

HELPING CANADIANS

UNDERSTAND RISING INSURANCE RATES



\$1.9 billion

in insured losses over 2018 due to severe weather across Canada

Source: Insurance Bureau of Canada, 2019





in average costs for maintenance and repair of one GMC vehicle (2007 vs. 2014)

Source: Consumer Reports, 2017



steady increase in housing prices in large Canadian cities such as Vancouver and Toronto, from 2010 to 2016

Source: CMHC, 2018



\$30 billion+

per year spent across the P&C industry to manage and respond to fraudulent activity

Source: Insurance Information Institute, 2017

\$5.2 billion

per year on average claimed for home insurance in Canada from 2010 to 2013

Source: Insurance Bureau of Canada, 2015



It's a tough time for Canadians as the cost of home and auto insurance is going up. In a hard market, brokers play a critical role in helping consumers understand their options. Working with our broker partners, our goal is to educate Canadians with easy-to-understand information so they can make smart, confident decisions. Go to **economical.com/rateincreases** to learn why rates are going up, and share the link with others.

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CONTENTS

Volume 86, No. 5 | June 2019

YOUR GUIDE TO INSURANCE SUCCESS. SINCE 1934

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FROM THE EDITOR

Bringing Claims Canada back into the fold

PERSPECTIVES

8 Our readers respond to recent stories on auto policy wording, auto rate caps, cyber attacks, and more

DECLARATIONS

11 Cross-currents

Brokers contend that insurers are not consistent in how they approach overland flood coverage. Is it affecting the P&C's industry's brand?

15 Government backstop

Canadian insurers are working with governments at all levels to establish a national flood insurance program. What options are on the table?

INTERVIEW

20 Chris Sekine

What's the hottest trend in Canada's specialty lines right now? Trisura's new president and CEO reveals the latest trends in commercial lines

HANDBOOK

33 Excess of Loss

Are you notifying your excess of loss insurer as soon as you suspect a claim could wind up in the excess layers of a policy? Here's why early reporting matters to you and your clients

37 Buying behaviours

Artificial intelligence is helpful for identifying consumer preferences, but recognizing the "human bias" is crucial to understanding how to close the sale

RECOVERY

39 Cat communication

How to keep track of your insureds when disasters force them to evacuate

42 Playing with fire

No arson charges? No problem. How one insurer boldly took its arson case to civil trial and won

44 Testing intoxication

With marijuana possession now legalized in Canada, what counts as an "intoxicated" driver?

PEER-TO-PEER

46 School of Phish

Manish Khera of Ernst & Young Canada offers his perspective on how to train your commercial client's employees to avoid becoming the next victim of a phishing attack

IN EVERY ISSUE

- 12 SURVEY SAYS
- 16 NEW OFFERS
- 17 **BIG MOVES**
- SUMMARY 17
- BY THE NUMBERS
- 34 TRUSTED ADVISOR
- 38 CROWDSOURCED

CORRECTION

In our total loss series, Parts 1 (April) and 2 (May), Canadian Underwriter did not provide the correct title for Ewen Cameron. He is the senior vice president of claims at RSA Canada. We apologize to Mr. Cameron for the error.



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Our latest claims adjustment

Claims Canada magazine returns to the fold

hirteen years ago, Canadian Underwriter launched Claims Canada magazine, a publication dedicated to Canada's claims professionals. Originally conceived as an association publication for the Canadian Insurance Adjusters Association (CIAA), Claims Canada covered a wide

variety of people and issues of interest to the country's adjusting community. Over the past two years alone, the magazine tackled emerging issues such water damage claims, the sharing economy, autonomous vehicles, marijuana legalization, cyber risk, and much, much more.

Over the past year, Claims Canada has been distributed within Canadian Underwriter magazine as a kind of "magazine within a magazine." This month, Claims Canada will be fully integrated within the pages of Canadian *Underwriter* as a dedicated claims department called 'Recovery.'

We chose the term 'Recovery' because it describes what the claims community essentially does — help insureds recover from a state of loss. It speaks to injured claimants feeling better, the rebuilding and repair of damaged property, and obtaining insurance funds to help begin a new life.

The mandates of the magazines overlap somewhat. Canadian Underwriter provides knowledge and insights about all aspects of the property and casualty industry, including claims. Claims Canada answers a claims professional's unique need for specialized knowledge related to adjusting, reconstruction and repair, loss control; and skills and training.

By absorbing Claims Canada within Canadian Underwriter, we are fulfilling the mandates of both publications in a cohesive and holistic way, while recognizing the unique, specialized knowledge of the claims industry.

I would like to thank Emily Atkins, the editor of Claims Canada magazine, for all of her hard work and dedication in serving her audience well. I am happy to report that she will be helping us with the new Recovery section, both behind the scenes and as a featured contributor to the new section.

If you wish to contribute to our Recovery section, please feel free to reach out to us here at Canadian Underwriter. It is our pleasure and privilege to provide the claims community with professional information and unique insights that you won't find published anywhere else in Canada. cu

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perspectives

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Auto 'very difficult policy to understand, says brokerturned-parliamentarian

April 23

The story: Many believe insurance policies are too difficult to understand, according to an Ontario government poll of more than 50,000 consumers. Conservative MPP Nina Tangri, formerly a broker, says the government wants to make the auto claims process easier to navigate and less cumbersome.



Debate rages over whether a cyber attack is an act of war



How is any attack that denies service to a user not actually an act of war? The Internet is a free space. Intranets are the opposite and deserve our fullest protection from fraud or insolent actions.

Anril 18

The story: Some insurers have disputed payouts for cyber attacks under property policies. One carrier even invoked the policy's "hostile or warlike" exclusion.

Stephanie Biamonte says:

Bachitter S. Mehmi says:

Consumers have not read the books on insurance, so policy wording should be easy and in simple language. So I support Nina Tangri's bill.

Frank Cain says:

The standard automobile policy (OAP-1) is a gamut of irrelevance. Its misunderstanding lies in the convolution of performing as medical insurance, which would be best left to the health and accident insurance masters. Automobile insurance should be confined to the legal liability of one to another and to the repair of the described automobile.

