recent hearing of the Senate Standing Committee on Energy, the Environment and Natural Resources.

Among other things, Bill C-22 proposes creating the *Nuclear Liability and Compensation Act,* which in essence, makes nuclear operators liable — without requiring claimants to prove fault or negligence — for injury or damage to third parties resulting from the "fissionable or radioactive properties of the material" they hold. It further proposes that the absolute liability increase to $650 million upon the bill receiving Royal Assent, $750 million one year later, $850 million two years later and $1 billion three years later.

With that gradual increase, the federal government is providing "an opportunity for the insurance markets to realign to provide the level of capacity to the Canadian operators that is required to cover that risk," Niall O'Dea, director general of the electricity resources branch at NRCan, said during the committee hearing.

Natural resources minister Greg Rickford earlier noted in the House of Commons, members of which voted to pass Bill C-22, that it would also "broaden the definition of compensable damage to include physical injury, economic loss, preventative measures and environmental damage."

CURRENT COVERAGE

To cover operators of nuclear installations for such risks, there are currently four approved insurers — NIAC, an association of insurers that form liability and property damage pools for nuclear installations; Nuclear Risk Insurers Limited, a British nuclear association of individual commercial insurance firms; American Nuclear Insurers, a nuclear association in the United States of individual commercial insurance companies; and European Liability Insurance for the Nuclear Industry, a Belgian mutual insurance association that is based in Brussels — designated by Canada's natural resources minister, notes an email response from NRCan.

A handbook published by the London-based Nuclear Pools' Secretariat notes that insurers typically protect their solvency by excluding nuclear peril. In countries that use nuclear reactors to provide electricity, insurers generally voluntarily provide capacity to the pools of which they are members, and those pools generally underwrite the nuclear operators' coverage.

Although NIAC does not publicly identify its current members, it "underwrites the majority of insurance coverage for Canadian nuclear generating station operators," notes an email from the Canadian Nuclear Association (whose members include Bruce Power LP, Ontario Power Generation Inc., NB Power and Hydro-Quebec).

SEEKING MEMBERS

With the proposed increase in operators' absolute liability, however, more capacity will likely be needed "before the end of 2015 and possibly before the end of the second quarter," says NIAC general manager Colleen DeMerchant.

"NIAC is actively seeking new members to take up part of this increased capacity requirement," DeMerchant says. "We would encourage more primary companies to participate because we currently have a very good representation of reinsurers in Canada."

Asked what NIAC would be looking for in new members, DeMerchant responds that an insurer "licensed and regulated by (the federal Office of the Superintendent of Financial Institutions) with provincial licensing in jurisdictions where nuclear facilities are located would generally meet the basic criteria."

New members "will be able to participate without restriction in the liability and property pools," she points out, suggesting that "this opportunity provides a non-correlated risk exposure with practically a zero loss ratio and a very competitive expense ratio, which helps to diversify their portfolio."

LARGER POOL NEEDED

If Bill C-22 is passed into law, "there probably will be a need for a larger sort of pool of insurers or reinsurers," says Stanley Berger, a partner with Fogler Rubinoff LLP Lawyers, who specializes in environmental and nuclear law, and former assistant general counsel at Ontario Power Generation.

A Canadian Nuclear Association spokesperson reports the association has urged Ottawa to "foster competition" in nuclear insurance, and Berger says some insurers appear to be interested in competing in that market.

Without mentioning names, he notes that there are what he calls "potential suitors" willing to provide cover for nuclear liability risk in Canada and to compete with NIAC.

Bill C-22 could provide an opportunity for managing general agents "to help place some capacity with foreign insurers if existing and new NIAC pool members cannot build the capacity required," points out Kim Neale, national product leader, environmental at Burns & Wilcox Canada.

"It is possible that increased capacity may be delivered by current pool members," Neale says, but adds "the growth of new pool members that have never participated in the past may be hindered because of Fukushima," the nuclear power plant in Japan hit by a tsunami nearly four years ago.

Before approving any new insurer, NRCan officials would "want to know what kind of experience these insurers have had with responding to claims," Berger suggests. He points out that a large evacuation could be ordered, as a precaution, even in a case where not enough radiation is released to cause health problems.

"The government is going to be looking at claims administration, they are going to be looking at capital available within the jurisdiction, the extent of that capital, solvency and financial statements for the insurer," he expects.

"It's not a simple matter. It's not just, 'Oh, what's their capacity?'"

EXTREME CASES

Of course, not all of the liability imposed on Canadian nuclear operators is covered by the insurers.

"There are extreme cases or some limited cases in which the government will provide indemnity," Jeff Labonté, director general of NRCan's energy safety and security branch, said during the Senate committee hearing.

Under the existing *Nuclear Liability Act* (NLA), the risks currently covered by insurers include bodily injury, sickness, destruction or radioactive contamination of property, and loss of use of property due to contamination or evacuation, notes the email response from NRCan.

"The insurers also provide partial coverage for damages resulting from a terrorist act," the federal department adds.

Through a reinsurance agreement, the federal government "would provide coverage for any other form of damage that a court would interpret to be damage" under NLA, NRCan reports, adding that the government "also provides about 75% of the coverage for damages resulting from a terrorist act."

Bill C-22 proposes allowing the government to "enter into an indemnity agreement with an operator" under which the government "covers any risks that, in the minister's opinion, would not be assumed by an approved insurer," NRCan's response notes.

Risks that would not be covered by insurers are "still being discussed with the insurers," it adds.

Fitter not Fatter

Neil Parkinson
National Insurance Sector Leader, KPMG

Mary Trussell
Insurance Sector Partner, KPMG

Property and casualty insurers in Canada, as elsewhere, are well-advised to keep and eye out for existing and emerging risks and opportunities. But with challenges ranging from economic factors to new risk surrounding cyber security, how can insurers capitalize on opportunity?

Canada's economic stability in early 2015 is proving to be anything but boring — from the value of the dollar to volatile oil prices. Despite a relatively calm, albeit recently snowy, start to the winter weather season, these economic factors will undoubtedly help to make for an interesting year in property and casualty insurance.

KPMG's second annual *Insurance Risks and Opportunities Survey* for the Canadian insurance sector reflects key themes of the upcoming year for p&c insurers, revealing a cost challenge for the sector and a significant new risk surrounding cyber security. (The survey analysis reflects about 100 responses from p&c insurers, reinsurers, brokers and other service providers. A total of 27% of respondents identified themselves as members of executive management and a further 16% reported being external board members).

The single biggest opportunity identified for 2015 is the improvement of operational processes and technology, up from the third-ranked opportunity in 2014. In all, 86% of the 94 respondents surveyed indicate their organization is either actively implementing or developing business process and technology improvement projects. However, cost reduction initiatives were ranked lowest of the opportunity-specific priorities.

How to explain this anomaly?

IMPROVING OPERATIONAL TECHNOLOGY

From 2007 to 2013, general expenses and commissions of large p&c insurers rose faster than the growth in premium volumes, resulting in an expense ratio of 26.57% in 2013 compared with 25.72% in 2007 (excluding premium taxes).

With an estimated 3.5% to 4% of net premiums collectively invested each year in IT infrastructure, it seems that investment is being made with limited efficiency gains, suggests a review of the 2007-2013 financial results of 12 large-sized p&c insurers.

Indeed, 38% of survey respondents identified the cost and risks of IT investments as a significant challenge to their respective businesses.

The real challenge for the p&c insurance indus-

2015's Top 10 Risks and Opportunities

Top 10 Opportunities					Top 10 Risks				
2015			2014		2015			2014	
Rank	%	Opportunities	Rank	%	Rank	%	Risks	Rank	%
1	6%	Improvement of operational processes and technology	3	56%	1	69%	Regulatory and compliance burden	1	67%
2	59%	Customer data analytics to improve underwriting, pricing and marketing	1	64%	2	52%	Low interest rates	3	60%
3	55%	Improved understanding of risk and capital (better use of capital and management of risk)	1	64%	3	47%	Cyber security risks	-	-
4	40%	Customer self-service technology to improve customer services satisfaction and improve costs	5	40%	4	46%	Catastrophic loss events	2	63%
5	34%	Technology to charge for risk better (e.g. telematics)	4	49%	5	44%	Climate change affecting claims costs	5	47%
6	33%	Investment in organic growth (new products, pricing strategies, geographic expansion)	9	36%	6	38%	Costs and risks of IT investments	6	45%
7	31%	Mergers and acquisitions to improve market position and economies of scale	7	38%	7	38%	Increased regulatory capital requirements	-	-
8	29%	Consumer preferences shifting to new distribution channels	10	34%	8	36%	Accounting and actuarial changes	4	52%
9	25%	"Treating customers fairly" initiatives to reduce market conduct risks and strengthen customer loyalty	8	36%	9	35%	Regulation of insurance pricing	8	39%
10	22%	Cost reduction initiatives	-	-	10	31%	Competitors with better data analytics capability	9	36%

- = not in top 10 in 2014

Risky Times: 2013 v. 2014

2013		2014	
–	A series of natural catastrophes cost the industry some $3.2 billion in insured losses[ii].	+	No natural catastrophes of consequence.
–	Ontario automobile subject to 15% rate reduction[iii], coupled with uncertainty about fraud-fighting legislation.	+	Bill 15 passed into legislation. While work remains, progress has been made and rate reductions are being managed.
?	Insurers were stepping into the unknown, developing their first-ever ORSA (Own Risk & Solvency Assessment).	+	The first step on the ORSA was completed, results are submitted and the fear of the unknown has been conquered.
		–	Cyber security hits the front pages. While cyber liability presents opportunities for some p&c insurers, the threat level to all remains high and rising.

Notes: ii Insurance Bureau of Canada, January 20, 2014
iii Ontario Ministry of Finance, November 20, 2014

try in Canada is to harness technology to successfully deliver both business improvements and greater efficiency — to become fitter, rather than fatter.

DATA & ANALYTICS

Unsurprisingly, data and analytics (D&A) remains listed at the forefront of opportunities that p&c insurers want to capitalize on in the coming months and years. While other industries, such as telecoms, may have already focused on digitally enhancing customer experience, insurers have largely focused on their core competencies of risk and pricing when it comes to client service.

