# Canadian underwriter

December 2018

YOUR GUIDE TO INSURANCE SUCCESS. SINCE 1934

## WHERE TO FIND STAR EMPLOYEES

Top foreign talent could be way closer than you think

## You call this auto reform?

A GUIDE TO ONTARIO'S OBSESSION WITH TERRITORIAL RATINGS

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# CONTROLLING THE CHAOS

9 INDUSTRY LEADERS ON HOW INSURANCE NEEDS TO CHANGE – *NOW*

\+ AN AWARD-WINNING APPROACH TO INNOVATION

THE HOT NEW MARKET FOR CYBER

WHAT'S A "REASONABLE" CONDO DEDUCTIBLE?

PM#40063170

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YOUR GUIDE TO INSURANCE SUCCESS. SINCE 1934

Volume 85, No. 12 | December 2018

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CORRECTION

In the October 2018 edition of Canadian Underwriter, Lisa Kerr was incorrectly identified as the Chief inancial Officer at Nicol. She was in fact the Chief Information Office .

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MEMBER




# Hard market revival

## All signs are pointing to a rare sighting of a commercial hard market in Canada

Reports of the death of hard market in Canada may be "an exaggeration," to paraphrase a famous quote by American humourist Mark Twain.

It's been almost two decades since jet planes crashed into the World Trade Center in New York, triggering the last serious hard market in Canada and the United States. Characterized by higher premium rates and shrinking coverage options, severe hard markets have been largely unheard of since that tragedy in 2001, when commercial lines pricing shot up by 50%.

The market has been on the soft side – lower premiums, more coverage – ever since. In fact, some have gone so far as to speculate that we will never see another hard market again.

Rest assured, the hard market is making a belated return.

An analysis of the total cost of risk [TCOR] by the Risk and Insurance Management Society [RIMS] shows that commercial clients in Canada paid 15% more for their risk in 2017. This increase was driven by higher insurance premiums and higher retained losses on the property side. The commercial property claims ratio for federally regulated insurers in Canada was 76.37% as of 2018 Q2 – a big 26% increase over the same period last year.

Which lines are seeing the price increases?

TCOR is rising for health care organizations (driven by increases in medical costs), government and non-profit organizations, information technology companies, and businesses selling consumer staples (food, beverages, tobacco and other household items). Looking at OSFI numbers, claims ratios this year are increasing in the following lines: aircraft, commercial auto, directors and officers, cess liability, and in pollution liability.

For brokers, this is an ideal time to provide expert advice on how to deal with shrinking coverage options in these areas. Alternatively, you can help reduce your clients' insurance costs by providing tips for mitigating risk, thus saving your clients some money by not having to rely entirely on increasingly expensive insurance policy options.

It may not be a hard market quite yet, but the clarion call is sounding. CU


david@canadianunderwriter.ca

**Twitter:** canadianunderwriter **Facebook:** canadianunderwriter

## Legislature defeats bill quashing territorial ratings in Toronto area


November 5

**The story:** Ontario's government voted against an opposition member's private member's bill that proposed to make the entire Greater Toronto Area (GTA) one single territory for the purpose of determining motorists' insurance premiums.

### Craig says:

"What a load of….Never had an accident in 25 years of driving. Just because I live in Brampton, and I also work here, I have to pay through the nose? My record should determine my rate, period. Bring back at-fault insurance. It makes those who are the problem pay for their actions.

### Bob says:

Rates are determined by a combination of so many factors. Where you live is just one small piece. Insurance is based solely on statistics. They need to predict who will have an accident based on those factors. So yes, if you drive in an area where there are more vehicles on the road, you should pay more, since there's a greater likelihood of an accident occurring.

### MP says:

If a particular area has higher claim costs, this will be reflected in the rates that this area pays. If territory or area is removed as a rating factor, then other areas that have had lower claim costs will then be subsidizing those areas with higher costs. It's all about the numbers.

### Dawn says:

Rating by postal code for Section C coverage has been common in Alta. for years. It is not uncommon for someone living in Calgary or Edmonton (the two highest rate groups in Alta.) to be paying $2,000 or higher depending on their vehicle, driving history and coverage they select. The Ont. market has been subsidized for so long on the property and auto rates. I work for a national company; when we compare the Ont. rates to Alta., they are less than half! Rate accordingly and you won't have as many insurers wanting to pull out of auto.

## CSIO announces working group for JSON data standard

October 12

### Jeff Roy commented:

Yes I heard about it. Great news for the industry. JSON way better than XML. Hopefully working group for commercial builds off JSON. Industry is finally m ving.

## Why you might need an investment banker to help place commercial insurance

October 24

**The story:** Brokers can offer enhanced service to clients if they have access to a "deep level of expertise" in mergers and acquisitions, such as investment banking and corporate law. To help place transactional insurance, large-fi m brokerage fi ms will draw on the expertise of former investment bankers, former M&A attorneys, and lawyers specializing in tax, health care and oil and gas.

### Mashood (Max) Ali commented:

'This article is throwing shade on broker's ability to seek out and place M&A insurance. I'm fairly certain that investment bankers do not hold a commercial insurance license; thus they are unable to seek out quotes from national and international insurers. Brokers in the M&A field are well-versed in this product. Many are also past investment bankers, high-level accountants, and/or come from a strong finance background. Newer and junior brokers are not in this space. If they are approached to source this product, they will either pass it on, or the client will quickly learn that they have the wrong person looking after their needs. Brokers in this space are already working closely with law fi ms specializing in this space…and/or specialized consulting fi ms. Investment bankers are brilliant at numbers and formulae, but obtaining the best M&A insurance policy? Not so sure about that.

### Jason Wallace commented:

100% agree, Mashood. Specialist brokers in this field often have credentials such as law degrees and vast experience in fina - cial transactions in addition to their qualifications as a broker.

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HIGHLIGHTS Survey Says... p.12 | Condo Deductibles p.15 | New Offers p.16 | Big Moves p.19

AUTO REFORM

# Location, location, location

## As Ontario insurers push for meaningful auto reform, politicians are bickering over territorial ratings

BY GREG MECKBACH, *Associate Editor*

**Auto insurance rates in Ontario** should have nothing to do with where drivers live, the province's politicians are saying.

Whether or not this is a good idea depends upon whom you ask.

As it stands, Ontario auto insurers use motorists' home addresses to determine their auto rates. Some insurers tell brokers that territory "has the biggest impact on [an insurer's] ability to forecast whether or not there will be claims and how much those claims will be for," says Joseph Carnevale, associate broker and director of sales for Brokers Trust Insurance Group Inc.

Indeed, where the car is parked at night is "a significa t predictor" of risk, The Co-operators General Insurance Company observes in its 2018 Q3 management discussion and analysis.

But for several of the province's politicians, regardless of political stripe, territorial ratings are viewed as unfair, arbitrary and discriminatory, resulting in legislation that seems completely misaligned with the insurance industry's efforts to price accurately according to risk.

Bill 42, a private member's bill currently before the Ontario legislature, would stop carriers from basing auto insurance premiums on "factors primarily related to the postal code or telephone area code." Bill 42 was tabled in October by Parm Gill, the backbench Progressive Conservative MPP for Milton. As of press time, the bill had yet to proceed to second reading.

Bill 42 would "end the unfair practice of discriminating against drivers simply based on where they live," Finance Minister Vic Fedeli told the legislature. He has yet to indicate whether Cabinet would vote in favour of the bill.

But MPPs from the Progressive Conservative caucus generally spoke in favour of Bill 42, which "seeks to evaluate drivers based on their driving record and not where they cur-

**NEWFOUNDLAND'S LARGEST SPILL** | NOV 22

Regulator says Husky Energy's 250,000-litre oil spill that leaked into the ocean is now impossible to clean up. It's the province's largest-ever spill.

**BATTLE OVER RIDE-SHARING** | NOV 21

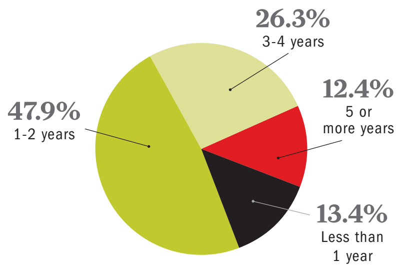
B.C.'s public insurer plans to offer a ride-sharing product next fall if government legislation is passed by Christmas. The opposition is calling for amendments that would allow private insurers to cover ride-sharing immediately.

SURVEY SAYS...

## STORMY DAYS AHEAD FOR PRIVATE AUTO

In the early part of 2018, federally regulated Canadian insurers paid out $535 million more in auto claims than they did during the same period last year. Rising claims costs have spurred calls for regulators across the country to consider and/or implement auto insurance reforms.

We asked brokers* in private auto markets across Canada:

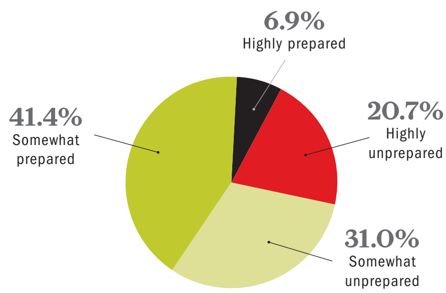



In your province, how long do you think carriers will be able to withstand escalating auto claims costs before some start to exit the auto market?

*209 total responses

To those who believed carriers would begin to exit the auto market in less than five years,** we asked:

How prepared is your brokerage to deal with insurers exiting the market due to insuffici t auto reform?




**174 total responses

rently reside, full stop," Christina Mitas, PC MPP for Scarborough Centre, told the legislature. "I think the majority of the House agrees that if you're a good driver, you should be paying less in auto insurance rates."

At of the time of writing, the Insurance Bureau of Canada was consulting its members on how it should react to Bill 42. It is significa t that MPPs from both the government and the opposition parties spoke against territory-based rating, said Pete Karageorgos, IBC's director of consumer and industry relations for Ontario. "MPPs recognize that regulations are outdated they need to be modernized," Karageorgos said.

From the opposition's point of view, by using territories to set insurance rates, a motorist living in Brampton, Ont. could see his or her rate drop 50% just by moving to an address north of Mayfield Road, according to Gurratan Singh, auto insurance critic for the opposition New Democratic Party.

"You could have no tickets, you could have a clean record, and you could be one individual who lives in Brampton and your rate will be higher" than if you live in the neigbouring town of Caledon, Singh said during debate on Bill 44, another private member's bill.

Singh tabled Bill 44 shortly after Gill tabled Bill 42. Unlike Bill 42, Bill 44 proposed that the Greater Toronto Area (GTA) be treated as one single territory for the purpose of auto insurance rates. Bill 44 was defeated Nov. 1 on second reading.

Before raising or lowering private passenger auto premiums, auto insurers must get approval from the Financial Services Commission of Ontario.

In addition to using postal codes to set rates, insurers may currently use a driver's age and gender. They may also use driving history, though only to a certain extent. For example, insurers may use the length of time the client has been licensed to drive, whether an insured has taken a driver's education course, and driving convictions such as speeding or impaired driving.