If I fall off a ladder cleaning out my eavestrough, I am not able to claim for my injuries under my house insurance. If I'm boating on Georgian Bay and I hit an outcropping at a good speed, sending me hell-bent through the windshield. I can't claim for my injuries under my boat insurance. Examples are ad infinitum. So why my car insurance for my injuries?

Alberta's new government: What next for the auto rate cap?

April 22

The story: After the election of the United Conservative Party in Alberta, insurers and brokers say they look forward to working with the new government to fix issues with auto insurance.

Calv Lim says:

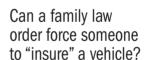
The Alberta government should subsidize its auto insurance with taxpayer money to compensate victims when non-insured motorists are involved in hit-and-runs. We have seen such cases surge, as more as more people cannot afford auto insurance now.

The current system is designed to encourage competition, but when the government introduced the 5% cap on rate hikes, no insurer is keen to go with it anymore; they just want out. To fix the broken system, the province should use tax money to subsidize the difference between what private insurer offers and the what the average provincial claim is worth, or to remove the cap entirely. (i.e. The current grid system works, so why bother messing with another cap.)

Peter Hope says:

The IBC and IBAA represent private industry. IBC's primary concern is to their member companies - not consumers. It would be nice if the author could find a source that represents the public interest. Removing the cap will cause a massive pile-up of rate applications at the Alberta Automobile Insurance Rate Board and rates will go up, making insurance more expensive. How would removing the cap help Albertans? It's in place for a reason.

As long as we continue to force an overregulated market — one that restricts insurance companies to such a degree that the entire industry in Alberta (or any other province for that matter) is not profitable — then we will never see a reduction in premium. Subsidizing failure does not stop the failure, it simply prolongs it.



The story: Sukhvir Singh Athwal and Jessie Walia are involved in a Family Law Act proceeding over whether they qualify as "spouses." Both dispute who is responsible for insuring the vehicle; Athwal used a cube van as his work vehicle, although Walia was the registered owner and principal operator of the van.

Muzaffar Kazmi says:

Shouldn't Walia be insuring the vehicle because she is the registered owner? And then the court should order Athwal to reimburse her for the cost of the premium. Athwal cannot get insurance on the vehicle because he is not the registered owner; however, because

> he is the sole user of the vehicle. he should be ordered to reimburse Walia.





SUM

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WHAT IT'S ABOUT:

What: Canadian Cancer Society's Relay For Life – and WICC's 11 year anniversary supporting the fundraising event

Why: To celebrate cancer survivors, commemorate those we've lost and raise money for life-saving research

Where:



Sherbourne Common, Downtown Toronto

When: Friday, June 14, 2019 6:00pm – 11:00pm

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declarations

HIGHLIGHTS Why brokers like carriers p.12 | High-risk flood cover p.15 | Big moves p.17



OVERLAND FLOOD

Cross-currents

With overland water damage claims rolling in from major floods across the country, the question still arises: are clients covered?

BY JASON CONTANT, Online Editor

Prokers are not giving their carriers high marks when it comes to taking a consistent approach to overland flood coverage.

Are clients covered for overland flood damage or not? It doesn't appear to be an easy question to answer, as claims roll in from massive flooding events that swept across Ontario, Quebec and New Brunswick in May. One broker tells *Canadian Underwriter* that, after the May 2018 flooding event in Grand Forks, B.C., insureds on the same street often had different experiences.

"You could go down one street, and you had one person with full policy limits, the next door neighbour had no coverage, and then the neighbour after that has a limit of \$10,000 of coverage provided," reports Sam Cowan, vice president of sales and marketing with RHC Insurance Brokers, which has an office in Grand Forks. "It was all over the map. It wasn't consistent to geography or proximity to the river. It was just terrible, to be quite honest."

In another example, a commercial building was inundated with both sewer backup and overland flood water. "The building owner had no coverage, because

EASTERN FLOOD COSTS | MAY 10 Total economic losses from recent flooding in Ontario, Quebec and New Brunswick are expected minimally to reach into the hundreds of millions of dollars (U.S.), Aon reported. The floods have already been declared a Cat event, causing at least \$25 million in insured damage.



NEW JUSTICE | MAY 9
Stikeman Elliott LLP partner Nicholas
McHaffie was named a Federal Court of
Canada judge. He represented the Insurance
Bureau of Canada at the Supreme Court of
Canada in Childs v. Desormeaux, a seminal
social host liability case.



DECLARATIONS

the insurer decided to deny it," Cowan says. Meanwhile, "the two tenants inside the building both had coverage provided under the sewer backup endorsement."

Cowan points out that his brokerage had a lot of Grand Forks clients who were covered with a full policy limits package.

In eastern Canada, a number of insured homeowners have had their claims covered. "Many have been at the full policy limit for overland water," says Andrew Campbell, office manager at Hall & Fairweather Insurance in Saint John, N.B. (which was recently acquired by Archway Insurance). Any consistency issues generally arose because either the clients did not purchase coverage, or the insurers did not offer coverage to meet their particular circumstances.

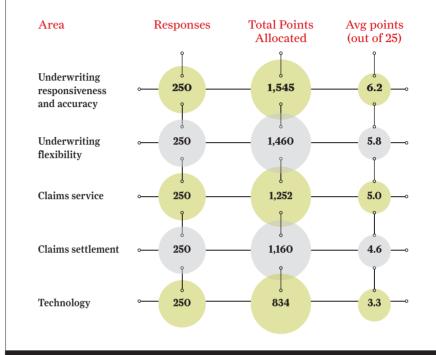
It also gets tricky when there is a mix of sewer backup and overland water damage. New industry guidelines say sewer backup in concurrence with flood water is not covered for residential properties. Campbell confirms that insurers are generally denying coverage under sewer backup when the source was determined to be overland flood and overland flood cover was not purchased.

"Historically, companies were more flexible in this regard, but now that overland water products are available, they are denying these claims," Campbell says. "This is confusing for clients, especially if they had a previous claim paid under [sewer backup] and are now denied coverage for the same loss because they do not have overland water coverage."