Transforming Insurance, a KPMG Global study of more than 500 attendees of the International Insurance Society 2014 Annual Seminar, found the challenges insurers face to be intensely practical, with 35% of global respondents citing legacy systems as the biggest single barrier to greater use of data and analytics.

While there remains more that can be done to hone the pricing of risk, the optimization of the customer journey — refining customers' interactions across multiple touch points and multiple channels — is clearly a significant opportunity that insurers must not overlook. The potential for more informed interactions with customers (tailored to their specific needs and preferences) holds a significant opportunity for increased customer satisfaction, improved retention and cost savings, as well as cross-selling and upselling.

Operating successfully in a digital world is driven by an experimental, test-and-learn culture — the most challenging step on the D&A journey will often be simply taking the first one.

ORSA: ROUND TWO

The understanding of risk and capital remains prominent in the opportunities identified for a second straight year. In 2014, it looked as though the imminent production of the inaugural ORSA (Own Risk and Solvency Assessment) led to a belief that better use of capital and management of risk represented a significant opportunity.

Now one year later, the ORSA first edition has been completed and as insurers stand back and admire their work, they are wondering how they compare to their competitors, and what the reactions of their regulators will be.

It appears that the ORSA process has sharpened the focus of discussions on risk and capital at executive and board levels, despite some initial reservations.

The fact that the insurance industry still views the improved understanding of risk and capital as an opportunity speaks to how far the understanding of risk management has come over the past few years, and it may be that the new ORSA requirement has been the catalyst.

Looking forward into 2015, companies want to understand where they are in comparison with their peers, and see what leading practices emerge to optimize their use of capital as they shape their 2015 ORSA agendas.

WHAT A DIFFERENCE A YEAR MAKES

2015 follows a year of calmer waters, which, in turn, followed a choppy 2013 that saw a run of natural catastrophes and significant uncertainty in the regulatory arena. Despite smooth sailing on the catastrophe front, one constant remains — the sector's concern with the regulatory and compliance burden it faces.

Cyber security: centre stage

Cyber security risks replaced the risk of catastrophic loss events in the survey's Top 3 risks identified. Last year, it was surprising that cyber security did not resonate strongly — it did not so much as land a place among the Top 10 risks identified.

Minds were focused over the last year by several high-profile attacks to major corporations, where hackers were able to access personal information, credit card details and even photographs. It is now clearer than ever that cyber security presents a very significant risk to all sectors.

The potential that cyber criminals have to destroy reputations is of particular concern to insurers given that trust is the foundation of the p&c insurance industry. With hackers able to penetrate any weakness in defence, it seems that no company or sector is immune — and so, the focus has switched from planning for "if" to planning for "when."

On the flip side, commercial lines insurers are offering specific cyber liability coverage and associated risk mitigation to assist their commercial customers in managing loss in the event of a breach.

Although not yet identified as an opportunity in the survey, time will tell whether or not this proves a profitable new market.

Danger ahead: oil on the road

Traditionally regarded as an issue of greater concern to life insurers and wealth managers, low interest rates remain a significant and growing risk for p&c insurers. Since last fall, the unexpected and quickly dropping global price of oil eventually materialized in the Bank of Canada taking markets by surprise this January, cutting the benchmark interest rate by 25 basis points to 0.75%, as plunging oil prices started to take their toll on Canada's economy.

Last year, the hope was for a less volatile outlook for interest rates and a calmer year for weather. While the wish for the weather was granted, interest rates will likely continue to remain unpredictable.

As the rest of the year plays out, the country will continue to observe the effects of the lowered Canadian interest rate and the volatile price of oil.

Faced with the prospect of longer-term low interest rates, it becomes even more important that insurers grasp opportunities from a sound foothold of risk and capital management to help ensure they become leaner and fit-

Bringing Data Home

Sometimes seen as the "poor cousin" to auto insurance in terms of resources and investment, personal property is now a hive of activity in data analytics. Insurance companies are using internal and external sources of information to delve into more specific by-peril rating, loss cost development and operational efficiencies in areas such as claims management. It all adds up to what one insurer calls an "arms race" to tap data for business advantage in homeowners insurance.

CRAIG HARRIS

With the recent buzz generated around data, the migration from telematics in auto insurance to advanced analytics in homeowner risk is not surprising; perhaps it is even inevitable. Several factors have come together to push the quest for information on homeowners insurance to a different level.

"The successes in other lines of business and applications have created capabilities and awareness of the power of predictive analytics," says Greg McCutcheon, president of Opta Information Intelligence. "Many started with personal lines auto, claims triage and other related supply transaction costs… Personal lines property is a natural evolution," McCutcheon suggests.

Given that homeowners insurance accounts for roughly 20% of the overall property and casualty insurance premium volume pie, it stands as a significant line of business. With losses mounting from severe weather, water damage and other claims, there is heightened pressure on the personal property product in terms of rating, underwriting and loss reduction.

"If you look at the results of Canadian insurers over the past couple of years, you can really see the impact of weather-related claims," says Mary Trussell, partner with KPMG Canada and a member of the firm's global insurance leadership team. "The shape of risk is changing. Insured values are rising. In what might initially seem like a row of uniform houses built in the 1970s, many have likely been redeveloped and renovated," Trussell observes.

DRIVING CHANGE

"One piece driving this is that personal lines property has struggled in terms of profitability, particularly in Western Canada," says Simon Mellor, assistant vice president of pricing and reinsurance for SGI Canada. "Insurance companies are placing an increased focus on these products," Mellor suggests.

It is not just troubling loss ratios, but also the availability of data that has helped spur change in homeowners insurance. Moving beyond internal transactional data to outside sources of information has proved highly valuable in drilling down into individual risks and offering even more thinly sliced segmentation.

"There is more and more external data available from all kinds of different sources," says Shelley Toyota, vice president of personal insurance for RSA Canada. "Whether you are talking about flood models, postal code data — there is more access to different kinds of data than ever before. And then the dilemma becomes, when you are dealing with masses of data, do you have the technology to manage it?" Toyota asks.

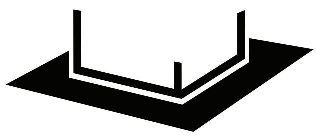
Chris Van Kooten, senior vice president and chief underwriting officer for Economical Insurance, comments that in addition to data, p&c insurers today have access to more sophisticated analytic tools and greater computing power. "We are finding ways to do more things with larger data sets," Van Kooten reports.

"New solutions coming out from a technology perspective put the old way of managing data behind us. Previously, you had to take all your data and structure it into a format that you can easily pull from; the new solutions allow you to just put blobs of data onto systems, not structure it," he reports.

"Over the last few years, it has become somewhat of an arms race of being able to understand your data better than your competitors," says Van Kooten.

"I think we are at a tipping point," suggests Keith Walter, senior advisor with Deloitte in Canada, who specializes in analytics and actuarial work.

"The vast majority of significant p&c insurance players have either implemented or are in development with data analytics for homeowners insurance within the next 12 months. By the end of 2015, it will be a requirement for players in this space," Walter contends. "Those that get left behind can be severely disadvantaged," he cautions.



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GATHERING DATA

In a survey of 99 insurance homeowner representatives in the United States and Canada, results of which were released this past November, Verisk Analytics and Earnix found 57% of respondents now use predictive modelling for homeowner loss cost development. As well, 8% of those polled use a by-peril rating structure, which focuses on gathering data on individual perils to determine an accurate price for each level of risk.

One of the prime reasons for increased usage of data analytics is to curb worrisome trends in the loss ratio, which jumped from 58% in 2012 to 74% in 2013 for personal property lines in Canada.

A study of U.S. insurers in 2012 found that those with by-peril rating plans had loss ratios 7.4% lower than companies using traditional rating systems, reports Douglas Wing, assistant vice president of analytic products at ISO, a source of information about property/casualty insurance risk now part of Verisk Analytics.

"The prime benefits (of data analytics) are improved loss ratios with lower loss costs, better rate for risk or pricing, optimized loss control and better understanding of the risks your portfolio faces," says McCutcheon, whose company works closely with Canadian insurers on predictive modelling, data analytics, property data and peril scoring.

Advanced data analytics for homeowners insurance can entail a number of head-scratching terms, such as univariate analysis, sampling, regression/general linear modelling, splines and spatial smoothing. However, at its heart, it involves finding useful data, or patterns of data, that inform business decisions in rating, underwriting and claims.

By-peril rating is one of the first tangible outcomes of that process.

"The whole point of analytics is to try to understand the information that your company has at a deeper level, whether that means doing it by peril or through different ways of grouping the data," Mellor points out.

"What you are trying to do is extract new and actionable information with the data, and breaking it out by peril is one way of doing that," he says.

SGI Canada moved to an "individualized rating environment" for personal lines insurance in January 2014.

EMERGING PERILS

Toyota explains that the peril of fire has been eclipsed by other risks, including inside water damage, outside water damage, ground-up water damage, hail, hurricanes and earthquake.

"All of these perils are emerging. And it is forcing us to ask: What other data is available? How do we couple external data with our existing data? Do we have the technology to actually pull out the insights?" Toyota says.

"By-peril rating is something that makes a lot of sense from a pure pricing perspective, but it also helps in giving consumers some options," notes Van Kooten. "For example, if they live in an area where they get sewer back-up every year, maybe they can opt out of sewer back-up coverage because it is so expensive," he says.

"By giving them more information about it, they can start to manage some of that risk themselves and take action to reduce their exposures," he adds.

"Insurers are able to improve pricing because they have a better understanding of by-peril exposure, both likelihood and severity of specific losses," McCutcheon observes. "Knowing that risk can never be completely eliminated, applying loss control or targeted underwriting action to specifically identified properties improves the return on investment for such initiatives," he notes.

ACHIEVING EFFICIENCIES

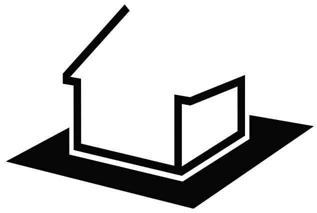
Greater accuracy in pricing is not the only potential benefit of data analytics in personal property insurance. Walter suggests that operational efficiency in areas such as claims management may emerge as a significant breakthrough for insurance companies.