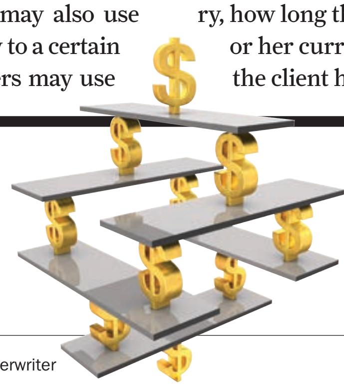
In 2016, FSCO started to prohibit insurers from raising rates for minor at-fault accidents in some cases, including accidents with no injuries that result in less than $2,000 damage to the car. Insurers are also prohibited from basing rates on employment status, credit history, how long the client has lived at his or her current home, and whether the client has a credit card.

None of Ontario's political parties have done a full analysis of what would happen if territories were to be prohibited as rating variable, Anne Marie Thomas, an insurance expert at *insurancehotline.com*, said in an interview with *Canadian Underwriter* before the last provincial election.

She added that rating an auto insurance risk by postal code is such an integral factor in determining auto insurance premium, it's hard to know what the impact would be if it were removed. "I'm not even sure I know what it would even look like," she said. CU

**TOP BUSINESS RISKS** | NOV 19

Business executives in Canada and the United States say economic risk (21%) is their primary concern, followed closely by cyber risk (20%) and technology risk (16%), according to a CAN Hardy report.



**ONTARIO PROMISES RATE REVIEW** | NOV 18

Ontario announced a plan to "review how auto insurance rates are regulated." Also, it confi med the government, not the insurance industry, will run the Motor Vehicle Accident Claims Fund going forward.


FAKE NEWS!

CONDO INSURANCE

# Defining deductible

What happens when you start legislating "reasonable deductible" amounts?

BY JASON CONTANT, *Online Editor*

Canada's national industry association for private home, auto and business insurers is recommending a "wait-and-see" approach to defi -ing a reasonable deductible for condominium insurance in Quebec.

Currently, the term "reasonable deductible" is in Quebec legislation, but there is no set amount. The province asked if the term should be defined as part of the finance ministry's recent consultation on proposed condo insurance regulations.

The Quebec National Assembly in June adopted Bill 141, which is intended to modernize the regulation of the financial sector and improve consumer protection. Insurance Bureau of Canada (IBC) recommends waiting until the effects of the province's omnibus financial legislation are known before getting into specifics  bout deductible amounts.

"We feel that at this point, it should not be defined, but rather the government should wait and see how the market adjusts to all the changes that were made from the adoption of Bill 141," says Pierre Babinsky, director of communications and public affairs at IBC. "Then, if there is a need, go ahead with specific rules that would define what is reasonable or unreasonable."

Condo insurance is just one aspect of Bill 141, parts of which will come into force in principle on June 13, 2019, one year after assent.

Deductibles for condo insurance need to be clear, afford ble and consider the number of units in the building, according to the province's self-regulating body for brokers, agents and claims adjusters.

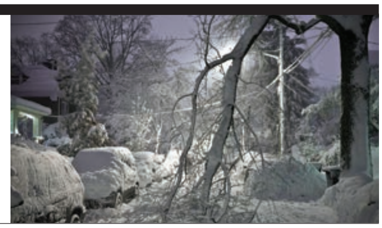
"Depending on the number of units, of course, the deductible could be seen as reasonable or not," says Ingi Khouzam, compliance lawyer with the *Chambre de l'assurance de dommages* (ChAD). I could say a deductible of $10,000 is perfectly reasonable, and somebody else might say, 'There are only two units in the building and that means $5,000 per co-owner –that's huge.'"

Without regulatory clarity, Khouzam says, "we may see brokers coming to us and expressing concerns about their ability to serve their clients properly, or to explain their rights and obligations."

If the province goes ahead with a

**IFRS 17 EXTENSION PROPOSED** | NOV 15
The International Accounting Standards Board (IASB) has voted to propose a one-year deferral of the effective date for IFRS 17 – a new standard for reporting financial results – to 2022

**FEROCIOUS ATLANTIC STORM** | NOV 15
A huge winter storm pounded much of Newfoundland and Labrador with powerful winds of up to 143 km/h, blowing snow and surging waves, causing power outages and property damage to homes and construction sites.



defin tion, IBC suggests dividing it by the number of condo units in a building. For example, a $50,000 deductible for a building could be $500 per unit per owner. "We consider that would be reasonable," Babinsky says.

If approved, condominiums would be the only home insurance product that would have such a defin tion. As it stands, deductibles are contractually determined with the insurance company and there is some leeway if the condo corporation wants to reduce premiums by increasing the deductible.

"The government is saying, 'Well, you shouldn't be able to increase the deductible too much; otherwise, if you do have a claim, you may not have enough money to pay it,'" Khouzam says, a position with which ChAD agrees. "The idea is: does the condominium [corporation] have enough money to pay that deductible once a claim arrives?"

Condo buildings taking all the right preventive measures may prefer to have a higher deductible. Buildings that aren't as prepared may want to reduce their deductible in case there is an incident. However, IBC cautions against removing an insurer's ability to impose a larger deductible as an incentive to take corrective measures. Otherwise, Babinsky says, "the insurer may not be interested in providing coverage for that particular building."

Another point of discussion is civil liability coverage for condo co-owners. Although $2 million is recommended in some quarters, IBC notes that "close to 99% of co-owners right now have at least $1 million in civil liability" and that should be suffici t coverage. Insureds shouldn't be paying for coverage they do not need."

IBC wants condo corporations to commission a reserve fund study that would help assess what and how much is needed to keep buildings in a good state of repair. cu

## NEW OFFERS

### FRANK INSURANCE

Vendor: **Deloitte and Opta**
Target Audience: **Commercial Brokers**
What it does: **Uses property risk data to help clients apply for commercial insurance**

Opta Information Intelligence, a unit of SCM Insurance Services, has announced a strategic alliance with Deloitte Canada that is intended to make it easier for clients to fill out applic - tion forms. As part of the deal, Deloitte is beta testing a software product known as Frank Insurance.

Deloitte has completed a "proof of concept" of Frank Insurance, Daniel Shum, partner and national insurance sector leader at Deloitte Canada, said in an interview.

The aim is to offer Frank as a subscription-based service using the "cloud-computing" model, meaning that users do not have to buy a software license but would access it over the internet for a fee.

The product leverages data from iClarify, an existing Opta data service that provides information on specific buildings – for example how much the property is worth, how far away it is from the nearest hydrant and whether or not it is protected by a sprinkler system. Hypothetically, a broker could use the Opta data that anchors Frank Insurance to tell a restaurant owner what coverage the company should have based on its location.

### MANUFACTURING COVERAGES

Vendor: **Sovereign Insurance**
Target Audience: **Manufacturers**
What it does: **Adds new and enhanced coverages**

Sovereign Insurance has added several new coverages to fi st-party commercial property insurance for manufacturers.

One is errors and omissions [E&O] insurance for manufacturers whose products do not work as intended. The product is specifically intended for companies that are contractuall obligated to cover E&O. For example, it is normal for manufacturers of electronic goods to have a contractual obligation for E&O insurance, says Tina McAvella, vice president of product manufacturing at Sovereign Insurance.

Sovereign Insurance also plans to cover radioactive contamination in manufacturers' property insurance policies, with sub-limits starting at $50,000.

Other new coverages include depreciation in value of undamaged stock; social engineering (business interruption); communicable disease and food contamination (business interruption); and a contingent business interruption extension for named and unnamed locations (enhanced).

"We've acknowledged that globalization is making the supply chain risk much more complicated," McAvella said. "It might not be the supplier of the part [that causes a loss]. It might be the supplier to your supplier that has the loss that shuts them down."

### ERRORS AND OMISSIONS [E&O] COVERAGE

Vendor: **Gore Mutual**
Target Audience: **Contractors and Professionals**
What it does: **Protects against allegations of errors, omissions and negligent acts resulting from professional services, regardless of whether a lawsuit is frivolous or not**

Gore Mutual has announced new errors and omissions [E&O] coverage designed for contractors and professionals. It can be bundled with a commercial client's general liability insurance to create a "comprehensive all-in-one solution," Gore Mutual says. The E&O insurance covers contractors and professionals against allegations of errors, omissions and negligent acts resulting from professional services. E&O is currently being offered for more than 100 different contractor and professional classes. The company intends to expand the number of classes in the future.

**SIGNS OF HARD MARKET** | NOV 13

A report from Willis Towers Watson confi ms a "stealth" fi ming in the commercial insurance market across most lines of business, fuelled by property losses after record natural catastrophe losses in 2017 and 2018.

**HOCKEY HEAD INJURIES SETTLEMENT** | NOV 13

The National Hockey League announced a tentative $18.9-million settlement with more than 300 retired players who accused the league of failing to protect them from head injuries or warn them of the risks involved with playing.

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# ON THE SCENE

## IBAO Convention

### October 17-18, 2018

### Niagara Falls, Ont.

Canada’s largest annual broker event took place at the Scotiabank Convention Centre, where the daily agenda included keynotes, seminars and a 100-plus exhibitor tradeshow. Whitby, Ont.-based Mitchell & Whale Insurance Brokers left the IBAO Awards of Excellence gala with the big prize: Brokerage of the Year. Young Broker of the Year went to William Chan of BrokerTeam Insurance in Richmond Hill, Ont., and the Insurance Brokers Association of Hamilton was named Affiliate of the Year. As the official media sponso of the convention, *Canadian Underwriter* distributed copies of its relaunch issue to all attendees.


Intact conducts a panel discussion during its Insurer Town Hall. Other participating insurers are Economical, Gore Mutual, RSA, Travelers and Wawanesa.

Mitchell & Whale president Adam Mitchell (centre-right) and his team enjoy their Brokerage of the Year victory.


A glimpse of Economical’s Hospitality Suite-turned-nightclub, minutes before Canadian pop singer Candice Sand takes the stage.


Old-time rock-n-rollers Eddy and the Stingrays play the IBAO Awards after-party.

Warren Macdonald kicks off the convention with his inspiring keynote address, “Leveraging Perspective.” Since losing both legs in a mountain-climbing accident, Macdonald has attained several famous peaks, including Mt. Kilimanjaro.


Gore Mutual marketing, communications and digital director Igor Bubic leads his fi m’s Town Hall session.

FIND MORE PHOTOS AT

**CanadianUnderwriter.ca/gallery**

BIG MOVES

# New chief executive for Facility Association

Esurance leader Saskia Matheson will take over the helm of FA from David Simpson, who will retire in February 2019

WHO: **Saskia Matheson**

CURRENT ROLE: **General Manager, Esurance Canada**

P&C EXPERIENCE: **30+ years**

PROFILE: **Built and launched Esurance, Allstate's online brand, in Canada**

Saskia Matheson will become the new president and CEO of the Facility Association (FA), Canada's automobile insurance residual market organization, effect ve Feb. 11, 2019.

Matheson has more than 30 years of experience in the Canadian property and casualty industry, where she has held numerous company positions. Most recently, she has led the Canadian arm of Esurance, a subsidiary of Allstate, through the company's formation and launch.