One Manitoba brokerage reports seeing a more consistent approach by its carriers. That said, "there is a difference between sewer backup coverage, overland water and ground water coverage, and there is a difference between what is offered by which company, and in what combination with what limits," says Cheryl Gemmell, office manager and per**SURVEY SAYS...**

Why brokers prefer some carriers over others

Canadian Underwriter is conducting a survey of personal and commercial lines brokers across Canada. One question asks brokers to rank factors that might influence their decision to choose one carrier over another. Each broker was given 25 points to allocate over five different areas of carrier performance, encompassing underwriting, claims and technology. Here's a breakdown of how brokers scored each area:



sonal lines manager at Rempel Insurance • Sewer backup Brokers Ltd. in Morris, Man.

Before 2015, only sewer backup was typically available in Canada. The situation changed after a 2013 flood in Calgary caused \$2 billion worth of insured damage. Now, policies typically cover three types of water damage claims:

· Overland flood

Loss or damage from an overflowing of a nearby body of water, or sometimes torrential rainfall or snowmelt. "Quite a few of these flood endorsements on the residential end have low limitations, where if it comes through a door, a window or an opening...it's not covered," Cowan warns.

Back-up of a sewer, septic tank or sump system into the home.

Ground water

Water that makes its way through various cracks and orifices in the foundation, leaking inside the home (only covered by some carriers).

Gemmell describes a pyramid approach to water coverage. To get ground water coverage, you must have overland flood; to get overland flood, you need to have sewer backup.

"Some companies have packaged them, where you get a water protection endorsement that includes two or three of those; with other companies, it's not packaged," she says. cu

UNITED FRONT | MAY 7 Insurers urged brokers to show a united front and help put an end to Alberta's 5% cap on auto insurance rate hikes "We have a wonderful opportunity with the Kenney government," said IBC CEO Don Forgeron.



HUB EXPANDS IN PRAIRIES | MAY 6

Global insurance brokerage Hub International acquired the assets of Saskatchewan-based brokerage Kelliher Agencies, a full-service brokerage that offers personal and commercial insurance, including agri-business



CAN THE SOF

ON THE SCENE

2019 International Cyber Risk Management Conference

April 15-16 Toronto, Ontario

ICRMC 2019 featured a packed agenda of panels and keynote speakers, including: Sir Rob Wainwright, senior cyber partner at Deloitte and former head of Europol; David Hickton, founding director of the University of Pittsburgh Institute for Cyber Law, Policy and Security; Phyllis Schneck, managing director and global leader of cyber solutions at Promontory, an IBM company; and Daniel Dobrygowski, head of governance and policy at the World Economic Forum Centre for Cybersecurity (C4C).















Underwriter ON THE SCENE

QRIMA/AGRAQ Pub Quiz Night

April 10 Montreal, Quebec

Back by popular demand, QRIMA/AGRAQ, the Quebec chapter of the Risk and Insurance Management Society (RIMS), held its ninth annual Pub Quiz Night on Apr. 10. It was a night of fun, games and a little competition among friends within the insurance industry. It was all for a great cause: proceeds were donated to the Quebec chapter of Women in Insurance Cancer Crusade (WICC). Teams of four people required at least one broker and one risk manager.













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HIGH-RISK FLOOD INSURANCE

Government backstop

What's blocking Canada from establishing its own national flood insurance program?

BY GREG MECKBACH. Associate Editor

ecent flooding in Ontario, Quebec and New Brunswick adds new urgency to getting government involved in insurance for high-risk areas, but it's not clear how this would work.

In Canada, government should get involved in insurance for high-risk areas when flood insurance is neither available nor economical, says Balz Grollimund, Swiss Re's head of treaty underwriting for Canada and English Caribbean. "There are some examples internationally of what this looks like."

One example is Flood Re, a reinsurer subsidized by a tax imposed on all British home insurers. The levy generates about £180 million (about C\$318 million) annually. The impact of Flood Re is that about 98% of the British population subsidizes high-risk property owners.

In the United States, the National Flood Insurance Program (NFIP) has essentially subsidized property flood coverage for some Americans since 1968. That program has lost tens of billions of dollars in recent decades, mainly due to hurricanes.

Canada does not have a system similar to either NFIP or Flood Re. "The result is that roughly 10% of Canadian homeowners are not eligible for flood insurance because they are in high-risk flood zones," says Grollimund.

"I think there is no perfect

solution. They all have advantages and disadvantages."

It's unclear what a Flood Re-type system would look like if it were brought to Canada, but a government-sponsored flood insurance system must be tailor-made to the country's needs, says Grollimund.

"What part of the risk is going to government?" he says. "Is it the tail end? Is it government supporting the premium payment to begin with? There are a lot of different nuances on how to play with this. In the end, it has to have buy-in from all the various stakeholders. And probably the biggest challenge in Canada is to get alignment between the provinc-



NEW BRUNSWICK FLOODING | MAY 3

Health and safety inspection teams fanned out across flood-affected regions of New Brunswick, assessing homes and businesses for flood damage, including signs of mould and contaminated household items that may appear clean.

ACQUISITION | MAY 3

BrokerLink acquired the Athabasca, Alta. branch of JDR Insurance and Guelph, Ont.-based Amplex Insurance Brokers Ltd. Amplex is a general insurance brokerage, and JDR Insurance is family-owned and operated.

DECLARATIONS

es, municipalities, and the federal government on what the right solution looks like."

Personal flood insurance at affordable rates should be available to all Canadians who need it, and government should be available to provide a backstop, the Insurance Brokers Association of Canada said in its flood principles document, released to Canadian Underwriter in 2016.

Neither IBAC nor the Insurance Bureau of Canada (IBC) is specifically recommending that Canada bring in a system exactly like Flood Re or NFIP. Both the federal government and IBC have sent people to Britain to look at Flood Re, IBC CEO Don Forgeron said in April during Swiss Re's Canadian Annual Outlook Breakfast.

"In all the jurisdictions we have looked at, where [public flood insurance programs] fail is with the high-risk properties," Forgeron said. "That's where the vast majority of their losses come from. And the question becomes, 'How do you price that? If it's not full risk-based pricing, who pays it? And how is it paid?' That's usually where these programs fall down, and that's what the federal government has asked us to look at in terms of some sort of high-risk pool."

Government involvement should include not just insurance but also having incentives for property owners to mitigate risk, said Grollimund.