"Insurers are trying to find ways to intervene in and improve the claims-handling process for better overall outcomes," he says.

"We see things like the risk of exaggerated claims and the opportunity to do a better job working with the client to reduce claims costs — these areas are very ripe for improved data analytics," Walter adds.

Mellor observes that data analytics can also lead to more innovative products in homeowners insurance. "Looking at data in new ways, I think, ultimately contributes to the evolution of the product and new offerings," he says. "This creates more choice for customers, which could include loss prevention," he suggests.

"Once companies start to manage their own data effectively, you start to look for external data sources that might supplement the information you have," notes Van Kooten. "There are a lot of things you can do with that. It can go into your pricing, it can go into product design, customer experience and providing additional tools so that customers and brokers can understand what is happening with their risk."



"The vast majority of significant p&c insurance players have either implemented or are in development with data analytics for homeowners insurance within the next 12 months. By the end of 2015, it will be a requirement for players in this space," contends Keith Walter of Deloitte in Canada.

Innovation may find a more likely breeding ground in personal property lines, as opposed to the more rigid side of auto insurance.

"The interesting thing about homeowners insurance is the opportunity to introduce new approaches," Walter says. "Auto insurance tends to have more regulatory control. You have more flexibility in personal property. And insurance companies are rolling out new methods and new technology."

CONSUMER RECEPTION

While insurance companies talk about enhanced transparency of pricing through data analytics and by-peril rating, this could be a difficult sell to consumers who see a spike in premiums as a result of repeated claims activity.

Clearly, there will be winners and losers in the personal property data game. One of the main challenges will be how to communicate those changes to customers.

"We have to translate the science into a language that customers and brokers understand," says RSA Canada's Shelley Toyota. "Sometimes, we can get caught up in our own sophistication. At the end of the day, we need to spend more time asking, 'What does this mean to brokers in terms of their ability to better serve the customer?'" she points out.

"Instead of saying, 'Here is sophisticated black-box underwriting,' we need to boil it down to: 'This is the outcome, here is how you can explain it to the customer to help manage the risk and premium,'" Toyota says.

"I really think it is going to be about how companies can find a way to use (data analytics) to enhance the customer experience, rather than just pad company profits," says Van Kooten. "There is a lot of work to be done by the insurance industry on making insurance products and the entire experience more user-friendly," he contends.

"Having good data and generating high-quality analysis doesn't provide value unless the company changes the way it does business. It has to be in the interests of all stakeholders, and most critically, the customers," Mellor adds.

CLEARING HURDLES

Sources say, however, that there are several obstacles that line the path of data analytics and meaningful business results for homeowner insurers. Broad industry challenges include the availability

"The policy performed exactly as it should...."

~ Greg Kaiser
Economical policyholder

For avid collectors such as Greg, art is a major part of his life. So hearing the words "there's a fire at the house" was devastating. Luckily, his insurer is Economical. With an adjuster on scene within hours and the restoration process underway, his paintings — and his life — were soon back to normal.

Because their story is ours too.

Watch real claims journey at **economicalinsurance.com/stories**

Financial Strength Rating A.M. BEST A- Excellent

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of analytic resources, both human and technology, access to verifiable data and the ability to modify old rating structures and underwriting processes to reflect new analytic approaches.

"There needs to be a steady state of investment, but also an underlying process to make it work," Toyota notes.

"There are different types of resources that go beyond pure actuarial work. The external challenge is making sure that our broker partners and customers come on the journey with us. The internal challenge is making sure the benefits that we are deriving out of data analytics can pay for the investments, so we don't have to pass it on to consumers."

KPMG Canada's Mary Trussell points out that a global KPMG study, called *Transforming Insurance*, identified integrating data analytics into existing systems as one of the top challenges facing property and casualty insurers.

"It is really about turning theory into practice," she suggests. "It is becoming much easier to migrate data and because of that, we are seeing insurers step up to that challenge. So instead of having fragmented legacy systems, they are investing in unified platforms to give them a much better grounding to analyze data," she reports.

Van Kooten says Economical Insurance is in the process of changing its legacy policy administration system to allow for easier integration of data analytics.

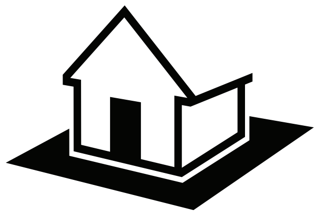
"Going to a space where the industry is really interested in quality of data and collecting more data, most insurance companies are finding that their legacy systems are not getting the job done," he says. "I think that will be a game-changer as well."

Access to reliable, clean data is a necessary precondition for sound analytics, but some say that inaccurate information still plagues insurers on personal property files.

"Believe or not, address quality and related data has been a specific challenge for some carriers," McCutcheon reports.

"Deciphering an address to match it with other data sources and to be able to pinpoint its exact roof-top location can be a challenge when dealing with years of renewal business or legacy data," he adds.

"Postal codes and municipalities have been scrubbed and standardized in some cases, but rural addresses, streets and valid unit numbers still pose problems for carriers," McCutcheon says.



"Based on the interest we are getting, the increasing property claim costs, the natural evolution of existing strategies and the need to protect against anti-selection, a dozen or so more will adopt some type of analytics on property in the next two to three years," says Greg McCutcheon of Opta Information Intelligence.

Another potential pitfall is whether or not new data analytic approaches will be embraced by insurance companies rooted in traditional rating structures.

"One other challenge remains the adoption and acceptance in trusting the output provided by predictive models and solutions," says McCutcheon. "Old ways of pricing risks rely heavily on the insured, or the broker or the agent, to address many subjective questions about the home, such as the quality of finishing throughout," he points out.

Insurers that move to data-based predictive modelling remove the "art" aspect of rating and underwriting to a more scientific approach. "Now, predictive analytics can remove these subjective questions and, instead, draw from a greater pool of structured data," says McCutcheon.

LEADING CHANGE

Walter contends the need for change in how data is analyzed and used in the business requires leadership from the top of the insurance company. "One of the most important issues is executive sponsorship," he argues. "How does this fit within the organization? Who is the sponsor? Who is driving it forward? It is a cultural change issue and it does require executive leadership."

Walter also cites Deloitte research into how companies in all sectors of the economy integrate data analytics into practical business decision-making.

"A key part of this is that winners are those who are able to achieve bite-sized success," he notes. "It is not a 'one-hit' or 'do-it-all-at-once' approach. It is about ongoing improvements to the business that are most likely to be sustainable."

Mellor echoes these comments in his description of SGI Canada's approach to data analytics in personal property insurance. "This is an ongoing exercise; it is not something that you launch and you get perfectly right the first time. There is incremental learning as you continue to implement analytics," he says.

The evolution of data analytics in homeowners insurance may hinge on the ability of insurance companies to seamlessly integrate new techniques into their business pricing and underwriting processes — while also keeping customer needs at the forefront.

"You look at all the smart-home monitoring devices people have now, such as security systems with built-in water detectors and remotely controlled thermostats. Insurance companies would love to have access to that information," says Chris Van Kooten of Economical Insurance.

Toyota issues a word of caution on what she calls the potential dangers of "micro' segmentation and a "hyper-analytical" approach.

"We have to make sure we have the customer needs and preferences in mind," she advises. "You can keep segmenting and segmenting to a micro level. At some point, you have to step back and make sure the customers' needs and wants have a dimension in what could be a hyper-analytical environment," she goes on to say.

"We are trying to find that optimal balance between data analytics and customer needs," Toyota suggests.

"I think it is about being agile in terms of being able to integrate data analytics into the business," Trussell observes. "The interesting question is, Will it be the larger players who succeed or can the smaller players be more nimble?" she asks.

"Insurance companies of all sizes now have higher-quality data and more analysis and expertise," Mellor comments. "So there has been a flattening of the playing field. Predictive analytics is no longer the domain of just the largest, most sophisticated companies; it has really become table stakes," he says.

"There are a number of first-movers, from all tiers, who will drive implementations fiercely into their operations early on," McCutcheon observes.

"Based on the interest we are getting, the increasing property claim costs, the natural evolution of existing strategies and the need to protect against anti-selection, a dozen or so more will adopt some type of analytics on property in the next two to three years."

With early-adopters on board, many sources say the competitive advantage will narrow as quick returns gradually diminish in value.

"Companies will gain advantages in the short term through data analytics, but these will close relatively quickly as others adapt," says Walter. "The focus tends to shift to finding new and valuable sources of data."

These "new sources of data" could involve smart home applications and data from personal property monitoring devices.

"Some of this is in its infancy, so there is so much potential for data we could use," suggests Van Kooten.

"You look at all the smart-home monitoring devices people have now, such as security systems with built-in water detectors and remotely controlled thermostats. Insurance companies would love to have access to that information," he says.

While insurers seek out new forms of data for competitive advantage, Walter contends that it is the expertise of data analytics itself that will separate successful insurers in personal property lines from the also-rans. "The long-term winners are those who will see data analytics as a core capability of the organization," he says.

"It is not a new product or new initiative. There are opportunities across revenue generation, claims cost management and operational efficiencies. The winners will be those that regularly invest in opportunities across that whole spectrum by building a core capability within their organization," Walter suggests.


JANUARY 29TH, 9:22 A.M.
QUICK INSIGHTS LEAD TO LONG-TERM OPPORTUNITIES
IN AN INSTANT, KATE MORLEY UNLOCKED A NEW LEVEL OF SUCCESS
Thirty minutes was all the time Kate had to spend with her CNA Underwriter, Phil Samms. And in that instant, Phil helped Kate unlock the code to a deeper understanding of her clients' business insurance needs. Kate was able to deliver the products and expertise her clients depend on to work the bugs out of their exposures. Way to go, Kate.
To learn more about our comprehensive portfolio of insurance products and services, and the industries we serve, visit www.cnacanada.ca.
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Taking Flight

Jamie Bisker
Senior Analyst.
Insurance,
Aite Group

Cognitive computing is here, with the emphasis today being contextual understanding and integration of information into actionable business knowledge. Looking forward, though, coupling real-time information about risks and policyholders with the ability of cognitive computing to make sense of that information could prove a real tipping point for the insurance industry.