Matheson began her insurance career as a member of the Ontario government's *Osborne Inquiry into Motor Vehicle Accident Compensation*. She then progressed through successively senior roles at Facility Association, Zurich Insurance Canada, Royal Sun Alliance, and Allstate Canada.

She holds a B.A. (Hons.) in Economics from Queen's University and lives in Toronto with her husband and two daughters.

She will succeed David Simpson, who is retiring after more than 17 years in the role. To ensure a smooth leadership transition, Simpson will remain FA president and CEO until Feb. 11, 2019.

Anne-Marie Poitras is the new president and CEO of the *Chambre de l'assurance de dommages* (ChAD), which regulates the province's insurance agents, brokers and claims adjusters. She has 20 years of industry experience, starting at the family-owned brokerage Poitras, Larue, Rondeau.

Eileen Mercier, 70, a board member of Intact Financial Corporation since 2004, was named one of Canada's 100 most powerful women by the Women's Executive Network in November. She has more than 40 years of management experience in financial se vices, communications, oil and forest products.

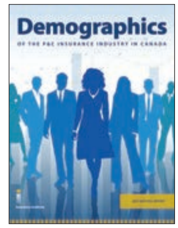
FirstOnSite Restoration has appointed Kyle Sigouin as business operations manager for the B.C. region. With more than 16 years of restoration experience, Sigouin will lead a team of project managers in driving process and consistency to all areas of the business.

SUMMARY

DEMOGRAPHIC RESEARCH

## Who's working from home?

INSURANCE INSTITUTE OF CANADA




More than one-third of employees in Canada's insurance industry work remotely, according to the Insurance Institute of Canada's report, *Demographics of the P&C Insurance Industry in Canada*.

The report, written and researched by the Conference Board of Canada, is the fourth instalment of the Institute's P&C demographics research since 2007. Among several topics covered in the report, one is the number of people in the industry who work from home.

Within the P&C industry, the proportion of remote work varies considerably, depending on the type of insurance professional. Broadly speaking, remote work is least common among brokers and actuaries (both at 20%), and most common in risk management (63%). Claims professionals fall in the middle, with 41% working from home.

Those who work in specialty insurance also stand out. Customer service reps (78%), brokers (71%) and underwriters (65%) who focus on specialty lines all have a higher share of employees who can work remotely.

Not surprisingly, key functions in IT, including digital marketing (84%) and data analytics (80%), have a high share of workers who can work remotely.

Men (40%) are more likely to work from home than than women (32%).

The tendency to work remotely increases steadily as people grow older — from a low of 25% for workers under 30, to a high of 40% for workers over 50.

"It appears that the industry tends to allow more remote work as a person's experience rises, which may be a perk to boost retention," the report said. "However, it is worth noting that multiple surveys have clearly shown that millennials place a higher value on remote work and work-life balance than older generations, and the industry's current practices appear out of step with these preferences."

**TOWERHILL DEAL WITH BROKERLINK** | NOV 12

George Longo, president and CEO of commercial brokerage Towerhill Insurance Brokers, sold his Towerhill retail brokerage business to BrokerLink. He will be continuing to dedicate his full efforts to Excess Underwriting MGA and the Lloyd's marketplace.

**HUB'S NEW CANADIAN ACQUISITIONS** | NOV 9

Hub International acquired the assets of two western Canadian brokerages: 1) Tri-Line Agencies Inc., a full-service, independent brokerage headquartered in Saskatchewan, and 2) Edmonton, Alta.-based commercial broker Kuokoa Enterprises Inc.

PROFESSIONAL DEVELOPMENT

# MAKING BETTER BROKERS

Thom Young, co-founder of Lundgren & Young Insurance Ltd. in Alberta, gives the business case for promoting professional development in Canadian brokerages. “This actually makes you money, so you should be doing it.”

By Greg Meckbach, Associate Editor

## cu | Why get involved in continuing education?

I compete with my competitors not just for clients, but also for competent employees. One of the things we do, which I harp about consistently, is to have an employee education program in our shop. You make better brokers by ensuring that they remain informed and competent. If you are a manager, and if you don't implement a process that keeps everyone informed of the constant changes we face, then you become less competitive; also, you become an errors and omissions hazard. There is a real cost to having employees who are uninformed on the insurance side. If we pay for some of their education, they become more valuable to us when they complete it. That's the real motivation. I'm not just a nice guy offering bene ts and trying to create a nice workplace. This actually makes you money, so you should be doing it. That's lost on a lot of people.

## cu | What if your employees go to work for someone else after you educate them?

You still have to educate them. If you don't, someone else will. We have always had a professional development program in our brokerage; sometimes I have expanded that program to include *any* kind of education. It doesn't really have to be specific to in urance. So, if you want to learn accounting, for example, or if you want to expand your knowledge and ability, I will pay for that as long as you get a passing grade and you stick with me for a year.

## cu | Do you give employees time off to co tinue their education?

If someone wants to go on leave, and the purpose is within reason, we will hold their job open for them. We have had people go on leave for missionary work, and we have given people leave to do military service if they are in the Reserves and they get sent overseas. It's a good way to run a business. In the end, you make more money doing it that way.

> If we pay for some of their education, they become more valuable to us when they complete it. That's the real motivation.

## cu | What is the risk of not having continuing education?

I have been on the General Insurance Council of the province's broker regulator, the Alberta Insurance Council, for 16 years. I have seen just about every screw-up there is. As a broker, you need to be wise, intelligent and able to communicate complex concepts to lay people. You must be able to analyze people's insurance needs and risks. You must train brokers and agents, and you need to keep them trained because the business is constantly changing. I can think of 15 or more new products in just the last five years.

## cu | What are some of these new products?

There have been huge changes in some crime insurance policies, for example. Some business policies are written in such a way as to catch everything. We may call them "new" products, but they are usually variations of something that we did before. However, there's enough of a change in the end result that people must be made aware of the differences. The industry gives products diffe -

ent names and we throw in differe t wordings and that creates differe t expectations in the marketplace. If you are not aware of those changes, you can be a hazard to your clients.

## cu | What can you do if you do not understand the recent changes?

Brokers have to be smart enough to understand that when they get out of their depth, they need to bring in somebody else rather than try to wing it; that's part of the education process. Knowing your limitations is not just a line from a famous movie: it's important when you are in any business. If you are an engineer and you don't understand the process that you're analyzing, you can create a huge mess; the same is true for an insurance broker. I have been in the business for a long time, but I don't pretend to know everything. I know enough to find the ri ht person to fill in the knowledge I am lacking.

## cu | How should brokers deal with changing technology?

Adapt to it. Don't be afraid of it. Embrace it and find out h w it can make you more money. Change gives you an opportunity to do a reset and find out how to make that change work for your benefit. We went paperless in 1997. That was a real issue for some companies, because they wanted to do everything on paper – and some of them still do. Going paperless meant we had to have digital imaging at every workstation. I was paying between $5,000 and $8,000 a desk for digital imaging back in the mid-1990s. Today you could probably do that for under $1,000.

## cu | You started your career in the Canadian Armed Forces in 1969. How did that lead to a career in insurance?

I was an army brat. I joined the cadets, then the Reserves and then the Regular Force. I was posted to Shilo, Manitoba. At the time, there were a lot of United Nations missions going on. Turkey invaded Cyprus. Any time anything happened, I would be on a plane going somewhere. The military is a great place to learn basic discipline. It got me thinking about what I should be doing for the rest of my life. I went into the insurance business in 1975 in Winnipeg because my wife was working for The Co-operators. I got recruited by the Co-operators and worked there until 1980, when I became a commercial lender for the Bank of Montreal. In the mid-1980s, we sold everything we owned in Winnipeg and loaded up a pickup truck and trailer. We came out here to Calgary and bought a house. Neither one of us had a job. Then my wife became a collateral securities clerk for a trust company. We bought into Lundgren Insurance in 1989. At the time, Jack Lundgren's brother-in-law was his partner. I bought out Jack's brother-in-law. I am still friends with Jack." cu

PROFILE

## THOM YOUNG

Title: **Co-founder of Lundgren and Young Insurance Ltd.**

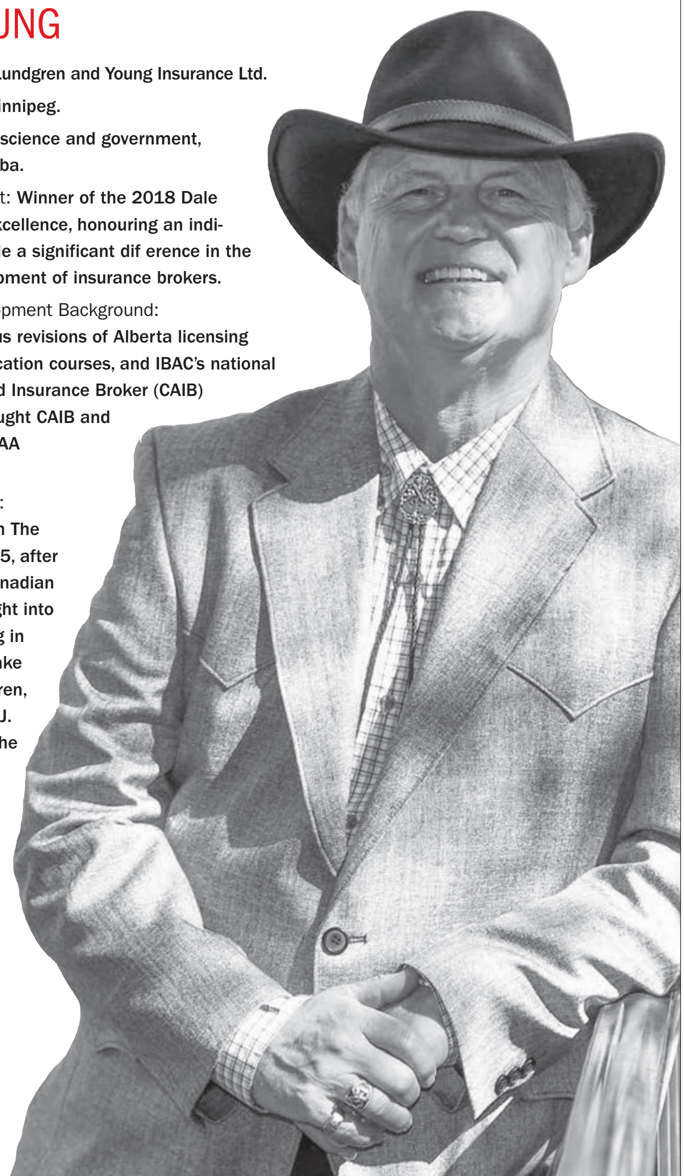
Born and raised: **Winnipeg.**

Education: **Political science and government, University of Manitoba.**

Recent Achievement: **Winner of the 2018 Dale Rempel Award of Excellence, honouring an individual who has made a significant dif erence in the professional development of insurance brokers.**

Professional Development Background: **Involved in numerous revisions of Alberta licensing and continuing education courses, and IBAC's national Canadian Accredited Insurance Broker (CAIB) program. He has taught CAIB and other courses for IBAA for several years.**

Industry experience: **Started in sales with The Co-operators in 1975, after release from the Canadian Armed Forces. Bought into Lundgren and Young in 1989, selling his stake in 2014 to his children, Robyn Young and A.J. Young. Member of the board of directors, Alberta Insurance Council, which regulates agents, brokers and independent adjusters. Past director of the Facility Association.**



RECRUITING TOP TALENT

# How to open your doors to diversity

Three new insurance professionals share their unique paths into the industry, and one key way the industry can attract foreign students

By David Gambrill, Editor-in-Chief

When it comes to workplace diversity, Canada's property and casualty insurance industry could use a bit of a boost. Statistically, the industry is lagging behind other Canadian workplaces when it comes to diversity. What would it take to bring more international recruits into its ranks? Not as much as you might think.