"Government has a big role to play in terms of what you do with current properties at high risk of flood. Are they going to be there forever and ever? If you subsidize high-risk flood properties in a way that it does not incentivize those properties to become more resilient going forward, that's probably not the right way to go about it. You want to make sure that, with time, the properties become more resilient as well."

Cover for overland water damage has generally been available in Canada since 2015, although coverage terms vary. cu

NEW OFFERS

FINANCIAL INSTITUTIONS INSURANCE

Vendor: Beazley

Target Audience: Canadian financial institutions

What It Does: Protects financial institutions from exposure

to unexpected gaps in their insurance coverage

Specialist insurer Beazley has launched a suite of insurance products designed to fit together to prevent financial institutions from exposure to unexpected gaps in their insurance coverage.

The new solution offers a series of policies, from crime and professional liability to directors' and officers' (D&O) liability. It includes Beazley's data breach cover, Beazley Breach Response.

In addition to offering limits of up to \$25 million, Beazley provides services designed to mitigate reputational damage and the risk of legal action against financial institutions due to a data breach. Services include forensic investigation; breach notification and call centre services for third parties to ease the administrative burden of the breach; legal advice; and public relations and crisis management services.

Beazley's new product is available through brokers to a broad range of financial institutions, small or large, including banks, fintechs, private equity and insurance companies.

ANALYTICS

Vendor: Policy Works

Target Audience: Commercial brokers

What It Does: Provides commercial lines analytics that incorporates

policy and workflow data

Policy Works has introduced what it calls the first out-of-the-box suite of commercial lines analytics that incorporates policy and workflow data.

The suite provides brokers with an in-depth book of business analysis, various ways to analyze their relationships with insurer partners, and insights into activity-level performance like producer close rates and certificates issued.

No building or pre-configuring is required to use the analytics suite.

RENOVO

Vendor: Crawford & Company Target Audience: Claims adjusters

What It Does: Matches adjuster skillsets with client requirements.

Crawford & Company has launched RENOVO, a catastrophe deployment and resource management tool that matches adjuster skillsets with client requirements. RENOVO can be accessed online or via mobile app for iPhone and Android devices.

The new catastrophe portal reduces fulfillment time through notifications and adjuster self-service, allowing adjusters to deepen the knowledge of their roster through data-driven insights.

Adjusters can:

- · Update personal and professional information
- · Set availability status
- Receive notifications for active catastrophe events, deployment opportunities and new events
- · Request standby status for active events



MOULD RISK | MAY 2 Health Canada warned of the dangers of mould in Ontario homes and cottages that were hit by this year's spring flooding. States of emergency in Bracebridge and Huntsville prevented property owners from heading up to cottage country to assess the damage.



INSURANCE | MAY 2

Weak investment results and problems with auto insurance in most provinces led to a bad year for insurers in 2018. The industry had a \$419-million underwriting loss in 2018, reported Insurance Bureau of Canada chairman Kenn Lalonde.

Analytics

BIG MOVES

Former CSIO chairman now at Applied

Steve Whitelaw has joined broker management system vendor Applied Systems



WHO: Steve Whitelaw

CURRENT ROLE: Vice-president of industry and partner relations, Canadian marketplace, Applied Systems

P&C EXPERIENCE: 24 years

PROFILE: Chair of the Centre for Study of Insurance Operations (CSIO) from 2012-19. Held positions of increasing responsibility for Travelers Canada, most recently vice president of information technology planning, execution and operational effectiveness. Previously served on the board of directors of Health Claims for Auto Insurance (HCAI)

Once upon a time, Steve Whitelaw used to work for Travelers Canada in Toronto. Now he works in nearby Mississauga at Applied Systems, a software provider to insurance brokers and agents.

"We are trying to drive digital transformation, which is why I made the jump to Applied," Whitelaw says. "I wanted to be in a position where I could affect some of that transformation inside the industry a little bit more than I could otherwise. I am responsible for our industry relationships and basically represent Applied's vision to drive digital transformation with our key stakeholders in Canada."

Whitelaw served as the chairman of CSIO's board from 2012 until this past April, when Gore Mutual's Sean Christie was elected as the new chairman of CSIO. Christie has served on CSIO's board since 2014. Whitelaw is no longer on CSIO's board.

Most recently, Whitelaw served as vice president of information technology planning, execution and operational effectiveness at Traveler's Canada. He joined The Dominion of Canada General Insurance Company in 1995, which was acquired by Travelers in 2013.



Jane Kinney, vice chair of banking advisory for Deloitte Canada, has been elected to the board of directors of Intact Financial

Corp. She was previously global chief risk officer for Deloitte.



Sean Christie, chief information officer and vice president of information services at Gore Mutual, was elected in April as chairman of

the board of the Centre for Study of Insurance Operations (CSIO).



Shelley Landry, who has worked for Crawford & Company (Canada) since 2012, is now the adjusting firm's vice president of Eastern Canada operations. She oversees the field branch

network within all the Atlantic provinces and Quebec.

SUMMARY

RISK MANAGEMENT

Top threats for Canadian businesses

AON

Cyber attacks and data breaches are collectively the Number 1 threat to businesses in Canada and the United States this year, says Aon plc's 2019 Global Risk Management Survey.



Damage to

reputation or brand ranks second, according to the survey, released Apr. 29.

Rounding out the rest of the Top 5 are economic slowdown or slow recovery; failure to innovate or meet customer needs; and business interruption.

"This year's survey results illustrate escalating concerns over the rapidly changing business environment and the potential for unwelcome surprises facing Canadian organizations, which can disrupt their business model over time and damage their reputations almost overnight," said Bill Besse, chief client officer of commercial risk solutions with Aon in Canada.

Globally, the Top 2 risks were economic slowdown and damage to reputation or brand. Global risk managers are reporting their lowest level of risk readiness in 12 years. Many of the top risks cited in the report, such as economic slowdown and increasing competition, are uninsurable, Aon notes.

In the countries polled, Aon asked businesses to predict what their top risks would be in three years. In Canada, the Top 5 future risks were:

- · Cyber attacks or data breach
- Failure to innovate or meet customer needs
- · Failure to attract or retain top talent
- · Economic slowdown/slow recovery
- Aging workforce and related health issues.