One hundred and six years ago this February, the Silver Dart inaugurated controlled powered flight in Canada. The airframe had flown previously in New York by its Canadian and U.S. creators (Alexander Graham Bell was a backer) and was re-assembled after having been shipped to Nova Scotia.

That first flight took off from the frozen Baddeck Bay and covered slightly less than one kilometre. In August of the following year, the Silver Dart would be used in Canada's first passenger flight as well.

Aviation history unfolded with improvements and innovations at a somewhat startling pace that continues today. The nature of powered flight and its inherent risks and rewards is what drives the exacting engineering that provides society with one of the safest modes of transportation available.

For the insurance industry, the need for innovation has cultivated persistent calls from analysts and observers alike for this business to pay closer attention to other industries. The lessons from aviation are of particular import to insurers as they begin to grapple with the capabilities and possibilities of an advanced form of information processing known as cognitive computing.

In recent years, insurance executives have learned to be wary of the latest technological offerings and to cast a jaundiced eye at whatever information technology (IT) trend is being hawked. The challenge, of course, is to know when to really

Illustration by Scot Ritchie

pay close attention and when to be cautious of what is being sold.

With those caveats in mind, it is exceptionally clear that the benefits and value provided by cognitive computing are not to be dismissed.

Information systems of this nature — also called smart or intelligent systems — produce accurate and useful results on a given topic that would normally require trained and experienced human artisans or professionals to do the same.

The insurance industry is familiar with previous versions of this technology in the form of automated or expert underwriting systems, rule-based workflows and fraud detection systems that are in broad use today.

THIS GENERATION

Today's generation of intelligent systems continue to benefit from ongoing academic and industrial research into artificial intelligence. The emphasis for today's systems is contextual understanding and integration of presumably disparate information into actionable business knowledge.

This is most evident in systems that work with natural language (NL, namely common, everyday speech and text) data stored in insurance systems. These systems can understand the meaning of the unstructured data found in insurance functions that include new business processing, underwriting, customer service, claims and retention, upsell and cross-sell activities.

It is this concept of understanding what something means versus just recognizing a keyword that is the source of cognitive computing's power. For insurers, the biggest value will come from applying language understanding and other aspects of cognitive computing to support existing operations while simultaneously ushering in new business models.

Cognitive processes are at work improving the efficiency of traditional operations in a growing number of insurance companies by augmenting and enhancing the capabilities of skilled professionals.

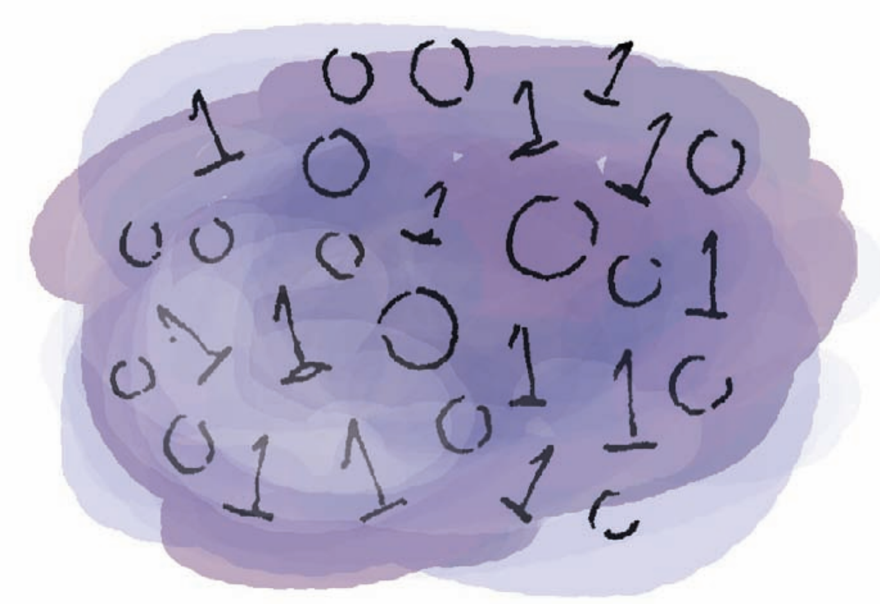
For example, carriers are using tools such as IBM's Watson deep question answering (DQA) tools to help verify the medical necessity and adherence to guidelines for medical procedures.

Other insurers use NL understanding systems to react sooner to customer communications that indicate retention problems or to target suspicious claims for closer scrutiny based solely on text provided by the claimants.

By combining NL capabilities with access to big data to drive predictive models, carriers can improve the interactions of customer-facing staff on the fly.

THE NEXT GENERATION

When looking to new business models, insurers can again reflect on the airline industry. One of the core reasons that



airplanes went from being an incredibly dangerous way to travel to the safest mode of transportation available is that it constantly works to stay abreast of useful innovations. In fact, the danger and risks of flying have, if anything, increased (people fly higher, for longer periods, in much more crowded skies, in more types of weather, etc.) and yet it remains safe by almost any standard.

The next generation of insurance will take a page from aviation's flight plan to enable business models that focus on individuals. Insurance executives can see that modern aircraft rely on precision sensors, networks of information providers, and employees dedicated to the entire proposition of providing safe flights around the globe.

Individual aircraft on assigned flights must deal with complex navigational tasks, weather monitoring and passenger safety and comfort to achieve that goal. This complex process must happen in real time and with a great deal of attention being paid to the accurate execution of each task.

Insurance today clearly does not work under such critical, real-time demands, instead being more focused on the outcomes of prior predictions over much broader time scales.

Insurance has been able to move forward on a kind of minimalist approach; what was used for any given process was that which was just good enough to accomplish the risk management task at hand, or the profit goals being set.

And that is the point: the innate, verification of the rearview-mirror-watching model of insurance can change.

The intersection of real-time information about risks and policyholders coupled with the ability of cognitive computing to make sense of that information in context is a very real tipping point for the insurance industry.

As the results of activities and events are tallied, such systems can learn from the individual and from other policyholders using personal risk management. Everyone covered will benefit from the extent of coverage they want and the amount of information they agree to share.

One version of the new business model is called personal risk management, or PRM. The overarching scenario is that carriers can provide dynamic coverages for individuals based on policies that use a "power-of-attorney" approach to bind or rescind coverages as they are needed.

This produces coverages that are much more granular and tuned to real-world situations. Sensors in devices, homes and vehicles communicate on the Internet of Things (IoT) to provide data and information to cognitive systems that supervise ongoing coverages.

A key aspect of the PRM model is that a policyholder starts with an umbrella-type policy as a foundation of coverage (found-brella?) instead of one that is added on top of every other coverage.

As PRM-covered individuals move throughout their lives, dynamic coverages adjust to meet their needs for risk management based on the evidence gathered from authorized sources.

And, as the results of activities and events are tallied, such systems can learn from the individual and from other policyholders using PRM. Everyone covered will benefit from the extent of coverage they want and the amount of information they agree to share.

Even when privacy concerns may cause people to opt out of information sharing, the crowd sourcing of risk data (i.e., enough people will be participating in events similar enough to those of a policyholder that reasonable conclusions can be made for insurance purposes) will still provide sufficient information to support most coverages, and even many discounts.

This scenario could, of course, unfold in phases where various aspects of traditional policies are made dynamic and eventually more would follow.

THE FUTURE GENERATION

As carriers continue to meet business goals and hone the efficiency of their operations, the biggest change they need to consider going forward is how they will use innovative technology.

Using a cognitive approach to insurance can clearly support and extend today's model of insurance by making it more resilient in the face of ever-changing risks and customers' expectations.

However, the real power of systems that understand more of the information embedded in people's data and processes is that they can enable new ways of achieving profitable and adaptive risk management. Think about it.

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Appreciating Depreciation

Consideration of depreciation as a saved expense in the context of fully destroyed and replaced assets is well-trodden ground. But what about the question of how best to deal with depreciation savings for undamaged assets in a business interruption claim?

Timothy Zimmerman
Senior Manager, Litigation Accounting and Valuation Services, Collins Barrow Toronto LLP

From an accounting perspective, it is generally quite clear that when an asset is destroyed as a result of a peril (for example, fire or flood) the depreciation on that asset ceases. This, in turn, results in the depreciation expense being saved by the insured.

But what happens when an asset is not damaged? Should depreciation on those assets be considered a saved expense?

Depreciation is a non-cash expense used to allocate the cost of an asset over its useful life (most assets lose their value over time and must be replaced once reaching the end of their useful life). There are four principal causes of depreciation:

1. functional — asset declines in productivity or service over time;
2. physical — asset deteriorates due to environmental factors over time;
3. technological — asset become obsolete from improved technology; and
4. economical — asset devalues as a result of economic factors.

Now consider how things might play out when there is a fire involving an insured who owns and operates a small stamping business with two major assets: an extravagant rotating sign — which has a useful life of 10 years based on the gradual deterioration from weather — out front of the business that the insured depreciates using the straight-line method (depreciation is charged uniformly over the life of an asset); and a stamping machine that has an estimated useful life of 100,000 stamped widgets that the insured depreciates using the units of production method (depreciation is charged based on the actual usage of the asset).

Assume a fire occurs at the insured's premises. The building is destroyed, including the stamping machine, but the sign remains undamaged. As a result of the fire, the business is unable to operate in any capacity for 12 months.

It is clear that since the stamping machine was totally destroyed, any depreciation that would have been incurred on the machine would be saved. But would it be appropriate to consider any depreciation saved on the undamaged sign?