*Canadian Underwriter* recently approached three students who graduated from Humber College's *Insurance Management – Property and Casualty Postgrad Program*. All three students shared their experiences looking for work upon their arrival in Canada (their stories are reproduced below). As part of their successful integration into the P&C workforce, each confirmed the essential role of co-op, internship and work placement programs as a way for insurance organizations to find top tale t.

"Regarding co-op, internship, and work placement opportunities within [Canada's 17 insurance education programs], from a Career Connections perspective, we would encourage the industry to incorporate more opportunities for student engagement in the workplace," says Margaret Parent, director of the Insurance Institute of Canada's professionals' division. "Fortunately, in general, we have seen an increase in opportunities. In fact, many organizations are building in more opportunities for part-time work and summer placements. Opportunities for experiential learning help students get exposed to insurance, even in simple ways, that help give meaning to their studies."

**Diversity in the P&C industry**

Minority groups are generally under-represented within the industry, as noted in a recent demographics report by the Institute. The proportion of insurance professionals born outside of Canada is 15.7%, which is below average relative to the general Canadian workforce. In Statistics Canada's 2016 census, for example, 25% of people in the country's general workforce were born outside of Canada.

What are the benefits of broader diversity within the P&C industry?

Individuals with differe t talents, skills and experiences expand the collective knowledge and skillset of the entire organization, allowing a company to offer more to its clients, as noted in the blog *undercoverrecruiter.com*. Innovation within a company is enhanced by having a broader diversity of perspectives on staff. Also, language skills can open up new client markets for an organization. Finally, inclusivity is a personal value that many Canadians wish to see reflected in their workplaces, helping a company to attract new talent to its ranks.

The good news is, Canada's P&C industry is starting over time to become more inclusive, even if it has a way to go to catch up. Visible minorities have increased their presence in the P&C insurance industry over the past decade. In 2017, 16% of respondents reported being part of a non-white ethnic group, up from 13.6% in 2009.

Canadian insurance companies have made major strides in recruiting more people into the industry generally, thanks in large part to the growth of academic opportunities and entry points. In 2007, Canada had four college and university programs with embedded Insurance Institute of Canada courses in the curriculum. Today, 17 college and university programs have been established across the country; three programs offer a post-graduate certific te in insurance — Humber, Fanshawe, and Centennial.

"This substantial increase in the number of full-time insurance programs at the college and university level is contributing to a pipeline of graduates coming into the industry," Parent observes.

**Diversity and Work Placements: Success Stories**

How can work placement opportunities embedded within insurance programs attract fresh, new international talent to the industry?

*Canadian Underwriter* put the question to three recent graduates of the Humber insurance management program. Each discussed the important role of the program's work placement program in their education and subsequent employment in the industry. Here are their success stories:

## Mohammed (Nisar) Ansari

***Claims adjuster (automobile accident), Economical Insurance***

Six years ago, Mohammed (Nisar) Ansari moved to Canada from Mumbai, India, where he was a claims manager in life and health insurance. His personal odyssey brought him into Canada's P&C industry, where he now works as an accident benefits adjuster for Economical Insurance.

> The industry could do better by providing more co-ops and internship programs for visa students.

In India, he worked for three-and-a-half years at ICICI settling health, disability and death claims.

He got into life insurance after completing a degree in alternative, naturopathic and homeopathic medicines. Owing to the requirements in health and medical insurance, Ansari found his background in medical science gave him an edge for a career in life insurance. He fini hed his post-graduate education in insurance and risk management in India in 2008 and started a career in life insurance.

A childhood friend, an engineer living in Calgary, Alta., inspired him to come to Canada. "When he took his vacation in India, he always talked about Canada. 'Canada, Canada, Canada,'" Ansari says of his friend's influence. "It was in my head, so I thought, *Let's go for it*."

Ansari obtained permanent resident status in Canada and landed here in June 2012. That's when he fir t realized one critical requirement for find work in insurance – work experience. "When I landed in Calgary, I was looking for a job," he says. "But the main challenge, which I felt immediately, was to get Canadian experience. Even though I was very new to Canada, whenever I was going to job interviews, they were asking about Canadian education, Canadian experience."

Ansari leveraged the experience he already had in India to land a job as a customer service representative at ICICI Bank Canada in Calgary. He then found a job in insurance in 2013 as a medical and health claims administrator at ICICI International.

But two years later, Alberta's oil patch turned into a rough patch. The province's economy foundered and Ansari lost his job. After working in retail for IKEA, he contemplated a career change. He moved to Toronto, figuring there would be a larger pool of opportunities.

Now graduated from the Humber program, Ansari reflects on what the industry can do to buttress industry recruitment efforts. He looped back to his fir t few months in Calgary, seeking his very fir t job in Canada, and emphasized the importance of on-the-job workplace experience.

"The industry could do better by providing more co-ops and internship programs for visa students," says Ansari, who found a co-op opportunity at Desjardins through the work placement program at Humber. "So when the students have theoretical knowledge, and they can apply that knowledge in a practical way, they have some co-op opportunities and internship programs available to them. It is not easy to find a co-op program or internship program for everyone. That's one of the challenges."

## Harold Pan

***Claims advisor (auto physical damage), RSA Canada***

Harold Pan came to the Canadian P&C industry by accident – literally.

"It's from my experience, right?" he explains. "I've had two car accidents. I called in to make a claim, and I felt that was an interesting job."

> You need more of a chance to connect with the industry and, if possible, an internship – that would be great.

Perhaps a more central motivating factor was the quality of life he perceived in the insurance industry, which was in stark contrast to irregular sales shifts at Leon's Furniture Sales. Pan worked at Leon's for seven years, after moving to Canada from China in 2010.

His background in China was in microbiology, which he says he did not pursue in Canada because of the length of time it would take to become qualified as a technician or health care worker. Since he enjoys communicating with people, he decided to try his hand in sales at Leon's.

"I'm a sales person, I had to cold call," Pan describes his job at Leon's. "The job is a shift, it's not fi ed. It could be Tuesdays or Saturdays – every day is differe t. For young people, or for older people who are retiring, it's a great job. They pay everybody well. Everything's great, the people are great. But if you want to have a family, or if you want to study to improve yourself, you can't. They change the schedule every day of the week, so I cannot plan. I have two kids. My wife complained, 'Why are you always working at night?' So, it was not ideal. I always planned to change, but it's hard."

Pan saw greener grass on the claims side of the fence. Apart from his direct personal experience as a claimant, Pan had a colleague whose daughter worked in the insurance industry. "She has a stable job, a 9-5 job. I thought, 'That's very attractive to me. I can spend time with my family, and I have a good income. What else do I need? I need nothing else, right?'"

Pan started to look for insurance programs and found the program at Humber. His work there won him the Tretiak Award for being the top student in Canada in a full-time insurance program.

One of the things he noticed right away is that a lot of insurance is learned by talking to people in the field. He cites the example of figuring out how the terms of an insurance policy apply to a specific act situation.

"You read it in a book, but it's hard to apply it in reality," he says. "You may know the policy, but if you want to apply it to a claim, especially an accident, which term, which clause do you need to apply? It's difficult You need more of a chance to connect with the industry and, if possible, an internship – that would be great."

Students in insurance programs need to connect with the industry early in the learning stage, Pan says. "If you have that connection, it's very easy to get in touch with the company [to receive additional insights or information]. Second, it's good for the company, too. They can get people to work for them right away."

## Tricia Beckford

***Customer service representative, Dream Insurance Brokers***

In moving to Canada from her native country of Jamaica a year ago, Tricia Beckford, a broker at Dream Insurance Brokers in Toronto, also made the transition from an insurance company to the broker side.

In Jamaica, she graduated with a degree in Accounting just over 13 years ago; she then quickly found work through a friend at The Insurance Company of the West Indies Limited. She started as a client service representative (CSR) and worked in other capacities at the company, including credit control representative (accounts receivables), and accounting assistant.

> ...international students will generally have to work at the same time they are going to school. So, if the position is unpaid, it would mean that they would need some kind of support during that time.

She stayed with the company until August 2017, when she decided it was time for "a change of scenery." She found herself Googling insurance programs and found the Humber program offered in Toronto. "I was looking for a one-year program in the P&C sector, and at the time it was the only program in Toronto I found that fit into that category."

One main attraction was the program's attention to leadership. "Having been in the industry for as long as I have, and the experience that I have, I believed leadership would be the next step for me."

Beckford moved to Canada with her spouse and three children (her eldest is seven; her twins are each four-years-old).

While the work in Canada was familiar, some things were not quite the same. "It's differe t in some respects, especially auto," says Beckford. "It's differe t in terms of coverage, but in the basics of what insurance is, it's much the same."

She also made a switch from the insurance company to the broker side. "I was with an insurance company for the entire time [I was in Jamaica]," she says. "I did work alongside brokers at some point so, to some extent, I had a relationship with brokerages. I really didn't see myself initially working in the broker field, but t's not something I have regretted at all."

She got her job at Dream Insurance through her work placement program at Humber, an experience she describes as invaluable. Although sourcing paid internships in the industry proved to be a challenge, everything turned out well in the end. Work placements are particularly important for international students. "It might depend on the individual, but international students will generally have to work at the same time they are going to school," she says. "So, if the position is unpaid, it would mean that they would need some kind of support during that time." cu

OUTLOOK 2019

# Priorities for Change

## Insurance needs to change. We all get that. But what should be at the top of the agenda heading into 2019? Nine industry leaders tell us what's at the top of their lists

A 1993 song by a band called 'The The' includes the line: "If you can't change the world, then change yourself."

The lyric succinctly encapsulates the recent effort by Canada's property and casualty insurance industry to transform itself in concert with what's happening in today's business world.

Consumers are changing, their needs and buying habits are changing, and sales relationships with them are changing accordingly.

The industry is changing as well. In a short time, it has seen technological changes, emerging and evolving distribution models, mergers and acquisitions, fierce competition for new talent, market disruptors, innovation labs – it's hard to keep ahead of it all.

So where should you start?

To help enhance your own strategic thinking, *Canadian Underwriter* approached industry executives with two questions:

1) What is the single most important change the industry must make looking forward into 2019?

2) How might this change be brought about?

Their answers, featured in our 2019 Outlook, may provide you insight as you set your own agenda for change.