Every two years, Aon surveys thousands of risk managers across 60 countries and 33 industries (including insurance).

ADJUSTER MOBILITY | MAY 1

Quebec's financial regulator temporarily relaxed some of its rules to allow out-of-province adjusters into the province to help deal with large-scale flood damage. The floods damaged more than 6,400 residences and forced 10,000 people out of their homes.



FLOOD PLAIN DISINCENTIVES | APR. 29

Quebec Premier François Legault said the province will offer to pay up to \$200,000 to buy homes located in flood plains in an effort to move homeowners out of areas exposed to chronic flood damage. It isn't known how many Quebec homeowners accepted.



The 25th Annual

INSURANCE GALA

Was held Saturday, May 4th, 2019 at the Ritz Carlton, Toronto

WHAT AN EVENING OF REFLECTION AND CELEBRATION!







Together, as an industry, we have contributed so much:

We have placed 122 Fun Centres in pediatric wards across Canada;

We have granted over 1,250 wishes for seriously ill children; and

We have raised over \$4.5 million dollars in donations to the Starlight Children's Foundation Canada.

This support of Starlight is making seriously ill children smile and helping families cope across Canada.



A REFLECTION ON THE LAST 25 YEARS...

Starlight Children's Foundation Canada and the Starlight Insurance Gala Committee would like to extend our heartfelt thanks to the insurance industry who have contributed as sponsors, donors, guests and volunteers for 25 years.



VOLUNTEER • DONATE • GET INVOLVED

Visit us online to learn more and make a donation: www.StarlightCanada.org

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Chris Sekine, the new president and CEO of Trisura Guarantee Insurance Company, reveals the hottest of the hot opportunities in commercial insurance lines right now.

By Jason Contant, Online Editor



"I don't think the surety market is hardening. It might not be softening, but I don't think it's hardening. In my view, the surety market is relatively stable."

cu | Before we hear your thoughts about business insurance, let's first talk about your new role. You recently took over the helm at Trisura Guarantee Insurance Company from Mike George. How is it going so far?

It's been going very well, and I'm excited to be in the role of CEO. Last vear was one of Trisura's best years ever and we are well-positioned for the future. Over the past couple of weeks. Mike and I have been travelling together and attending a few industry conventions. The timing has been good because we were able to have fun, connect with many of our brokers and highlight together that it's business as usual for Trisura. Mike has been my friend and mentor for many years and he has been instrumental in helping me with the transition into my new role.

I've been with Trisura since the beginning and plan to build on the strategy and formula that has made us successful. A critical part of that is our great team of people who create exceptional experiences for our brokers and their clients. We will continuously work to improve our service levels and product offerings.

cu | Okay, let's talk about commercial lines. What would you say are the key trends in this area?

Commercial lines is a broad area with different trends. Since Trisura is a specialty lines company, I'll speak more to our specific lines of business — namely D&O, E&O, fidelity, media, cyber and surety — as opposed to commercial insurance in general.

From a D&O perspective, boards and directors need to be aware of a lot of emerging risks — including climate change. How much information a company discloses about its climate change risks and opportunities, as well as how it discloses the information, can each have a material impact on share price and valuation of the corporation.

Another developing risk is the #MeToo movement. This is a unique exposure that hits all parts of our D&O book of business, including non-profits, private companies and public companies. It continues to be a relevant consideration for company board members and it continues to affect claims activity.

The health of the Canadian economy over the next 12 to 14 months is one of the bigger emerging exposures we are watching. I'm sure you could speak to many different



economists and they will all have varying opinions. Certainly, a large risk would be for the economy to head into a downturn over the next couple of years. Companies will need to be ready, especially if there is tightening of credit. A potential catalyst is a change in government and the effect on government spending. The risk is particularly relevant to the construction sector, for example.

There are a lot of political unknowns that could affect the economy. For example, there was a change in government in Alberta recently; there's a federal election coming up later this year; and there will be a U.S. election next year. A lot is going on globally that could potentially affect Canada and the commercial insurance business.

cu | What advice do vou have for brokers selling commercial lines?

Not surprisingly, I think one of the biggest opportunities is cyber liability. It's an often-misunderstood exposure in terms of what exactly the exposures are and what the policies cover. Many brokers say to us: "My client doesn't have a cyber exposure." But I think the word 'cyber' doesn't do the product justice. Everybody associates cyber with the internet; we see it as a potential data breach that can come in various forms, putting every company at risk. For example, let's say a file with private information is left in a person's vehicle. If the vehicle gets stolen with that file in the car, that is a data breach that doesn't involve the internet.

If brokers can give their clients a complete picture of the various 'cyber' exposures, and if they can help clients choose from among all of the coverages available for those exposures, that's a big opportunity for brokers to set themselves apart. They can win clients by being a trusted advisor.

cu | What trends are you seeing in cyber?

We are starting to see a bit of a shift in the types of claims. Over the past one to two years, we've been seeing a lot more in terms of ransomware demands. For example, a company with 200 employees experiences a system shutdown; they can't do anything until they pay bitcoin to get the system unlocked.

Having the proper coverage with the right carrier can address that. Depending on the coverage, the carrier could pay for the ransomware demand, the system restoration costs and firstparty expenses. Brokers will know what coverages are available to their clients.

cu | How does cyber coverage mix or not mix with CGL policies?

A CGL policy is a commercial general liability policy, not a cyber general liability policy. The CGL policy is not designed to pick up cyber exposures. If



you have cyber exposures, you should buy a cyber liability policy. It provides third-party coverage for liability in addition to first-party coverage for expenses related to ransomware, system restoration costs and business interruption.

Our advice is that if a broker's client has a specific concern, buy a policy that's designed for that specific exposure rather than just crossing your fingers and hoping the CGL policy will respond. The CGL won't provide the same breadth of coverage that you can get in a standalone cyber product.

cu | We've heard the surety line is hardening. What's happening there?