Alternatively, what if an uncontrolled truck drove off the road, destroyed the sign and went through the building, but the stamping machine was undamaged? Since the sign was totally de-

Depreciation Expense						
	Year 1	Year 2 (Indemnity period)	Year 3	Year 4	Year 5	Year 6
But for the incident	$1,000	$1,000	$1,000	$1,000	Purchase new machine	
Due to incident	$1,000	Nil	$1,000	$1,000	$1,000	Purchase new machine

Depreciation Expense							
	Year 1	Year 2 (Indemnity period)	Year 3	Year 4	Year 5	Year 6	Year 7
But for the incident	$1,000	$1,000	$1,000	$1,000	Purchase new machine	$1,000	$1,000
					Depreciation on new machine $1,000		
Due to incident	$1,000	Nil (Saved depreciation $1,000)	$1,000	$1,000	$1,000	Purchase new machine Depreciation on $1,000	$1,000

stroyed, any depreciation on the sign would be saved, but would it be appropriate to consider any depreciation saved on the undamaged stamping machine?

In assessing whether or not depreciation is saved on an undamaged asset, the following key questions must be asked: What is the depreciation driver and method of depreciation? Has the useful life of the asset been extended as a result of the loss?

POSSIBLE OUTCOMES

With regard to the fire at the stamping business, the sign is being depreciated based on its expected useful life of 10 years due to its gradual deterioration from the environment. If the business was not operating for 12 months, the sign would continue to be exposed to the same weather conditions and would need to be replaced at the same time irrespective of whether or not the business was operating. On this basis, it would not be fair to the insured to calculate depreciation savings since there has not been an extension to the useful life of the asset.

The most common approach used is to assume that, as a result of the incident, the depreciation on the machine has been saved since the useful life of the asset has been extended and no depreciation is actually incurred in the indemnity period.

Conversely, if the stamping machine was not damaged by the rogue truck piling into the building, would the useful life of the asset have been extended if the business was closed for 12 months? Generally, the answer would be yes.

The method of depreciation for the stamping machine is the number of units produced, and if the business ceased operating, no units would be produced. Further, since the machine would be able to produce the lost units after the business recommences, the useful life of the machine has effectively been extended.

It has been argued that the actual depreciation savings takes place subsequent to the resumption of operations and that the savings to the insured is the time value of money associated with the purchase or replacement of the machine in a future period.

To illustrate this point, consider that a machine is purchased at Year 1 for $4,000, the units of production depreciation method is used, there is 1,000 average units produced annually, the total life in number of units is 4,000, and the salvage value is nil (see upper chart to left).

Although depreciation is not incurred in the year of the incident, the depreciation, in effect, has been deferred by one year. On this basis, an argument can be made that the depreciation is not saved, but the extension of the useful life of the asset has caused the deferral of the purchase of a new machine, which would result in a savings based on the time value of money related to the investment in a new machine.

However, what happens if the insured decides to increase production after operations resume? If so, the purchase of the new machine may occur at the same time as if there had been no incident, which would result in no savings to the insured.

Another issue to consider with that approach is it does not consider any future depreciation charges incurred by the insured on the purchase of the new machine. Given these issues, it begs the question: What is the proper approach?

This approach is based on the argument that even though the replacement of the undamaged asset may be deferred, the insured will incur annual depreciation charges on either the existing undamaged machine or a newly acquired machine.

As such, if the insured has no production activity during the year following the incident, the insured has saved a year's worth of depreciation (see lower chart on page 51).

PARTIAL SAVED DEPRECIATION

All scenarios are not so black and white as in cases where an asset is depreciated either entirely on time or usage. Consider, for example, a scenario involving a flood at a gravel pit operation. The entire operation is shut down, although, the dump truck remains undamaged.

When the truck is not in use, it sits in the gravel pit and gradually deteriorates from its exposure to the environment; when it is being used for production, it depreciates more quickly from wear and tear. In this situation, it appears the truck will have a portion of its useful life extended from a decrease in use.

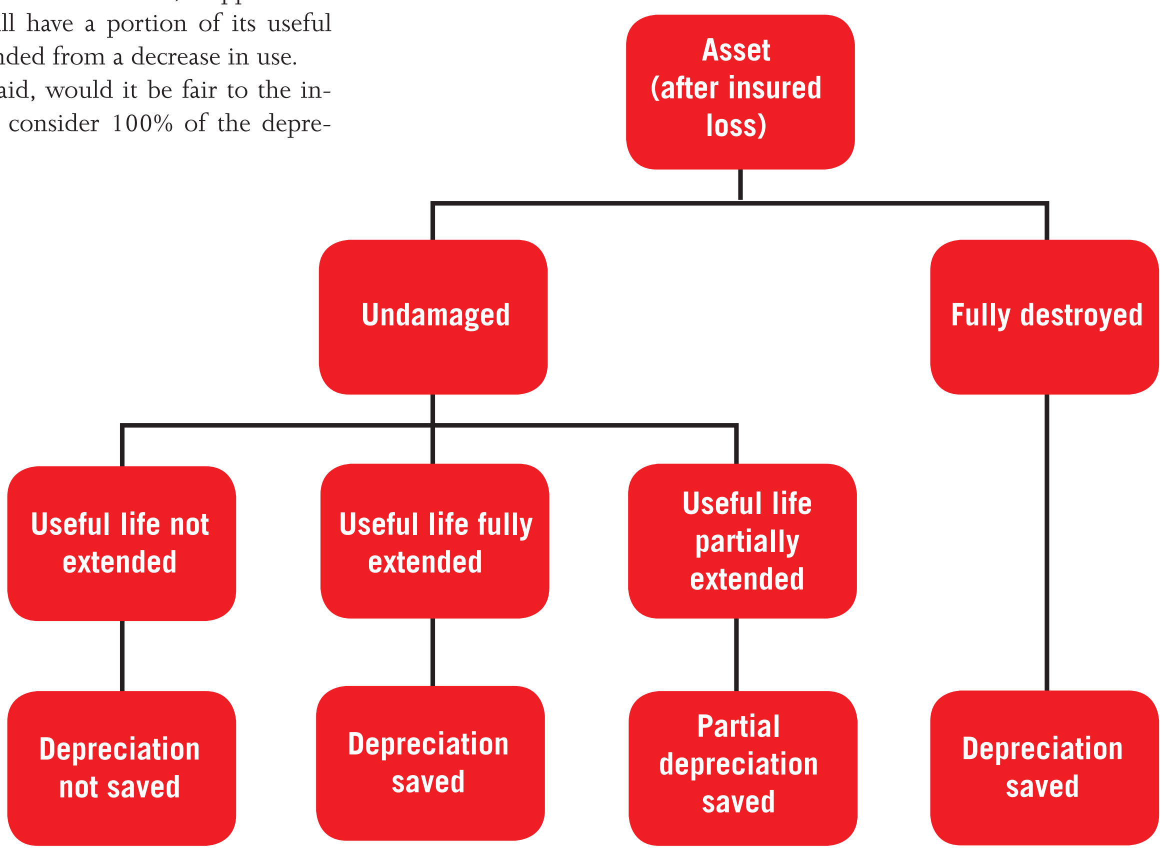
That said, would it be fair to the insured to consider 100% of the depreciation on the dump truck saved knowing that the vehicle is subject to gradual deterioration from its exposure to the environment? In theory, this would not indemnify the insured since the dump truck will depreciate over time as well as depreciate by use.

It has been argued that the actual depreciation savings takes place subsequent to the resumption of operations and that the savings to the insured is the time value of money associated with the purchase or replacement of the machine in a future period.

The question then arises: What is the appropriate portion of saved depreciation? Although, the answer requires professional judgment and a solid understanding of case-specific facts, in general, one should consider the following non-exhaustive list when estimating the depreciation saved on an undamaged asset:

- What is the primary and secondary driver of depreciation?
- How long would the useful life of the asset be extended without any use?
- Are there market comparables to determine annual change in market value for assets with similar condition?
- Does the insured have any comparable assets that were purchased and disposed of that may provide insight into the impact of time versus usage?
- Is the asset subject to technological obsolescence that would require the insured to periodically purchase a new replacement asset irrespective of usage?

Below is a chart depicting various possible outcomes. Given that depreciation of an undamaged asset can result in various outcomes, careful consideration of case-specific information is necessary to truly indemnify the insured following a loss.



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LET'S MISBEHAVE

Clearing
Innovation Obstacles

Michael Grant
Director of Research, Industry and Business Strategy, The Conference Board of Canada

Does the attitude of Canadian businesses create obstacles for innovation? A recent survey by The Conference Board of Canada shows that dealing with the top-rated innovation constraints would help businesses embrace more risk-taking and greater innovative activity.

For much of its history, Canada has underperformed in business innovation in relation to the world's leading economies. For several years, Canada has remained near the bottom of its peer group on innovation as noted in The Conference Board of Canada's *How Canada Performs Innovation Report Card*, released in December.

Canadian attitudes toward risk are often cited as a one of the biggest obstacles to Canadian innovation, with Canadians often described as conservative or risk averse. So what has risk got to do with innovation?

The Conference Board of Canada's Centre for Business Innovation conducted a national phone survey to examine Canadian businesses' attitudes towards risk and whether or not these actually affect business innovation. (The survey considered the topic from three perspectives: the risk-taking attitudes of Canadian business people; risk aversion as managerial constraint; and the risk-taking skills of Canadian employees, all three of which play a role in Canadian companies' approach to risk.)

ASSESSING RISK TOLERANCE

To assess risk tolerance, each surveyed Canadian business was asked to imagine its company has $100,000 to invest in innovation. Given the best- and worst-case returns of the four choices below, which would the leadership choose?

- $200,000 gain or $0 gain/loss;
- $800,000 return or $200,000 loss;
- $2.6 million return or $800,000 loss; and
- $4.8 million return or $2.4 million loss.

This question is designed to determine how large an investment the respondent thinks his or her company would make to achieve a specified return or a possible loss. The potential loss is geared to the gain, as it is in financial markets.

Of the 1,100 responses, 90.5% were from small businesses (under $25 million), 6.4% were from medium-sized businesses ($25 million and over,

To improve Canada's innovation performance, the number of Canadian businesses willing to take significant risks and that have the financial capacity to absorb losses must increase.

but less than $75 million) and 3.1% were from large organizations ($75 million and over). In about 80% of the cases, responses were from either the owner/manager or the president of the company (i.e., the one who should be in the best position to judge the risk tolerance of the company leadership).