### Don Forgeron

**President, CEO,**
Insurance Bureau of Canada

**Auto insurance systems across the country are broken.** Escalating claims costs are putting pressure on insurers in a number of markets. Governments need to work with the industry to address rising claims costs.

In 2019, our industry's top priority will be to work with provincial governments to fix these bro en systems. The existing rate regulation systems in Alberta, Ontario, Nova Scotia, and Newfoundland and Labrador are inefficient relics that benefit no one

Our message to the provincial governments is loud and clear: **reduce the regulatory burden** so insurers can better serve their customers and build a more innovative industry. In Ontario, we are continuing to advocate for the changes that David Marshall prescribed in his 2017 report.

In Newfoundland and Labrador, the industry is playing an active role in the province's review of the auto insurance system. In Nova Scotia, we are advocating for changes in rate regulation and for measures to control the cost of injury tort claims, which have been rising steadily since 2010.

Convincing governments to implement substantive reforms requires massive political capital. And it certainly isn't easy. But we'll endure because consumers deserve affordable, stable auto insurance products.

### Heather Masterson

**President, CEO**
Travelers Canada

**Our industry must embrace change and take the lead** in digitally transforming our businesses to meet the evolving needs of brokers, customers and employees. We've seen a total of $1.7 billion in global insurtech investment dollars raised in 2016 alone, doubling since 2014, mainly from outside the insurance and reinsurance industry. We cannot afford to wait and let new entrants from other sectors, such as the technology sector, become the drivers of innovation in our own backyard. We have an incredible opportunity to seize, because we have the in-house expertise built over decades of serving brokers and customers in the field of risk protection.

It's not only about investing in technology. **True transformation starts with facing the unknown and using an adaptive mindset** to explore and re-imagine all aspects of how we do business. At Travelers Canada, we embrace a "test-and-learn" culture to unearth new ideas, pilot those ideas, and measure the potential for market success and scalability. We aim to accelerate this cultural shift by enabling our employees to transition into this new way of thinking and working. However, change of this nature will take time. This is where leadership is critical; not only within our own organization, but within the industry at large.

## Colm Holmes

**President, CEO,**
Aviva Canada

**In my view, the single most important change the industry must make in 2019** is to be the champion for Canadian drivers, by **pushing for reform of the auto insurance regulatory system**. Specificall , that reform should allow for innovation, competition and better consumer choice, none of which exists today.

Across Canada, regulatory constraints prevent the insurance industry from embracing and implementing technology quickly – or rather, at the speed of today's marketplace. Our industry needs to leverage technology to drive improved service, to offer convenience, and to make auto insurance more affordable for customers. As a result of a loosened regulatory grip on the auto insurance product, customers can benefit from greater choice. They will have a better and more efficient access to inn vative products, which will stabilize premiums year-over-year.

This consumer-focused fix will require government and the insurance industry to work collaboratively, which we believe will provide customers the right coverage, at the right time, and at the best price.

## Rowan Saunders

**President, CEO**
Economical Insurance

**Our industry is in transition.** The market cycle is changing as insurers target greater profitability in 2019. e are simultaneously managing more natural disasters, experiencing an increase in the number and severity of auto collisions, and understanding how best to leverage new technology. We are evaluating the impact of vehicle automation, cannabis legalization, and the sharing economy on our industry. At the center of all this change is our customer, who is looking for a simple way to purchase insurance and understand their coverage.

As an industry, **it's important to focus on the customer** as we head into 2019. Collectively, insurers and brokers need to educate and advise customers through upcoming product and pricing changes in order to give them peace of mind; they need to know that the things they value most are protected. At Economical, we are innovating and making investments across our business to support the experience that customers expect. At the same time, we need to focus on profitability as e continue our path to becoming a public company, ensuring that we keep one step ahead of the industry and continue to be capable and relevant when our customers need us in the future.

## Martin Thompson

**President, CEO**
RSA Canada

**We as an industry must change how we manage catastrophic events** and broken auto systems for customers across the country.

First, the impact of extreme weather on the lives of our customers and the industry's profitability is significant. As eather events become more frequent, our resources and capabilities will be tested. Our ability to respond is predicated on pricing and underwriting risk appropriately for these events.

As an industry, we don't operate in isolation. **We must engage with external stakeholder groups**, both provincially and federally, to ensure we are actively engaged in building resilience for the future.

Second, nationally, we operate in auto regimes that are failing insurers and consumers, creating a lose-lose situation – insurers that are unprofitable and customers who are paying too much. As an industry, we must recognize these trends proactively and react appropriately.

Within the auto sector, we have to work with relevant stakeholders to ensure we have systems in place that protect customers. Structurally inefficient operating systems drive cost leakage into the product, and create bad outcomes for both customers and insurers. We need auto systems that work for all parties involved. Regulatory and product change are essential.

## Louis Gagnon

**President of Canadian Operations**
Intact Financial Corporation

**Software, data and mobile technology are transforming the way we interact,** gather and share information, and how we live. Customers' expectations are changing. **Our industry needs to up its game, be more agile and deliver what customers expect** – or risk being made irrelevant.

Intact has focused on transforming the customer experience for several years now, leveraging technology to make lives easier for customers. Our digital tools – apps, Client Centre, quick quote tools for home, auto and small businesses – are intended to save customers and brokers time, allowing brokers more time to focus on professional advice and bringing value to clients.

Over the past decade, we've invested significantly to impr ve the customer experience and strengthen the broker value proposition. By investing in machine learning, artificial intelligence and telematics we'll be better able to segment the risks we write and offer customers more tailored products that reflect their risk profile more accurate .

Technology will never replace the human touch, because insurance is about people. Intact will continue to be among the fi st on the ground in a catastrophe to help customers get back on track when they have a claim. Overall, customer experience will continue to differentiate our brands in the marketplace.

## Ulrich Kadow

**CEO, Chief Agent**
AGCS Canada

**Adjusting to the fi st signs of a hardening market in Canada** will be one of the changes the insurance industry needs to make as we approach 2019.

Historically, hard markets follow major catastrophe losses resulting in insurers raising rates and limiting coverage offerings to balance the cost of claims. There were significant catastrophic losses in 2017; during the first half of 2018, loss frequency and severity in several lines have been at historic highs.

As a result, we are seeing signs of market hardening in some areas. Markets are exiting certain classes or segments of business, adjusting risk appetites and pricing, realigning their broker strategies and streamlining new business in exchange for profitabilit . This is a result of carrying non-performing segments that have failed to remain competitive and/or subject to regulatory restrictions. Also, catastrophes have had an impact in 2018. Major events this year have caused a restriction in capacity in most major commercial markets.

This emerging market cycle will lead insurers to use enhanced risk mitigation and pricing tools to ensure a robust and efficient solution. Now, more than ever, **a customer-centric approach**, longevity and relationship management with the insurer is crucial.

## Denis Dubois

**Executive Vice President,**
Property and Casualty Insurance, Desjardins

**Strengthening relationships with customers** is the single most important change that insurers and the industry must make as a whole.

It's no secret that Canada's insurance industry is lagging when it comes to customer experience. Not only is this eroding customer loyalty, it's opening the door for new market entrants. Think of insurtech disruptors such as Lemonade, which are agile and in tune with evolving consumer needs and wants.

Technology has an important role to play in the industry's future, but it is no panacea. Only when the focus is on the customer is it possible to plan technology and other investments to build sustainable customer relationships.

Of course, that's a lot easier said than done.

First, it requires the **development of a customer-centric culture across the organization** – through extensive training, leadership from the top, and reinforcement of values and behaviours.

The next step involves smart investments in technologies. The main objective is to enhance the customer experience through simplification and pr viding choice. Technology should improve the company's organizational efficienc , agility and the understanding of customer needs and wants. From there, evolving the relationship to focus on risk prevention and two-way communication is a natural step forward, further strengthening the long-term relationship.

Mike George

**President, CEO**
Trisura Guarantee Insurance Company

**Given the challenging state of the Canadian P&C marketplace today,** the list of priorities for the industry as we head into 2019 is long indeed.

Selecting the top priority in an industry in which insurers are struggling with both profitability and achi ving reasonable returns on capital is difficult.

Perhaps **the most important change required for insurers and brokers is a willingness to embrace change itself**. In my opinion, for the business model to thrive and remain dominant, there should be a collective mindset that the model must improve. The status quo is not going to be good enough, nor is it sustainable.

The traditional insurer-broker model is an expensive one due to inefficie -cies that currently abound, particularly when it comes to commoditized products. That's one reason why there has been so much excitement around insurtech. Everyone is racing to build silver-bullet solutions that reduce costs, improve efficiency or drive sales; some are considering dis uptive direct-to-consumer approaches.

Insurers and brokers need to work collaboratively to discover and implement ways to reduce costs and improve efficiency while greatly impr ving the customer's insurance buying experience. These savings can then be passed onto consumers, who might then begin to enjoy their dramatically improved insurance journey.

It is imperative for us to acknowledge that our true competition is not only the established players in our industry today, but disruptive market entrants that could literally be here tomorrow. Consider the difference between taxi companies versus other taxi companies, for example, and then taxi companies versus Uber. If we don't correctly identify our true competitors, we may wake up one morning to find out that e have been disrupted by a direct-to-consumer innovator who delivers an enhanced customer experience at half the cost.

The biggest change needed in 2019 is for those living the traditional insurer-broker model to realize that our business model must improve and transform through greater industry collaboration, or else it will be transformed for us, not by us.

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RECRUITING BROKERS

# Landing top producers

Where do you find top fli ht commercial brokers when the pool of highly-qualified tale t is shallow?

BY GREG MECKBACH, *Associate Editor*

You own a brokerage and you need to recruit commercial lines producers. You are not in one of Canada's largest cities, so the pool of local talent is not large.

What do you do?

Commercial brokerage Henderson Insurance Inc. recruits some brokers from outside the insurance industry.

"We pull account executives from differe t sales jobs and differe t relationship-based jobs and we try to teach them insurance," says David Reidy, president and CEO of Regina-based Henderson. "There are very few people (in Saskatchewan) who understand commercial insurance deeply."

The same is true in smaller centres across Canada, says Kent Rowe, vice president of commercial lines at Wedgewood Insurance, which has office in St. John's and Corner Brook, Nfld

"Our industry is facing a pretty significant challenge in terms of ability to attract and retain talent," says Rowe, who is also chairperson and past president of the Insurance Brokers Association of Newfoundland.

Rowe's brokerage, Wedgwood, was in the process this past October of hiring two commercial account managers. The product offerin s of the business include commercial property, liability, auto, cyber, directors' and officers liability, environmental impairment liability, marine and surety bonds.

The brokerage has found itself "getting away from the insurance pool altogether" to find new employees, Rowe comments. For example, the brokerage sometimes hires people out of school and from industries outside of insurance and trains them.

"It's a little bit of a longer [learning] curve, but our experience has been that it works just as well as doing it any other way," he says. "A lot of things establish what would be a good producer, or someone who would be good in commercial lines, versus somebody who may not be so strong."

For example, a commercial producer needs "strong analytical skills" and the ability to "engage in conversation with commercial clients on topics related to insurance matters."