Actually, I don't think the surety market is hardening. It might not be softening, but I don't think it's hardening. In my view, the surety market is relatively stable. If anything might lead some to believe there's a hardening, it's because of some fairly notable, large construction failures over the last little while. However, I don't think that's really had a significant impact on terms and conditions offered in the industry. Certainly, I don't think it's been that influential here in Canada in terms of behaviour of surety underwriters.

cu | Are you looking at moving into any new lines of business?

As we move forward, it's really about looking for ways to expand our capacity and appetite within our existing lines of business. If we look at new lines of business, they will be adjacent to lines of business where we are already. Over time, we're hoping to leverage the capabilities of Trisura Group Ltd., our parent company, which went public two years ago and is trading on the TSX. Trisura Group Ltd. has two other subsidiaries: 1) Trisura Specialty is our U.S. affiliate, focused on excess and surplus business, which resembles our risk solutions business; and 2) Trisura International is a reinsurance arm in Barbados, cu









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2019 CARRIER PERFORMANCE REPORT Buddies in **Bad Times**

What makes a carrier a broker's best friend forever? We asked brokers what tips the scales when they choose a carrier for their clients. Here's what they told us....

By Jeff Buckstein





ougher insurance market conditions have taken a toll on carriers and brokers alike, putting strain on the underwriting and claims processes. And so, even though carrier tech advancements are making all the headlines, a carrier's underwriting and claims service will more likely tip the scales when a broker is choosing between two carriers to place a client's business.

These are the findings of a small sample of commercial and personal lines insurance brokers across Canada, supported by the preliminary results found in *Canadian Underwriter*'s 2019 Carrier Performance survey. Our survey asked commercial and personal lines brokers to rate five different factors that influence their own carrier preferences: underwriting responsiveness and accuracy; underwriting flexibility; claims service; claims settlement; and technology. To supplement the survey results, we posed three key questions to brokers, each designed to paint a high-level picture of the current state of broker-carrier relationships. Here are the responses to each of those questions.

cu | When dealing with carriers, what factors are most important to you in considering whether to send a client to any specific individual carrier – underwriting, claims, or technology?

"I would say underwriting is Number 1, claims advocacy is Number 2, and the strength of the carrier's technology supports both of those functions," says John Chippindale, vice-chairman and national chief marketing officer of Canada for Hub International Ltd. in Toronto. Hub handles both commercial and personal lines of insurance, as well as employee benefit programs. Chippindale's personal ranking echoes the results for 250 brokers who answered a simlar question in our carrier performance survey [for preliminary survey results, see our 'Survey Says' section on Page 12]. Underwriting factors were of primary interest to brokers generally, followed by claims considerations, and then technology.

Chippindale says the insurance industry is currently in a "hard market," characterized by rising prices, coupled with reduced coverage in certain areas. In this context, the underwriting process is most important when selecting a carrier, because that will determine whether the best offer has been obtained for the client, says Chippindale. Also, customers want to work with insurers that have a reputation for settling claims fairly.

For Jeff Gatcke, a manager with Earl Shaw Insurance Brokers Ltd. in Kingston, Ont., the degree to which an insurance carrier handles the claims process in a client-friendly fashion is a top priority when selecting a carrier for his clients. Gatcke is president of the Insurance Brokers Association of Ontario. "We provide one opportunity to make a lasting impression for consumers, and that is at the time of claim," he says. Earl Shaw Insurance Brokers does business primarily in personal lines.

Commenting on the underwriting process, Gatcke says one key priority is to determine which carriers are open to new business from brokers. "In this market, in my opinion, it's just as important to keep and maintain business as it is to write new business," he adds. "Measured growth is really where we're at. It's difficult for brokers right now."

When selecting a carrier for a client, "we look first at financial stability, like the financial rating of the insurer, and then we look at their underwriting flexibility," says Kevin Neiles, president of the prairie region and national director of market management for Arthur J. Gallagher Canada Ltd. in Winnipeg.

As for claims process, Neiles says, "we typically look to make sure that carriers have very strong in-house claims capabilities. And if they have independent adjusters working with them, we make sure that those adjusters are very strong and have capabilities across the country." Neiles's brokerage handles both commercial and personal lines of insurance.

David Mew, national placement leader with Marsh Canada in Toronto, says that from a commercial lines standpoint, if the client is a small- or medium-sized

business, technology is a key criterion. Brokers seek a carrier that is automated, offering one-touch underwriting and processing of small commercial accounts; in addition, markets should offer electronic delivery of information and documentation.

"Once we get to our larger mid-market accounts, I would say right now the most important thing is that the underwriter is responsive, and willing to negotiate terms and conditions — things like rate, deductibles, earthquake, wind and flood supplements, etc." says Mew.

Lisa Giannone is the managing partner of BFL Canada Risk and Insurance Inc.'s Montreal office, which specializes mainly in risk management and commercial insurance lines. She says the underwriting and claims functions are both important elements of how insurers treat a broker's clients.

On the underwriting side, Giannone seeks carriers that demonstrate both the flexibility and capacity for clients seeking unique solutions. For example, some clients may need to be serviced for more complex risk transfer programs; these may require specific coverages for which it may be worth paying additional premium. Examples might include packages for events affecting their supply chain, a product recall, rip and tear, or contingent business interruption coverage.

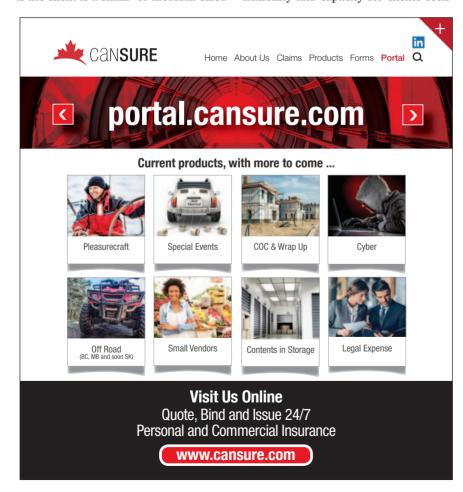
"On the claims side, it's very basic," says Giannone. "I require a carrier who can get back to the clients quickly and make the client feel like they're being heard. There really needs to be a little bit of hand-holding in a sense, because insurance is an intangible."

cu | In which of the areas of underwriting, claims, and technology do vou believe carriers generally are currently performing at a high level? What do vou believe are carriers' strengths right now?