WHAT THE RESULTS SHOW

At first glance, the results appear to provide evidence for risk aversion by Canadian businesses, with almost half of the businesses choosing the most conservative wager. Another 35% would take the second most conservative wager.

There is a 1 in 17 chance that a Canadian company makes the big bet.

However, when examining attitudes towards risk, it is important to take into account the ability of the company to take risk and absorb losses. Three questions are important to achieve a true assessment of risk.

First, how much money does a company have to lose? The Warren Buffetts of the world may consider the $2.4 million loss posed in the survey question to be little more than pocket change; yet, it would spell corporate ruin for many small businesses.

Second, whose money is being put at risk? The leadership of smaller companies tends to be the same as the owner who assumes the financial risk. As companies become larger, their capital structures become more complex, and owners may be a different group of people than senior management.

As such, the risk-takers are different than the risk managers. The managers are not actually personally at risk.

Third, how are the theoretical responses likely to relate to the actual business practices of the respondents? It is easy for someone to answer a theoretical question, but what is the likelihood that his or her survey answer reflects that person's actual risk management?

To shed light on these issues, the survey compared the respondent's answers on risk tolerance to 2013 sales. It used sales as an indication of company size and the capacity to absorb losses in the event that the $100,000 innovation wager does not work out as planned.

About half of the survey respondents were companies with sales of less than $1 million. These companies would be hard-pressed to make a $100,000 wager on an innovation project without some outside funding. And they are most assuredly not in a position to absorb significant losses on their own accounts.

Data suggests a clear alignment between risk-taking and a business' financial capacity. More than 70% of surveyed Canadian businesses are realists in terms of aligning their risk-taking and financial capacity.

However, about 10% of Canadian firms (just over 100,000) assume smaller risks than would be suggested by the scale of their operations. These companies are truly risk averse.

A somewhat smaller group (about 4% of respondents) are described as "wishful-thinkers" because their risk tolerance exceeds their capacity to absorb losses.

Finally, about 15% of polled companies are risk-taking "leaders" that both take significant risk and have the financial wherewithal to assume those risks.

WILLING, BUT UNABLE

Canadian businesses are willing to take risks — the problem is that they have limited financial means to absorb potential losses. The vast majority of businesses have aligned their risk-taking with their limited financial means. They may also be avoiding risk because they can succeed on some level without it.

This nuanced way of looking at the relationship between risk tolerance and innovation leads to somewhat different conclusions than analyses that assume all Canadian businesses are risk averse or, alternatively, that Canadians (either privately or publicly) should fund businesses with the greatest risk appetite.

To improve Canada's innovation performance, the number of Canadian businesses willing to take significant risks and that have the financial capacity to absorb losses must increase.

An improvement in risk-taking by Canadian business involves addressing the specific issues of each of these groups. For the risk averse, it is about encouraging them to be more risk-taking. The realists simply need to scale up their businesses so they can take more risk. And the wishful-thinkers need to convince outside parties, usually venture capitalists and angels, to fund their risks.

By making changes to leadership, management or corporate culture, risk-averse businesses could better position themselves to take more chances.

What are the top-ranked innovation constraints?

The survey found that the top barriers to innovation are regulations, lack of financing and time, lack of employee skills, and management. Leadership and organizational culture ranked low on the list of barriers.

Dealing with the top-rated innovation constraints would help Canadian businesses embrace more risk-taking and greater innovative activity.

Bucking the Trend

Nate Spurrier
Business Development Director, IDT911

Businesses and insurers are working to develop solutions that address needs and offer support in light of the many transitions currently unfolding in the data breach and cyber loss sector. What data breach trends should businesses and insurers keep an eye out for in 2015?

The pace of change in the cyber and privacy risk worlds is downright frenetic. Exposures today do not always target the same kinds of information, or have the same goals, that they may have had just a few years ago.

With all the transitions happening in the data breach and cyber loss sector, businesses and insurers alike are working to develop solutions that address real needs and provide real support. Understanding the trends — which types of privacy and security breach events are on the rise and where risks still exist — will help producers match clients with the right products.

ARE BREACHES REALLY GETTING BIGGER?

While several recent breaches have been truly massive in scale, it would not be accurate to say that breaches are getting larger as a whole. Instead, it is likely that the visibility of these breaches has been skewed a bit.

Small breaches rarely make the news, whereas big exposures get a lot of press. That means most people are familiar with huge breaches such as those that involved Target and Home Depot, but the public does not hear about the myriad exposures that are lesser in scope.

Another reason the rate and size of breaches may seem to be growing is because businesses are simply getting better at identifying that they are, in fact, happening.

Organizations of all sizes have increased their awareness of exposures, they have implemented technologies to spot suspicious activity, and many have put in place much better alerting tools than was common in years past.

This trend of better breach knowledge has created a good situation for insurance companies. It means more organizations are becoming better risks because they have a far deeper understanding that they need to protect their information, and they are also more aware that they must have

Illustration by Scot Ritchie

mechanisms in place to quickly identify potential exposures.

With more of the smaller breaches being caught early, it shows an increasing number of businesses are not likely to ignore those larger situations that have a tendency to get out of control.

HACKERS MOVING BEYOND PERSONAL INFORMATION

It is sometimes difficult to discern whether or not more personal information is really being exposed these days. Though enormous amounts of consumer data — among these, financial, health and personal — have been involved in security incidents, many of the breaches in recent years have not targeted personal information at all.

More organizations are becoming better risks because they have a far deeper understanding that they need to protect their information, and they are also more aware that they must have mechanisms in place to quickly identify potential exposures.

Some have, instead, focused on corporate data such as intellectual property, or on interrupting business operations as a form of retribution.

There has also been an upswing in politically motivated breaches.

The origins and goals of the Sony hack are still being discussed among security experts, but much of the conversation has revolved around the exposure as an example of state-sponsored hacking. The Anonymous collective has taken responsibility for a number of attacks that disrupted web traffic and brought down the sites of a range of organizations.

In Terrasse-Vaudreuil, a small town outside Montreal, an Islamic extremist group recently took control of the municipality's website for more than 10 hours. The hackers used the opportunity to post a message on the site that referred to the Charlie Hebdo attacks in France.

At this time, it does not appear any data was compromised during that hack.

Even if personal information is not exposed as part of a breach, the business interruptions that often accompany any network intrusion can still be devastating. From lost revenue to reputational harm, companies must still be mindful of the risks of a weak security posture.

BREACHES FROM AN INSURANCE PERSPECTIVE

The privacy breach landscape is interesting because it is vastly different on different sides of the market. Organizations that are selling small, bolt-on endorsements are having a lot of sales success because everyone understands what breach is.

Rather than the environment that producers were looking at even five years ago — when clients had to be convinced of the need for privacy breach coverage — it is becoming a much more standard product. Most businesses have been offered some type of cyber or privacy breach add-on.

Brokers are also feeling pressure to ensure their customers are aware of options in the market to protect their own errors and omissions, since these products are now widely available.

Specialty insurance companies offering large cyber limits are finding themselves in an interesting situation.

Cyber teams used to have trouble selling robust coverages with larger limits. But the buying cycle has shifted, and now carefully underwriting these larger risks has become the primary focus because of the large payouts from recent breaches.

As a result, many insurance organizations are rethinking their strategies to determine if they are being too aggressive on limits and coverages at the various price points.

One thing that sometimes trips up insurance companies that have a strong cyber presence outside of the Canadian marketplace is the issue of voluntary versus mandatory notification. While notifying individuals impacted by a breach is a legislated requirement in almost every state in the United States, Canada approaches the issue primarily through a federal guideline.

Organizations are strongly encouraged to notify, but, based on the few provincial requirements, there is not always an obligation to do so.

Though the majority of businesses are keen to notify affected individuals — customer retention and regulatory issues can arise if the company tries to ignore the exposure — many insurance policies in the Canadian market continue to be drafted such that notification would only be covered if required by law.

TRENDS IN COVERAGE OPTIONS

Though breach coverage is now widely available, it remains tricky because the differences between the various products can be significant. Much of it comes down to reading the details under each coverage section.

Looking at remediation expenses as an example, not all companies are willing to address every type of loss that could be incurred when investigating an event, even when offering some form of remedy to affected parties.

With a breach-only small endorsement, many policies do not cover any form of legal or credit and fraud monitoring fees. However, they may offer different forms of notification support and other services to individuals impacted by a breach.

Along the same lines, many of these policies that target the small and mid-sized business sector do not cover forensic investigation. This is often because it is assumed the low number of records that may be involved in any exposure would not warrant one.

On the large cyber product side, some of the main differentiators reside with what the policy is willing to cover to resolve the operational problem for the business. These could include removing a virus, restoring a data set, covering business interruption costs or repairing affected websites, servers or other network components.

And this does not even include the number of coverages that could be offered on the liability side.

In short, there are a lot of different coverage options, so comparing insurance products solely on limits and price will likely lead to a few surprises after a privacy or security breach occurs.

COVERAGE SOLUTIONS EMBRACE PREVENTION

There are preventive measures that businesses can put in place to reduce their breach risks. Much of what insurance companies are requiring as a condition under their policies ends up being the kind of proactive steps that are good for the insurer, the insured and anyone whose data could possibly be exposed.

Some practices often mandated include the following:

- conducting regular data back-up activities;
- automatically downloading different types of security patches released as part of a standard software package update;
- keeping antivirus suites up to date; and
- using password protection on sensitive network assets.

While it may seem like a large amount of hassle for the broker selling the policy or the insured trying to obtain coverage, these are the same activities that lower a business's overall risk, no matter its size or industry.

Opinion/Analysis

Security Check

Willie Wong
Security Leader,
IBM Canada

Data security has always been an issue, but perhaps no more so than today. A recent survey of about 1,500 Canadians clearly shows, however, that awareness of data security lags concern.

Guess what percentage of Canadians report being concerned about losing their financial or personal information held electronically by organizations? 10%? 30% 50%? Whatever the percentage, most individuals likely would not have guessed 81%.