For its part, Henderson "ends up pulling from differe t industry segments," Reidy says. The brokerage, which has offices in both Regina and Moose Jaw, has target markets including agriculture, commercial auto, manufacturing and construction.

Reidy hopes this will change now that Henderson is a partner of Toronto-based Navacord, which was founded in 2014 by Jones DesLauriers Insurance Management Inc. and Lloyd Sadd Insurance Brokers. The agreement to join Navacord took effect ov. 1.

Navacord offers training programs for staff of its brokerage partners. Reidy observes that it takes a lot of time to train people from outside the industry as commercial producers. "We are not opposed by any means to talking to people within our own industry," he says.

When recruiting producers from outside insurance, Henderson will look within financial services and banking. The same is true at Wedgewood.

"Several of the people we have interviewed over the last little while come from the commercial banking space," Rowe said. "That lends itself well to talking about risk, whether it's financial risk or risk related to insurance. Still, these people are used to having those conversations related to financial matters and risk matters."

Technology acumen is also an asset, Rowe added.

The need to adapt to technological change is "influencing the skill and labour requirements" of the property and casualty insurance industry, the Insurance Institute of Canada reported in a paper titled *Demographics of the P&C Insurance Industry of Canada*.

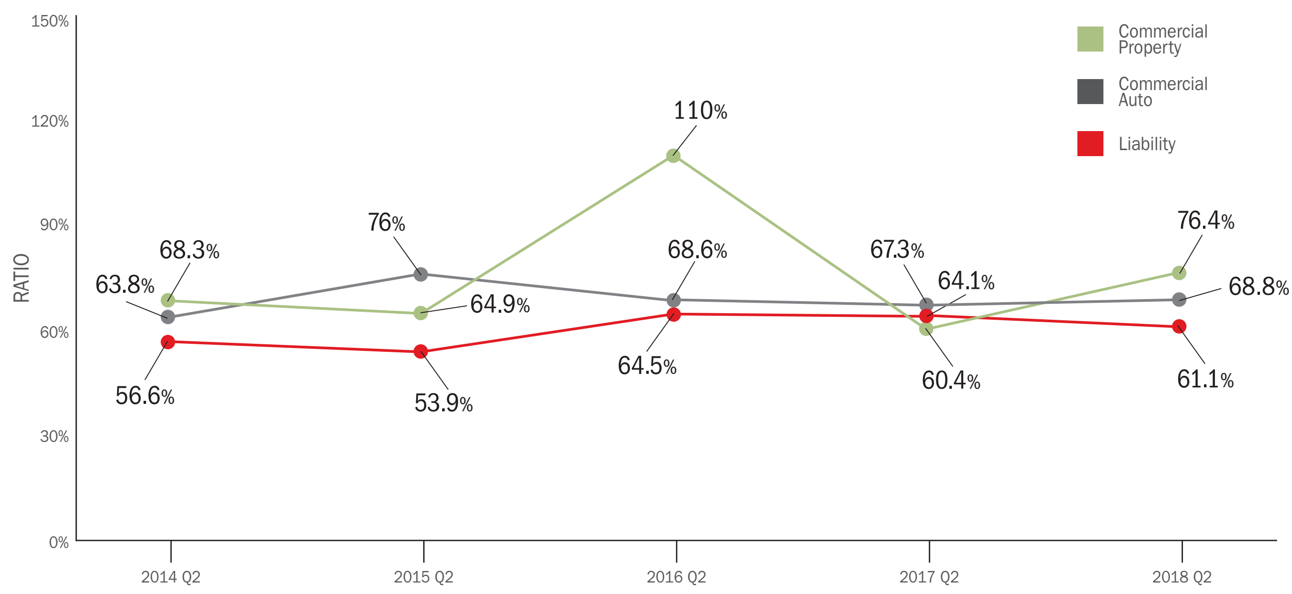
"Technology-sensitive organizations are much more likely to stress the hiring of technical skills, such as analytics and data analysis, to facilitate their transition toward data-centric approaches across all areas of work," the Insurance Institute says in its report. "At the same time, they value workplace-critical skills such as innovation, creativity, and flex bility, which could be more predictive of an individual's ability to adapt to change."

For a commercial brokerage, "if you have somebody with the right attitude, and who has the right mix of pertinent experience relating to customer service [and] managing accounts in whatever capacity, I think that certainly lends itself well," says Rowe. "I think the responsibility ultimately lies with the brokerage. We have to do our own work to create our own talent pools.". CU

**BY THE NUMBERS**

## 5-year commercial claims trends

The chart below shows claims ratios for federally-regulated insurers in the three main areas of commercial lines over the past five yea s.* Of particular note is the jump in the commercial property claims ratio over the past year, surpassing the claims ratios of auto and liability.




*To include most recent OSFI data, the chart uses annual Q2 results. Property and auto figures combine pe sonal and commercial lines

Sources: Office of the Superintendent of  inancial Institutions

## APPOINTMENTS

**Jennifer Beresford**

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

Jennifer studied cognitive science and ethics in her undergraduate years, earning a Specialized Honours B.A. and Certificate of Practical Ethics from York University. She attained her J.D. from the Faculty of Law at the University of Toronto in 2004 before her call to the Bar in 2005. Since then, she has participated in many courses focused on ADR and litigation, including Osgoode's Annual Intensive Trial Advocacy Workshop.

Jennifer's expertise lies in both the defence of insurance claims and in the area of insurance coverage. She defends first party claims against insurers arising from both property damage and under the *Statutory Accident Benefits Schedule*. She defends third party claims against insurers and their clients, arising from all types of accidents. Her expertise in coverage encompasses issues arising under various types of policies, including CGL, auto and private property. She has appeared before the Ontario Superior Court of Justice, the Ontario Court of Appeal, the LAT, FSCO, and numerous private arbitrators.

Jennifer's contact information is:
jberesford@blouindunn.com
(416) 365-7888 ext. 153

**Nick Mahdavi**

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

Nick received his Honours Bachelor of Arts degree in Criminology from York University in 2010. He went on to receive his Bachelor of Laws from Kings College London in London, England in 2013. Following his return to Toronto, Nick completed master's studies in Evidence Law at Osgoode Hall Law School in 2015.

Nick completed his articles at a boutique personal injury law firm and was called to the bar in 2016. Since his call, Nick's acted as Claims Counsel for the program manager of several national errors and omissions insurance defence programs on matters related to real estate, professional liability and negligence, and insurance coverage disputes.

Nick is experienced in various areas of civil litigation including personal & bodily injury, statutory accident benefits, occupiers' liability, long term disability, professional negligence, real estate, coverage and contractual disputes, amongst others.

Nick's contact information is:
nmahdavi@blouindunn.com
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RSA

# Innovate to thrive in a growing market

The Canadian manufacturing sector has experienced significant growth recently, reaching its fastest pace in more than seven years this year. While rising interest rates are affecting Canada's housing sector and consumer spending, the manufacturing sector shows no signs of slowing down in the foreseeable future. To ensure our continuing prosperity, Canada is diversifying markets and pursuing a progressive trade agenda. Today, exports and imports represent about 65 per cent of our output, one of the highest ratios among the G7 countries. But while manufacturers continue to invest in operations and growing their teams, they still face many challenges - especially regarding cross-border expansion efforts. Ongoing trade negotiations with the US and increasingly complicated supply chain systems are among the factors that can potentially hinder the manufacturing sector as it stands today.

## The possibility of expansion

**Canada's open economy means that economic prosperity rises and falls with trade. For mid-market manufacturers, the key benefits to expanding to the US market include a growing American economy, weak Canadian dollar, falling oil prices and its geographic proximity and accessibility. The timing hasn't been better for small-and-medium-sized Canadian companies to consider expanding across the border.**

But if risk is not properly mitigated in the expansion process, there is the possibility of significant business interruption that could spell disaster for any company. Manufacturers, like all companies, require an adequate, comprehensive and legally compliant insurance solution, especially in light of the volatile political and economic situation.

## The key to success

**Enter RSA Canada's Keystone Program. Offered to a select group of commercial brokers from across the country, the Keystone Program offers brokers a number of exclusive privileges including preferred pricing, dedicated service and tailored insights to position them at the core of their clients' cross-border expansion plans and access to our multinational specialty division.**

Named after the central stone at the summit of an arch that locks the whole structure together, the Keystone Program was designed to reinforce the trusted advisory role of brokers. That's why these brokers enjoy privileges such as early acceptance of submissions in advance of the effective date, rate guarantees on renewals, discretionary discounts and customized training tailored specifically to their needs. Most important of all, each Keystone Program broker has a dedicated Key Account Manager for any questions or issues that may arise down the line, an advocate for your business.

## The role of the broker

**The important role that you, as a broker, play within your clients' organizations is elevated when clients look to expand into foreign markets. Here are a few key considerations to share with clients who have their sights set on cross-border operations:**

- **Regulatory compliance:** Identify the gaps in their policy where they don't have adequate coverage and propose a solution for clients to ensure that their operations are insured in the US to the same level as if they were insured on home soil. Secure a locally admitted policy in the US, so they don't find themselves in inadvertent breach of local laws or regulations, rendering them suddenly uninsured.

- **Supply chain management:** Regulatory compliance, managing costs and product protection account for most of today's supply chain concerns. You will need to know as much as you can about the logistics companies your clients will be working with, so take the time to understand their financial situation, certifications, client profile, issues management experience and niche expertise. Doing so will ensure you are better equipped to make recommendations to your manufacturing clients that are well suited to their needs.

- **Build contingency:** In the case of an incident, it is your role to educate your clients so that they have strong business continuity plans in place to ensure minimal interruption to operations.

- **Establish strong relationships:** Work closely with your clients and help them build a strong network of partnerships, especially those who understand their business and the manufacturing sector. Your Key Account Manager can help you develop a list of questions that your clients can use to guide these early discussions with potential partners.

*To take your manufacturing clients' expansion plans to the next level and unlock a world of opportunity,*
**visit rsabroker.ca/keystone.**

*RSA Canada is a Canadian leader in Equipment Breakdown Insurance (EBI, also known as boiler and machinery insurance), and an Authorized Inspection Agency which allows the company to offer the market periodic inspection and certification of boilers and pressure vessels.*

BROKER PAY

# Richly deserved

Is your compensation plan getting the most from your sales force?

BY JASON CONTANT, *Online Editor*

Is your brokerage looking to build a performance-based compensation plan?

Chances are, you are not alone.

In *Canadian Underwriter*'s 2018 National Broker Survey, more than 250 broker owners and principals shared their views on the effect veness of four types of compensation techniques, including performance-based compensation.

Of the 198 broker owners/principals who reported that they offered performance-based compensation, 66% rated it as a best practice (scoring it an 8-10 on a 10-point scale). That was higher than the results for three other compensation options, including profit-sharing plans, employee share-owning plans, and employee recognition programs.

But if you're planning on undertaking a performance-based compensation plan, don't be too hasty in implementing it, advises Whitby, Ont.-based Mitchell & Whale Insurance Brokers.