"I don't think carriers are performing at a really high level in any one of those areas," says Vicki Livingstone, owner and general manager of Freeman Insurance Agencies Ltd. in Innisfail, Alta. Freeman Insurance deals primarily with personal lines of insurance. "I think they're kind of all consumed with the auto product right now, with auto being the mess that it is. But I do think that technology is one of the areas they really are focusing on."

Improvements in technology represent one of the strengths that carriers offer today — or at least, they are working towards it, say some brokers. "On the technology side, there are some great things happening," says Chippindale. "Insurers are transitioning to artificial intelligence (AI) and digital applications, which is helping velocity in the way business moves. It's helping us to reduce costs. And it's also helping us get more speedy claims settlements."

Leveraging mobile capabilities, certain insurers are now introducing digital reporting and self-reporting from clients to insurers. From an underwriting standpoint, this is helping issuers do a better job of establishing risk profiles — insurers are better able to understand risks based



on industry types and geography, for example. It also serves as a foundation to tailor coverage appropriately. This translates into underwriting decisions that drive fair pricing, and that reward high-quality customers, Chippindale says.

Technology — specifically the use of digital or mobile devices — also makes it easier for customers to provide information to the insurers. Obtaining such information quickly promotes the early investigation of and settlement of a claim.

"Whereas previously you might report to the broker via the telephone, and it would take multiple days, now it's on demand, right there," Chippindale elaborates. "If it's an automobile accident, for example, you can attach pictures of what's happening, and therefore it's quicker and ultimately less expensive [to resolve the claim], which reduces the cost of insurance."

Mew says some carriers who write big commercial books of business spend money on advanced technology and have electronic platforms, policy and documentation deliverance that do quite well in the categories of underwriting, claims, and technology. "But if you look across the spectrum of 30 or 40 insurers, [the number of carriers "doing quite well" at tech] probably covers five, seven or maybe 10 of them, at best. The others really fit into the average bucket."

cu | In which of the areas of underwriting, claims, and technology do carriers generally most need to improve right now? What can they do to improve in these areas?

A tough market has resulted in a negative impact on both the carriers' claims and underwriting processes, brokers report. In auto, the direct loss ratio for the industry is 102%, MSA Research reported in its Q4-2018 Quarterly Outlook Report. In other words, for every \$1 in auto premium that insurers take in, they are paying out \$1.02 in claims.

From an underwriting standpoint, customers and brokers in today's business environment are experiencing too many about-face decisions, which is causing a lack of confidence and resul-

"If an insurer's getting in and out of the business, and the advisors and brokers are not clear on long-term commitment, then it causes a breakdown in the system and a lack of confidence."

tant brand damage, says Chippindale. "If an insurer's getting in and out of the business, and the advisors and brokers are not clear on long-term commitment, then it causes a breakdown in the system and a lack of confidence," he says. To improve the situation, Chippindale recommends that issuers provide better clarity about their strategic direction, which would prove consistency and demonstrate an overall long-term commitment.

Mew thinks carriers should allow their underwriters more latitude for underwriting business. "For brokers placing business on behalf of our clients, the most important thing in this marketplace is that underwriters are empowered to make decisions, and don't have to go up the reporting line for approval before a risk can be quoted, accepted, and written," he says.

Mew concedes that the industry is entering a more disciplined, transitional phase at the moment; that means some carriers have legacy loss ratios from last year and the year before, and therefore they have less flexibility to write business. "But we as brokers are looking to those carriers that have the ability to work through those issues, and still provide a deal and a product and a good price for our clients," he says.

From a claims standpoint, higher loss counts have caused carriers to become more cautious about paying claims, Gatcke observes. "They are taking longer and conducting much more thorough investigations before paying, even when compared to the immediate past," he says. "Two years ago, they really just wanted to settle the claim, get the car repaired in a timely manner, and get the claim closed. But it is a challenge in the current marketplace environment to get information back from auto insurance companies about ongoing claims, because they're delaying payment or making it more difficult, by asking clients to provide more documentation during the claims process. [And so] we really have to be more diligent to follow up with the claims service with clients."

Gatcke would like to see claims information flow seamlessly between clients, brokers and insurance companies, so that all parties have access to the same information in real-time. For example, as vehicles are being repaired, brokers would be made aware of all the steps taken without having to go through the process of calling claims adjusters, leaving messages, sending e-mails, and waiting to hear back.

Commercial auto insurance is also in a tight spot. "Commercial auto is not a profitable space for most insurers, so they're shying away from it," says Giannone. "As far as claims are concerned, obviously the frequency is higher, so insurers are not capable of efficiently handling all the claims that are occurring. I think that's why the process is slower for getting claims resolved." Technology such as AI is a must to handle automobile claims more effectively, she adds. cu

PART 3 | SOLUTIONS

Bending Time

First, we defined a total loss and why it is taking so long to identify a wreck. Now, we offer solutions to reducing your cycle times to 'best-in-class.'

By David Gambrill, Editor-in-Chief

o, you crash your car and it's a total loss. In the first two parts of our series on total losses, published in April and May, we estimated that the insurance industry is taking between 19 and 25 days on average to resolve a total loss. Assuming that average storage yard fees and rental costs alone cost an insurer approximately \$105 per day, and assuming an insurer sees about 2,500 total losses a year, shaving 10 days off the cycle time would save about \$2.6 million per year.

One of the bottlenecks we identified included securing the vehicle after the crash so an appraiser could immediately assess the damage. In provinces with private auto insurance, insurers are somewhat at the mercy of tow truck and storage yard regulations. A second issue is a shortage of appraisers.

How can the industry overcome these barriers?

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Securing the vehicle

Many propose a more coordinated approach to removing wrecks from the scene of a crash, with tow truck regulation being key.

"Securing the vehicle is first and foremost," says Ewen Cameron, senior vice president of claims for RSA Canada. "As

an industry, if you have designated certain drop points in the Greater Toronto Area and said every tow truck had to drop off that vehicle here, then you eliminate any contention around storage fees and access."

In Ontario, insurers want the province to take over the regulation of tow trucks, a topic of discussion among members of a towing and storage working group established by Insurance Bureau of Canada.