That at least was the result of a Vision Critical survey, conducted late last year on behalf of IBM Canada, designed to evaluate awareness of data insecurity. Decision-makers of all types of businesses and organizations, even those who until now felt data insecurity would not touch their businesses, would be well-advised to heed the results and take a hard look at the potential bottom-line impact that a breach could have.

NOT NECESSARILY INFORMED

Interestingly, the survey of a random selection of 1,500 people showed that while 81% of respondents are somewhat or very concerned about their data being stolen, only 61% feel somewhat or very knowledgeable about data risks.

And, alarmingly, one-third of those polled are not aware of any incidents in the last two years where personal data was jeopardized, including within the institutions with which they deal personally.

That is a key statistic in light of the fact that some Canadian organizations have experienced significant downtime as a result of natural and man-made disasters, or security breaches. If the almost daily news reports of breaches occurring are an accurate picture of what is happening, the survey results are a clear indicator that more work needs to be done to educate Canadians regarding the value of data security.

WILLINGNESS TO SWITCH

Perhaps the most valuable information from the survey for organizations — and for underwriters — is that the lion's share of polled Canadians, 86%, are somewhat or very likely to switch to a new organization if their personal or financial information is lost.

With breaches seemingly becoming all too common, and customers reporting that they are prepared to switch organizations, senior management cannot afford to ignore the value of protecting the data with which they have been entrusted.

Organizations face not only direct costs of the breach, but also hits to their reputations as well. The average length of downtime continues to be in the range of 3.5 to 4 hours, although associated costs are climbing.

For large businesses, those with 1,000-plus employees, the average cost of a data breach totals more than $2.5 million, note figures in the *IBM 2014 Reputational Risk Study.*

Overall, the average cost of a security breach is $11.6 million and can take as long as eight months to detect. In that time, customer confidence is lost and there is a significant possibility that it will never return. How will an organization rebound if, in fact, it ever does?

If organizations do not have the proper tools to figure out, first, if a breach occurred, and, second, how that breach occurred, it is not likely those organizations will be able to respond properly. And the accuracy of information, and how quickly it is available, is key to being able to control the situation.

That means data security must be looked at as a business investment.

RETURN ON SECURITY

Given the current environment, what is the return on investment (ROI) of insecurity? Some sectors may still be under the mistaken impression that the need to increase security does not include them. However, almost every type of industry or institution would experience pressure if personal data was breached, forcing a management shuffle or loss of reputation as a result of negative media coverage.

Some managers continue to rely on the old ways of safeguarding themselves from cyber threats, an approach that is clearly no longer good enough. With breaches becoming common, and customers ready to switch organizations, businesses cannot afford to ignore the value of securing the data.

In the absence of failing to address issues head-on, the situation will only continue to worsen.

The survey results show that with age, the number of people who report being very concerned goes up (three in 10 18- to 34-year-olds say they are very concerned compared to half of respondents 55 years and older).

The finding could indicate that age is a factor in the level of concern over personal data, which could possibly relate to having grown up with instant data as opposed to not having done so.

With breaches seemingly becoming all too common, and customers reporting that they are prepared to switch organizations, senior management cannot afford to ignore the value of protecting the data with which they have been entrusted.

Additionally the survey shows that more than one-third of respondents feel they are not very or not at all knowledgeable about the risks of data security in organizations.

Traditional security technologies lack the sophisticated capabilities and visibility required to detect and protect against such attacks. At best, they solve a single facet of the problem.

Further, it must be acknowledged that many cyber criminals are skilled and patient enough to monitor an organization's network over months or years, perhaps eventually seizing on an opportunity to steal sensitive information assets — intellectual property, credit card numbers and customer databases, among these — commit fraud or otherwise damage the organization.

TAKING PROTECTIVE MEASURES

So what should an organization do? It is essential that businesses make it a priority to put risk mitigation plans in place to ensure they are prepared in the event of a breach? Analyst reports and industry facts indicate that it is likely a security breach and/or availability issue will occur at a particular organization at some point in the future.

Organizations also need to consult a trusted security expert and put in place a plan to ensure ROI regarding data protection is a solid one. They must never be lulled into believing enough has been done to prevent every situation.

As such, businesses are advised to use the following five fundamental security principles:

- increase the security IQ of every employee;
- respond to incidents more quickly;
- safeguard cloud and mobile since that is where most organizational data is located;
- protect priority data since not all data has the same value; and
- leverage security intelligence as analytics provides threat insights.

It is imperative that businesses and organizations seek data security advice. It is not a matter of if, but rather when, a breach will happen.

The survey results offer security providers significant value with regard to Canadians' overall awareness and attitudes related to the loss or theft of personal and/or financial information held electronically by organizations. There is clearly an opportunity to educate Canadians and Canadian organizations about the risks of data insecurity.

Delivering secure, reliable and flexible access to information is a key challenge many organizations face today.

Having a well-constructed approach to security to avoid data being compromised and costly security breaches from resulting is the best way to maintain customer loyalty and protect an organization's brand.

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1 Bob Fitzgerald [1] has been appointed chief executive officer of SCM Insurance Services, succeeding founder and chief executive officer Larry Shumka, who will become the firm's first-ever executive chairman. Most recently president of SCM Insurance Services' adjusting and claims management company, ClaimsPro (a role he will retain until a replacement is found), Fitzgerald and Shumka will jointly manage the transition over this year. Fitzgerald has 30 years of experience in the property and casualty insurance industry and has held senior executive roles with a number of major organizations. SCM provides claims adjusting, risk management, investigative, surveillance, risk mitigation, medical services, forensic engineering services and risk intelligence services to the p&c insurance industry.

2 George Kalopsis has resigned as president and chief operating officer of Echelon General Insurance Company, one of EGI Financial Holdings Inc.'s property and casualty insurance subsidiaries in Canada. Based in Ontario, Echelon General's coverages include non-standard auto, motorcycles, antique and classic vehicles, trailers, motor homes and recreational vehicles. As well, the company provides specialized insurance programs, such as hard-to-place commercial property, primary and excess liability, credit insurance and extended warranty.

3 CRU Group Inc. announced in January it has acquired the shares of the Toronto-based claims services firm, Maltman Group International. CRU Group's operations include the Academy of Insurance Adjusters, independent claims adjusting firm Catastrophe Response Unit Inc. and CRU Environmental Services, while Maltman Group's services include loss adjusting and claims administration in specialty lines and liability. CRU Group executive Carol Jardine [3a] — who has previously held roles as senior vice president of claims services at TD Insurance, and as president and chief operating officer for both Canadian Northern Shield Insurance Company and CUMIS General Insurance Company — will lead the Maltman Group. CRU Group, which also has offices in Florida and Oklahoma, is owned by Gary Winston [3b] and Kyle Winston [3c].

4 Rick Roberts [4], director of risk management and employee benefits for Ensign-Bickford Industries Inc., took on the role of president of Risk and Insurance Management Society (RIMS) Inc. on January 1. A member of RIMS for 25 years and its Board of Directors for seven, Roberts previously served as RIMS' vice president and board liaison to RIMS external affairs committee. Other officers on RIMS 2015 board include Julie Pemberton, vice president; Robert Cartwright, treasurer; and Jennifer Santiago, corporate secretary, while new to the board in 2015 is Robert Zhang. RIMS past president Carolyn Snow remains on the board and other incumbent members are Gordon Adams, Gloria Brosius, Al Gorski, Leslie Lamb, Steve Pottle (director of risk management services at York University), Frederick Savage, Lori Seidenberg and Janet Stein (director of risk management and insurance for the University of Calgary).


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5 The Co-operators General Insurance Company reports one of its subsidiaries has purchased Bill Hartley Insurance Services Ltd., a brokerage in Victoria that provides home, auto, farm and commercial insurance policies. "We're pleased to be strengthening our presence and growing our agency distribution system in British Columbia and across the country, which is a key part of our growth strategy," says Kathy Bardswick, president and chief executive officer of The Co-operators. Existing insurance coverage will remain in effect, although as policies expire, clients will be offered comparable policies from The Co-operators.


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6 Independent Broker Resources Inc., a subsidiary of Insurance Brokers Association of Ontario, has launched a new fleet management telematics offering that uses technology from Quindell Plc. The product includes the provision of an overall driving score for each commercial operator to manage and understand driver behaviour. The data is owned by the consumer, with brokers having viewing access upon receiving consent from the fleet manager.

7 Berkshire Hathaway Specialty Insurance is expanding into the Canadian market and has secured office space in Toronto. In Canada, where it


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is licensed to conduct business, Berkshire Hathaway Specialty "underwrites on the paper of National Liability & Fire Insurance Company," the company reports. Scott Miller, who has worked at General Reinsurance Corporation and Aon Reed Stenhouse; Darryl DeSouza, who has worked at AIG, Swiss Re and General Accident Assurance Company; and Michael Densham, a former vice president and Canadian zone manager for Chubb Group of Insurance Companies; will lead the company's property, casualty and executive and professional lines operations, respectively, in Canada.

8 Crawford & Company (Canada) Inc. has announced five new appointments in Ontario. Spencer Bailey [8a] is now Crawford Canada's property and casualty supervisor, Toronto West, Deborah Mannisto [8b] is branch manager of the Thunder Bay office, Michael McLeod [8c] is branch manager for Waterloo and Owen Sound, Kelly Stevens [8d] is branch manager for Toronto West, and Nancy Costa [8e] is national account executive.

9 Allianz Worldwide Partners and The Co-operators Group have merged their respective Canadian travel insurance companies. The merger of Allianz Global Assistance Canada and TIC Travel Insurance Coordinators has created a business that will operate as Allianz Global Assistance. Daniel Wichels [9], a past chief financial officer at Allianz Global Assistance for the Americas, will serve as chief executive officer of Allianz Global Assistance in Canada. Allianz Worldwide Partners S.A.S. owns 55% of the combined legal entity and AZGA Service Canada Inc. Co-operators Life Insurance Company owns 45%.

10 In a deal that took effect December 1, 2014, brokerage RRJ Insurance Group has purchased Bernhardt Insurance Service, based in Kitchener, Ontario. Bernhardt Insurance will operate under the Pioneer Insurance Brokers name and work out of its Kitchener location.