"Spend time building your plan," says Amanda Ketelaars, the brokerage's operations manager. "Know what you want the outcome to be. List all the pitfalls that might be encountered with individual performance, as well as team performance, and how you can avoid them. There is a serious butterfly effect here of accidently incentivizing the wrong thing down the road."

For Mitchell & Whale, performance-based compensation can take many forms. Among them:

- bonuses for hitting or exceeding targets as a team
- individual, performance-based salary increases
- promotions or
- other privileges.

Whatever form it takes, a performance-based plan requires a clear definition of a good performance. Once you know what counts as success, the next step is to measure how close you are to achieving it.

"No matter which way you slice it, it's about transparency and honesty in what you are measuring and rewarding," Ketelaars reports. "The secret is to make that a data-based decision, so that those who excel at managing or sucking up are not rewarded over the person who is incredibly effect ve. It's not easy to define or manage those metrics, but if you can hold yourself and the team to that high standard, it can pay dividends."

It's also important to align the performance plan with the company's culture, vision and values. "With the proper planning and by setting the parameters and expectations, this type of compensation can be motivating and effect ve," Ketelaars says. "Our sales brokers have been compensated based on performance for a few years with great success." While it is not implemented with everybody, "we continue to look at it as an option and will implement it to other departments when [or] if it makes sense."

For digital brokerage Surex Direct, performance-based compensation is used for everything, be it new business, endorsements or renewals. "Anything involving the premium of the client" is fair game for influencing the broker's salary, says Ryan Kirk, the brokerage's vice president of operations for eastern Canada. The Magrath, Alta-based brokerage is 100% commission-based.

Does this eat-what-you-kill commission model really improve a broker's performance? "Absolutely," Kirk says. One reason why it is so effect ve is that brokers aren't hired as employees, they're hired as independent contractors. "They look at their job as their own personal business in a sense, kind of like a real estate agent," Kirk says. "They don't really have to market themselves [because they operate under the Surex brand], but their efforts are rewarded and there's no cap on what they can earn. By being an independent contractor and not being capped in their commissions, brokers are actually excited because...they're usually making more than industry standard if they are a good broker."

Is it for everyone? Kirk acknowledges it can be a challenge to find people who are comfortable with a 100% commission-based model. "You get a lot of applicants who aren't sure of their potential or [what] their success percentage [would be] if they were to start here or not," he says. "The ones who do come on board understand that they're taking a risk. But every single one we've brought in has been glad they've taken this risk. They see how much they are able to sell, how much they are able to earn, and how much they are able to retain year after year."

What advice would he give to other brokerages interested in implementing a similar compensation model? Make sure you find brokers who are willing to put in extra hours, and who like setting the bar high for achievement. "You need brokers who are driven," Kirk says. "If you have somebody who won't start until nine and won't work past 5 o'clock – if they see this just as a job where they leave at the end of the day – that's not the type of brokers that we hire. Our brokers make themselves available at 8 o'clock or 9 o'clock at nights or on weekends, when people are requesting quotes."

Commission-based models don't have to be all-or-nothing. In addition, as Katelaars observes, they don't have to be implemented universally throughout the entire organization. "Test with a single department or specific roles," she advises. "Keep it in line with your culture and mission. When you roll it out, be comfortable to change quickly if something is not working and keep clear, transparent and open communication with all team members." CU

CROWDSOURCED

## HOW DO YOU TALK TO YOUR CLIENTS ABOUT CANNABIS?

**Travis Murray**
Branch Manager
Leibel Insurance Group
Edmonton

**In home insurance,** it's all about disclosure. It's legal now to grow a certain number of plants at home, but technically it's a material change in your insurance, so you should advise your insurance company. In auto, people are concerned about monitoring and roadside testing. When in doubt, err on the side of caution. Are you confident enough to drive that you are willing to risk an impaired charge and a possible criminal record? Roadside testing for cannabis isn't as cut-and-dried as it is for alcohol.

**Adam Mitchell**
President
Mitchell & Whale
Whitby, Ont.

**Everyone is waiting to see** what claims and exposures happen. You can't drive intoxicated, just like with alcohol. Social host liability is the one that fascinates me. If you have [house] parties, you'd be liable if you let [your guests] leave drunk; you're going to be liable for letting them leave high. And homeowners' policies have had to allow the new legal limit of four plants on the policy.

**David Deswiage**
Commercial producer
Prairie Dispensary Insurance Program
Saskatoon Insurance Agencies

**When I insure** a designated or personal grow operation, I always try to inspect it, or at least ask for photos so I can see what's going on. There's a lot of different grow equipment out there; the older it is, the more prone to fire it is because it runs hot. There's an eclectic mixture of grow lights right now; some are safer than others. If you are growing, whether in a leased or owned space, make sure you've got proper ventilation and proper grow conditions because mould is possible.


CYBER POLICIES

# Lurking liability

What's your exposure if the courts read cyber coverage into any policies that don't explicitly exclude it?

BY DAVID GAMBRILL, *Editor-in-Chief*

Will Canadian courts read cyber coverage into insurance policies if the contract language does not explicitly exclude cyber?

It's a global issue known as "cyber silence." In Canada, insurers are starting to assess their true exposure if the courts start to read cyber coverage into Commercial General Liability (CGL), property and liability policies.

"Silence on cyber is going to be an interesting defence," Lynn Oldfield, CEO of AIG Insurance Company of Canada, told an audience attending the Insurance Institute of Canada's *At the Forefront* event in Toronto Oct. 29. "It's going to be tied up in the courts for many, many years." Oldfield was speaking about her personal opinions at the event and not as a representative of AIG.

Underwriters typically exclude cyber from property, liability and CGL policies, preferring to offer coverage in dedicated cyber insurance policies instead. However, insurers are now alert to the possibility of courts reading cyber coverage into CGL policies where there are no explicit exclusions for cyber.

"You have to be cognizant of it and that's the thing," says Scott Pidduck, director of underwriting at QBE Canada. Cyber was never intended to be covered under a CGL policy, he adds, but a court could construe a CGL policy as providing coverage for cyber, depending on how the claim is brought. "It's something every insurer is starting to take notice of, monitoring, and changing the language to ensure they know what is being covered."

There is no developed caselaw in Canada on this point. The question has come up in U.S. courts at least twice since

2015. In neither case did the court draw any broad-based conclusions.

In 2015, Sony Corp. of America and Zurich American Insurance Co. reached a settlement in a CGL policy coverage case stemming from the April 2011 hacking of Sony's PlayStation online services.

Zurich denied coverage for the cyber breach under its CGL policy and a New York trial court ruled in favor of Zurich in 2014. Sony took the decision to an intermediate appellate court, but the settlement ended the litigation with no clear indication about whether the CGL's language around "publication" of stolen data triggered cyber coverage.

In April 2016, a Virginia federal appeals court ruled that data breach defence coverage was included in a CGL policy underwritten by Travelers. The policy contained a provision that offered coverage for "electronic publication of material that... gives unreasonable publicity to a person's private life."

The class action was filed in New York in 2013 by patients whose private medical records were exposed on the internet for four months. The action was brought against Portal, a medical records safekeeping firm, which was hired by Glens Falls Hospital in New York and insured by Travelers Indemnity. The court found cyber coverage in the CGL policy because it ruled that the purloined data was "published" on the internet, and it drew unreasonable publicity to the personal information of those hacked. .

If cyber cover can be found in all policies in which there are no explicit exclusions, the question for insurers becomes whether they have priced their policies properly for potential cyber exposure.

This came up in a supervisory statement issued last July by the Prudential Regulation Authority (PRA), the United Kingdom's financial services regulatory body. Specifical y, the PRA made three recommendations to European P&C insurers to properly calculate the amount of capital required to cover their cyber exposures.

The PRA's Bulletin SS4/17 states: "Firms are expected to introduce measures that reduce the unintended exposure to (silent cyber) risk with a view to aligning the residual risk with the risk appetite and strategy that has been agreed by the board."

To achieve this, the bulletin continues, firms might consider any of the following:

- adjusting the premium to reflect the additional risk and offer explic t cover;
- introducing robust wording exclusions; and/or
- attaching specific lim ts of cover.

"The U.K. has a differe t structure than in Canada or the U.S. with respect to how the policy forms work," Pidduck notes. "Sometimes you are looking at civil liability type of forms [that touch on] professional lines. When you get into those, if it's not explicitly excluded, it's included almost."

But while Canadian property and casualty policy forms diffe , there is a lot of overlapping coverage between them. "Cyber does touch a few areas, depending on how you look at it, and it's a relatively new cover, compared to property," Pidduck observes. "There is still a learning curve, obviously, for all of the carriers."

In the United States, the issue of silent cyber coverage has come up in litigation around directors' and officers liability policies, as noted in Chubb's 2018 Q3 results call on Oct. 24.

"A driver that we're observing I'll call event-driven litigation against boards," John W. Keogh, executive vice chairman and chief operating office of Chubb Limited, reported during the call.

"So, imagine the traditional general liability and property claims. Think of mass tort, a dam bursting and people being hurt, a cyber breach where you get property claims, you get liability claims.

"Well, guess what? More often than not today, you also get allegations and claims being brought against management and boards of directors. So, there's the loss cost trends that we observe."

A recent report by PwC estimated the global cyber market would double to $5 billion in annual premiums by 2018 and treble to at least $7.5 billion by 2020. In Canada, statistics reported by the country's solvency regulator show that federally regulated insurers in Canada wrote about $58 million in cyber liability coverage last year. CU

**TRUSTED ADVISOR**

I'm a 55-year-old brokerage owner who founded a successful business. I must be getting old, because now I am hearing questions like, "When are you planning to retire?" I haven't really thought about it before. What should I do?

— Grey Temples

Dear Grey,

**Your clients are not asking out of disrespect.** They simply want to be reassured. This is a nod to your reputation: it's a sign that customers want to continue to do business with your fi m. The fact is, as Karen Firestone notes in a blog for the *Harvard Business Review*, CEOs tend to be the face of their organizations, especially at small to mid-sized companies. So it is entirely reasonable that customers planning their future with you would want to know about any upcoming retirement plans. You will want to start your succession planning right away. Some experts recommend taking two to three years to establish the plan, starting about a decade in advance of when you plan to retire. Once you decide how and when to divest your time in the business, you can decide who will be able to take on your tasks and whether you have the right people in place to carry the torch in your absence. If not, then starting your succession planning now will give you time to recruit and train people who can. Communicating your plan to clients and markets is key: they will want to hear you are putting together a solid team to carry on the business in your absence. Within a year of your retirement, reinforce your confidence in your people and thoughtfully explain the roles that will change and those that will stay the same (and why).

CYBERCRIME

# How to protect small business

Developing a cyber response plan is critical for SMEs

BY NEAL JARDINE, *Senior General Adjuster, Cyber Practice Leader, Crawford & Company (Canada) Inc.*

The threat of cybercrime continues to grow, affecting organizations across all industries and of all sizes.

Ransomware attacks have increased 250% since 2016, according to an online article on Media Planet. Although large organizations receive the most attention, small and medium-sized enterprises (SMEs) account for over 70% of data breaches. Cyber security incidents can be costly to an organization, potentially damaging customer and stakeholder's confi ence, and trust.

Why are cybercriminals attracted to SMEs?

Due to their size, SMEs may lack the appropriate resources to handle an attack, according to an online article on *business.com*. In a Canadian Chamber of Commerce survey of approximately 260 businesses, only 26% of micro-businesses and only 55% of small businesses made investments in cybertraining.

The information cybercriminals target – credit card information, intellectual property, and personal identifi ble information (PII) – is often less guarded on an SME's system. Visa Inc. reports that 95% of credit card breaches are from SMEs.

Since larger organizations are likely to have more robust defense systems to deter cyberattacks, cybercriminals are more likely to target connected SMEs to gain access. Partnerships between SMEs and larger organizations can provide a back-channel for hackers, as was the case with Target in 2013, whereby access was gained through their HVAC vendor, an SME, according to *cnbc.com*.

SMEs can protect themselves by establishing a cyber incident response plan that incorporates a network of specialized experts to address all loss exposures in a concise fashion. The goal is to mitigate exposures in a timely manner and prevent future incidents.

While developing the plan, SMEs should address their scope, size of operations, involved parties, and simulate an attack in advance. A cyber incident response plan should include:

- defining the scope, detection and assessment
- federal and provincial regulations
- response team and incident manager
- methodology and i vestigation
- remediation and recovery

### Scope, Detection and Assessment

A defined scope identifies which of the two cyber losses the SME might face: a *cyber incident* or a *data breach*. A cyber incident can be a malicious act or suspicious event that may or may not have compromised the electronic security perimeter or physical security perimeter of a critical cyber asset. A data breach is the loss of, unauthorized access to, or disclosure of personal information, resulting from the breach of an organization's security safeguards, says the Offic  of the Privacy Commission of Canada.

### Federal and Provincial Regulations

This distinction is critical due to the legislation that came into effect Nov. 1, 2018 under the *Personal Information Protection and Electronic Documents Act* (PIPEDA). The Federal Privacy Commission must now be notified if personal identifi ble information (PII) was accessed, viewed, or stolen, poses “a real risk of significa t harm” to the individuals whose data was involved. Each scenario requires its own risk mitigation strategy.

Incident managers need to be aware of the type of information the SME keeps and how it is stored. A data breach has a greater exposure due to the risk to PII, along with the responsibility to notify the privacy commissioner and possibly draft notices to the individuals whose data was accessed. An incident manager may choose to initiate a forensic investigation and maintain legal “privilege” if an investigation has not already commenced. The incident manager can involve a lawyer to assist with this portion and guide the business through the regulatory environment, thus avoiding costly fines

For SMEs that do not store PII, such as a small machine shops, variety stores, or restaurants, a cyber incident leading to a ransomware attack or other cyber event may not have the same risk or exposures. Incident managers can guide SMEs through the process and manage the loss.

### Response Team and Incident Manager

An organization’s plan should include a list of fir t responders and outline the composition of the incident response team. Most SMEs may not have a system administrator, risk manager or human resources department. A contact list should include the proposed incident manager and those responsible for maintaining the business’ computer systems.

### Methodology and Investigation

An organization’s cyber incident plan should outline the methodology and investigation strategies to be used when an event happens. Consideration should be given to how to take certain systems offline thout impacting the entire business.

### Remediation and Recovery

Finally, organizations need to keep track of the remediation and recovery efforts. According to research conducted by Kroll Ontrack, “while over half (57%) of respondents had a backup solution in place, three quarters (75%) were not able to restore all of their lost data, with more than one-in-five (23%) unable to recover any data at all.” Organizations should outline where all data backups are located and frequently test the back-up process in their plans. cu

Neal Jardine is a senior general adjuster with Crawford’s Global Technical Services (GTS), with more than 10 years of experience in adjusting property and casualty claims. He has a degree in computer science and worked in the IT field prior to joining Cr wford.

DATA PROTECTION

# Fiscal responsibility

Asset managers don't want hackers attempting to impersonate them. Here's a golden opportunity to minimize their exposure

BY GREG MECKBACH, *Associate Editor*

Looking for commercial clients who need cyber insurance?

Try contacting asset managers or companies that manage people's money.

Asset management firms have "highly sensitive, private and proprietary fina cial information" on their customers, says Thomas Davies, associate partner for cyber security at EY Canada.

This makes asset managers particularly susceptible to various forms of cyber-attacks, including a method known as "spear-phishing."

Sunny Mann, a legal counsel and compliance office of 18 Asset Management, notes an example of spear-phishing in a recent blog. She reports talking to a compliance office whose asset management firm received an email from a client requesting a transfer of a large amount of cash into another investment opportunity. As a precaution, the fir 's compliance office called the client to inquire about the email. It turned out the investment opportunity was fict tious, and the client had not requested that money be withdrawn from his account.

The client's email account had been hacked.

The issue of cyber-security for asset managers is on KPMG Canada's radar. In a recent survey of asset managers, KPMG asked respondents (including those who worked for mutual fund companies) how they plan to address cyber security. Survey participants were asked to select from eight differe t answers, one of which was buying cyber insurance.

More than half (55%) of respondents told KPMG that they planned to buy cyber insurance.

Several cyber incidents over the past year, including some in Canada, have been well-publicized, says James Loewen, KPMG Canada's national sector leader for asset management. A 2016 cyber security report by Accenture found that financial services firms each face an average of 85 data breaches per year.

Managers at asset management firms "are very worried about reputation," Loewen says.

EY's Davies makes similar observations about asset management firms. "The risks they face if data is breached can be devastating. They leave lasting reputational damage if not addressed proactively, continuously and transparently, with buy-in and support from the most senior executives of the organization."

With a cyber breach, an organization

faces liability risk. Not only could they be sued by someone whose privacy was compromised, but they could also face fines and penalties

"There is an obligation on the organization to mitigate not only potential damages or harm to themselves, but also those whose information was compromised," privacy lawyer Imran Ahmad, a Toronto-based partner with Miller Thomson LLP, says. "Simply offering credit monitoring, although a good step, is typically not suffici t. What you need is some level of urgency in communicating with those affected ind viduals."

This became even more important on Nov. 1, when Canada's mandatory breach notific tion regulations took effect. The *Digital Privacy Act*, passed into law in 2015, requires companies to report data breaches if there is a "real risk of significa t harm."

Harm could include identity theft, damage to reputation or relationships and even humiliation, as law firm Fasken Martineau notes. Breaches will have to be reported both to the federal privacy commissioner and to the affected individuals, unless it is prohibited by law.

Ryan Berger, who heads Norton Rose Fulbright's Canadian privacy and cyber security team, told the Canadian Press that a major motivation for businesses to obtain cyber cover is the risk of being sued by those harmed by a privacy breach. Two of Canada's largest banks were the targets of cyber-attacks earlier this year. Both the Bank of Montreal and the Canadian Imperial Bank of Commerce's Simplii online banking arm warned this past May that "fraudsters" may have accessed certain personal and financial information of up to 90,000 customers. Simplii was known as PC Financial until 2017, when Loblaw Companies Ltd. (which owns the President's Choice brand) ended its consumer banking relationship with CIBC.

Mandatory breach notific tion will likely result in a "signifca t increase in litigation" Ahmad says. "You see what happens in the U.S. Anyone can go on the Attorney General's website of any state. They will see the breach that's occurred – and class action lawyers, media, and other people see that notice – and it just leads to litigation right away. I expect you are going to see more of that in Canada."

The new breach notific tions required under the Personal Information Protection and Electronic Documents Act (PIPEDA) will raise awareness, but "a lot of organizations in Canada don't realize that these new rules are going to apply to them," Berger told CP.

Canada's large banks "have certainly engaged in seeking cyber insurance and are actively reviewing if they have adequately transferred some of the financial impact," Davies says. "The rest of the financial services industry is largely still adding a cyber component to their overall insurance policy." cu

# TIC Black Tie

November 1, 2018
Toronto

The Toronto Insurance Council (TIC)'s annual Black Tie dinner is a must-attend for Hogtown's insurance elite. But the 63rd annual event was extra-special, coming in TIC's 100th anniversary year. The evening's guest speaker and Canada's first oman in space – Dr. Roberta Bonda – added to the festivities by delivering a humorous and wide-ranging presentation on topics including, among others, climate change and the truth about the air of the International Space Station. (Tip: You wouldn't want to breathe it.)

From left: John Knotek of Clear-Pay, Dr. Lydia Baxter and Kim Opheim of K Opheim Consulting.

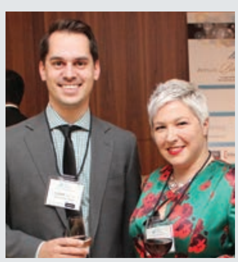
TIC's board of directors with the evening's guest speaker, Dr. Roberta Bondar (second from left).

From left: Trisura's Mike George with John H. van Bilsen and Sean Anderson, both of FCA Insurance Brokers.

From left: Steve Phillips of Sovereign Insurance, Nancy Miller of MSA Research and The Guarantee's Angelique Magi.

Aviva Canada's Joe Vachon is flan ed by Newcom Media's Jim (left) and Joe Glionna, the owners of *Canadian Underwriter*.

Berkley Canada's Jeanette Lawrence (left) and Alexandra Spence.



Liam McGuinty of the Insurance Bureau of Canada (left) and Intact's Carrie Brown (recently named WICC Ontario's Volunteer of the Year).

FIND MORE PHOTOS AT
CanadianUnderwriter.ca/gallery

# how I did it

## CREATED A NEW FRAUD DETECTION TECHNOLOGY

Jeroen Morrenhof is CEO and co-founder of FRISS, a company recently recognized by Insurance Nexus as the 2018 Canadian Insurance Innovator of the Year. Founded in 2006 and headquartered in the Netherlands and Chicago, FRISS has developed an AI-powered solution that delivers risk and fraud probability scores to P&C insurers in more than 30 countries including Canada. Here's how the company came up with its innovation.

*– As told to Jason Contant*

**Before we start any implementation,** we always kick off with a workshop in which we set the stage together with an insurer. That's because bits and pieces of information get lost in translation when projects move from a sell stage to a 'do-stuff' stage.

After the workshop, we start the implementation, which has three phases.

First, we do the technical implementation. That is usually a pretty smooth process because it's based on Application Programming Interface (API). That goes on for about a week or two, then the solution is technically live.

Second, we start the learning cycle. The system comes with an out-of-the-box master set of indicators, based on more than 150 implementations. Each implementation improves the master set. Let's talk about a claims process, for example. We take historical data from the insurer and feed that into the system; then we start tweaking all kinds of indicators in our master set. You can set each indicator with a benchmark score. In addition, we add data gathered from external sources such as predictive fraud models, text mining and network viewing-capabilities. All so the scores will be valuable for the insurers to use.

Third, we have a 'go-live' moment. Customers will experience a configur-tion tailored to their risk appetite and fraud policy.

The fine-tuning never stops, of course. This is the "value cycle," in which we incorporate new data sources, new fraud schemes, new detection techniques, etc. We are always actively looking for feedback from the customer in order to make the product work even better. CU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