The Ontario Pond of the Honorable Order of the Blue Goose hosted its **annual holiday party**, "Eat, Drink and be Merry," at the Storys Building in the heart of downtown Toronto's Entertainment District on December 16, 2014. Almost 100 ganders and guests enjoyed an elegant evening in this historic venue. Cocktails and *hors d'oeuvres* preceded a fabulous dinner and all proceeds were in support of Spinal Cord Ontario.

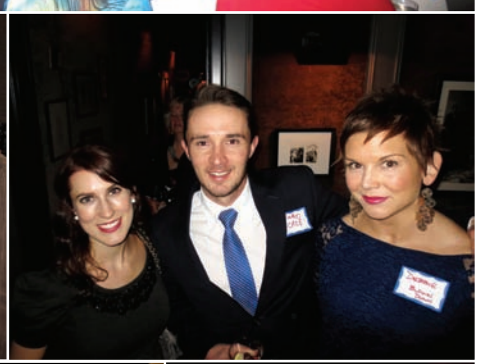








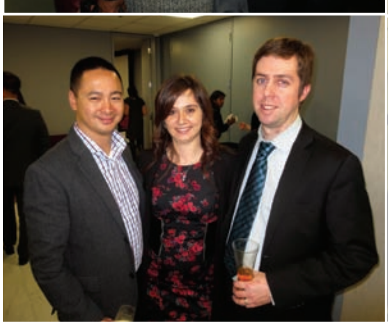






GALLERY

Catlin Canada held a **Holiday Open House** on December 16, 2014. About 200 brokers, vendors and staff enjoyed some good cheer, socializing, and holiday food and drinks at Catlin Canada's head office in Toronto. The event was also a chance to support the CP 24 Chum Christmas Wish Toy Drive and the Daily Bread Food Bank.



Risk Solutions

Appointment

Barbara Amodeo

HSB BI&I appoints Barbara Amodeo as Assistant Vice President, Claims and Engineering.

Barbara joins HSB BI&I with over 30 years of insurance industry experience, having held various senior management roles at major commercial insurers and reinsurers. Barbara holds a Bachelor of Science degree, Civil Engineering, from Rutgers University.

The Boiler Inspection and Insurance Company of Canada, a member of HSB Group and part of Munich Re's Risk Solutions family, provides the industry–leading range of specialty equipment breakdown insurance coverage for business and home. Visit biico.com

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HSB BI&I

GALLERY

The Cowan Foundation and the **Stratford-Perth Family YMCA**, a charity and active part of the community since 1869, are joining forces to better serve Stratford and area youth. The Cowan Foundation has made a significant $37,500 gift to the YMCA to revitalize its **Stratford Youth Centre**. The cheque was presented on November 20, 2014, by Ian Lee, Commercial Account Manager, Cowan Insurance Group (Stratford office), across the centre's ever-popular pool table to Mimi Price, CEO of the Y, and Stratford YMCA Youth Centre Supervisor, Rebecca Price. They were joined for the presentation by Heather McLachlin, President, Cowan Insurance Group; His Worship Mayor Dan Mathieson, City of Stratford and Brian Geffros, Region Manager, Cowan Insurance Group.

On December 8, 2014, **The Cowan Foundation** presented a cheque for $150,000 to the **Muskoka Lakes Nursing Station Team**, which included Allen Edwards, Chair; Brock Napier, Vice Chair and Linda Edwards, Secretary. The presentation took place at the temporary nursing station located at the Port Carling, Ontario library and included a site visit to the location where the permanent station will be built this spring. The nursing station will include a full-time nurse practitioner, administrative assistant and a collaborative association with a physician. It will be a key component of the new Brock and Willa Wellness Centre in the Muskoka Lakes area that will also include a hospice and retirement residence. Other supporters of the project include local community and seasonal donors and foundations, the LHIN and the Ministry of Health and Long-Term Care, which has approved operating and start-up funding for the Muskoka Lakes Nursing Station, community health hub.

In the spirit of giving during the holiday season, **The Cowan Foundation** annually selects an organization as a recipient of its **Holiday Card Program**. For 2014, **Girl Guides of Canada-Guides du Canada (GGC)** was selected to receive $50,000 in support of a new programming initiative focused on Threat Risk Assessments (TRA) and Managing Risk E-Learning Training for volunteers. With more than 92,000 girl and women members across Canada, GGC relies on the incredible contributions their volunteers make to the delivery of great girl programming as well as their assistance in administration. The Cowan Foundation saw this as an opportunity to provide assistance in its area of expertise, as the operating companies that sustain the foundation specialize in risk management products and services.

GALLERY

On December 17, 2014, the **Portuguese Insurance Professionals Association (PIPA)** held its **Annual Christmas Luncheon** at Lisboa (Lisbon by Night) Restaurant in Toronto, with a record 60 people in attendance. At the event, Mario Sousa, president of PIPA, outlined the goals of the association which include providing a networking opportunity to insurance professionals of Portuguese descent and friends; to promote the merits of a career in the insurance industry to Portuguese Canadians in grades 12, as well as those at the college and university levels; and to encourage and support academic excellence by providing scholarships to students of Portuguese descent enrolled in grade 12 and post secondary education. Since PIPA was formed, a total of almost $45,000 has been provided in scholarships.

Young Insurance Professionals of Toronto (YIPT) hosted its annual **"Winter Social"** at The Duke of Devon in Toronto on January 14. Young insurance professionals were invited to start the New Year on a fun note by connecting with some new and familiar faces at YIPT's first event of 2015. YIPT seeks to build, connect and inform Toronto's young insurance community through networking functions and social events that provide a forum for individuals to stand out within the industry and learn about new areas of insurance.

With more than 250 in attendance, **McCague Borlack LLP** hosted its **20th Annual "Christmas in January" party** at The Design Exchange in Toronto on January 15. McCague Borlack LLP is the Ontario affiliated firm of the Canadian Litigation Counsel (CLC). As such, CLC members and The Harmonie Group, together with clients and guests from all facets of the insurance industry across Canada, embraced the mid-January event to get together, look to the year ahead and discuss the latest industry news and developments.















Elliott Special Risks, a Markel International Company, held a Toronto **Retirement Party for Mario Sousa** on January 21. Sousa began his career in the Surety department of The Canadian Indemnity Co. in 1980, transferring to the casualty department in 1982 where he held various underwriting roles before being promoted to Branch Casualty Manager in 1985. Sousa joined Elliott Special Risks (ESR) in 1987 (then known as Ian Elliott Ltd.), where he held a number of key roles including Vice President, Senior Vice President and National Marketing Manager. In May 2009, Sousa was appointed President of ESR, a role that he held until 2014 when he stepped down to act as a Development Consultant for his last year of service. According to Karen Barkley, president of Elliot Special Risks, "Mario has played a leading role in shaping and developing the brand and reputation of ESR in the Canadian marketplace". Among the many attendees at the event, special guests from the Markel International U.K. operation attended, including, Andy Davies, Chief Operating Officer and Finance Director; Ron Northedge, HR Director; Hannah Purves, Claims Director; and Mike Richardson, Claims Manager, Global Retail division.



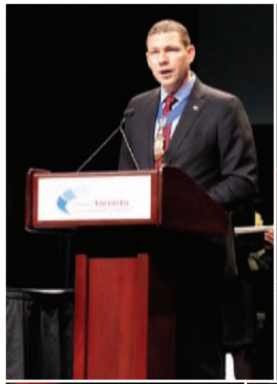








The Insurance Institute of Ontario held its **116th Annual Convocation & Awards Night** on January 22 at the Metro Toronto Convention Centre. Pat Van Bakel, president of the Insurance Institute of Ontario, served as MC. T. Neil Morrison, chair of the Insurance Institute of Canada, addressed the more than 400 Chartered Insurance Professional (CIP) and Fellow Chartered Insurance Professional (FCIP) graduates. The keynote speaker was Drew Dudley, founder and chief catalyst of Nuance Leadership Inc. He discussed his thoughts "that we've made leadership into something bigger than us, something unattainable" and that leadership should be about "lollipop moments" – when something you have done has made someone else's life fundamentally better – are acknowledged and shared every day. Leadership is now about changing the world and nothing less.



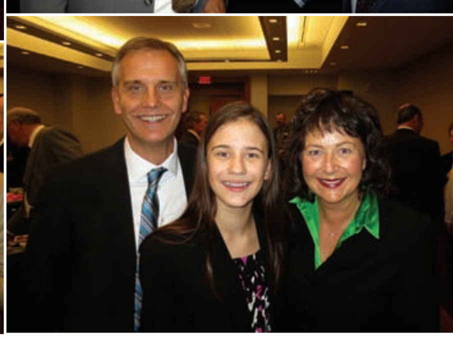











Pictured is GroupOne CEO and Norman Black Foundation Chairperson, Kay-Lee Franklin (right), presenting the donation to Isabelle Dusastre, President of the Kelly Shires Breast Cancer Foundation's Quebec Chapter and a Director of the Foundation's national board.

At the **GroupOne Insurance Services Client Holiday Open House** held on Friday December 12, 2014 in Richmond Hill, Ontario – the **Norman Black Foundation** donated $4,750 to the **Kelly Shires Breast Cancer Foundation**. The Kelly Shires Breast Cancer Foundation was established to help women/men who have been diagnosed with breast cancer. There are many unforeseen expenses they may face, and which their health insurance program may not cover. The Foundation's mission is to provide financial assistance to women/men in these situations in order to make their fight with cancer a little less challenging. This is an annual gift made by the Norman Black Foundation was promoted at the 2014 Insurance Broker's Association of Ontario (IBAO) Convention and this year includes matching funds from Intact Insurance.

To celebrate its **official brand launch, Pario Engineering and Environmental Sciences** hosted clients, stakeholders and staff to an evening of food, drink and mingling at Archeo in Toronto's picturesque Distillery District in January. The event celebrated the official unveiling of the name Pario, which was previously known as Rochon Engineering before its acquisition by SCM Insurance Services. Speakers at the launch event included Doug Tremblay, Pario's Managing Partner, Bob Fitzgerald, CEO of SCM, and Larry Shumka, Executive Chair of SCM.