"Right now, there is a disconnect," as Elliott Silverstein, manager of government relations at CAA South Central Ontario, explains. "Municipalities have varying types of regulations and bylaws around how much a tow can cost, and how the process works in terms of hooking up and where the vehicle goes. We say that, just like a driver's licence, it should be regulated at a provincial level."

Insurers also prefer that vehicles be towed to their preferred collision repair shops. Aviva Canada recently urged Ontario to change its laws so that the insurer could offer a premium discount to consumers who agree to send their cars to Aviva's preferred centres. In its April 2019 budget, the Ontario government said it "will make it easier and faster for insurance companies to offer drivers new discounts and coverage options that were not previously available."

Aviva Canada has also introduced automatic first notice of loss reporting directly from collision reporting centres. In Ontario, motorists are required by law to take their vehicles to collision reporting centres if damage to the vehicle exceeds \$2,000. Now, "the customer and accident details are sent directly to Aviva [from the collision reporting centre], eliminating the need for the customer to call to report their loss to us," says Bryant Vernon, chief claims officer of Aviva Canada.

Appraisals

A property and casualty insurance industry demographic study published in 2018 by the Insurance Institute of Canada documents a shortage of appraisers. To work around this, the industry is now starting to download simple appraisal tasks to consumers and third parties.

TOTAL LOSS
SERIES

PART 1
APRIL I CYCLE TIMES

PART 2
MAY | BOTTLENECKS

"We are starting to see the industry move towards what's called 'image desk appraisal," says Lorna Richards, program manager of auto physical damage at Gore Mutual Insurance. "That means it's a shop taking pictures and doing up an estimate remotely so we don't necessarily need a person onsite to inspect the vehi-

cle. From those photos, we have an 'image desk appraiser' [in the insurer's office] determine if it's salvage. It speeds up the process, because you don't have to have someone go to the site and then submit the report. That can take two to three days off the cycle time."

In some instances, insurers have developed apps for the consumer to send the information to the desk appraisers, says Kelly Merchant, senior regional service manager in the field at Audatex, a Solera Company. "The most recent way...is for the insureds to notify their insurance companies through their smart phone and report a claim through that. That speaks to millennials and their devices."

Basically, an email with a link is provided to the customer; when the customer clicks on the link, they can report the loss to the insurer, as well as send any relevant pictures of the damage — including the odometer reading, the make and type of the vehicle, etc. This approach has its limits: it assumes the driver is still with the car at the scene of an accident, and that the driver is not injured. "I've tested it," Merchant said of the early online technology. "I found it was quite lengthy, and I found that as an insured, I probably would not do that."

Another way to generate greater capacity is to crowdsource appraiser proxies. Crawford & Company (Canada) offers such an Uber-style service called 'WeGoLook.'

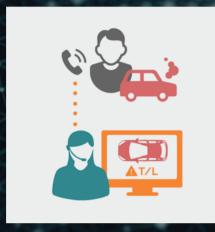
Essentially, the platform dispatches approved "lookers" – some of whom already have experience as appraisers — to take onsite pictures and collect data on auto and property claims damage. Photos and reports are then uploaded to desk claims appraisers and adjusters for review, allowing them to prepare damage estimates without having to be physically present at a site to collect information.

WeGoLook queries its lookers to make sure the pictures and data meet the client's requirements. Approved lookers are trained in the terminology required to take the right photos; also, they are trained not to make judgments or discuss policy coverage with clients. Right now, there is a base of about 3,000 lookers in Canada, 600 of which are approved to work in the field immediately. cu

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handbook

HIGHLIGHTS

Claims ratios p.34 | Buying biases p.37 | Flood plains p.38



Smooth hand-off

How early communication can reduce stress for an excess insurer

BY JEFF A. SMITH, Vice President, Claims & Operations, Markel International

or an excess insurer, it is critical to hear from a primary insurer and/or a broker as soon as possible about the potential for an excess loss.

Knowing that such a loss is anticipated allows for the excess insurer to take immediate steps to assess the liability exposure, reserve for that exposure, and take control of the defence if necessary.

The issue

Managing an excess liability exposure can be challenging for an excess insurer, in part because the excess insurer must rely heavily on the primary carrier's handling of the claim as well as on the information that the primary insurer is willing to share. Although an excess carrier can conduct an independent investigation into the loss and retain its own experts to assess the exposure, this is only possible if the excess carrier has been made aware of the claim. These challenging dynamics recently played out in a claim handled by Markel Senior Claims Specialist Maeve O'Malley.

Case study

The loss in question occurred in April 2015, when the driver of our insured's taxi cab struck a pedestrian who was crossing at a marked crossway. Our insured would likely be found 100% liable for this accident, given that the plaintiff was well-established in the designated crossway. The 68-year-old plaintiff sustained a severe traumatic brain injury with severe impairment to her mental and cognitive function. She remained in intensive care for three weeks after the accident and never fully recovered. requiring dependent care for her basic daily living. A statement of claim was served on our insured in June 2015. The claim was initially reported to the primary automobile insurer, which provided coverage subject to a \$1-million limit. Markel sits excess of this limit with an additional \$5 million in coverage; however, notice of the claim was not provided to Markel at the outset.

The Standard Excess Auto form (SPF 7) says if a claim is likely to exceed the first loss insurance, "immediate written notice" should be provided to the excess insurer. But in this particular instance, when the insured reported the claim to their broker, it's possible the broker did not feel the claim was "likely to exceed the first loss insurance," as required by the policy when they first received the loss notice. Frequently, information received at the onset of the claim is minimal and therefore insufficient for a broker or insured to make that judgment call. The primary carrier often has the

HANDBOOK

best insight into the potential exposure based on the evidence obtained during their investigation into liability and the extent of the plaintiff's injuries. In this particular case, neither the insured nor the broker were advised of the over-limits exposure until August 2017 (almost two-and-a-half years, post-accident).

Taking over the defence

Once notified of the loss, Maeve requested materials from the primary carrier. The counsel's report suggested a bestcase scenario would be a settlement of about \$1.5 million, whereas a worst-case scenario would be \$2.5 million or possibly higher. A gap of \$1 million at this late stage alarmed Maeve. She was concerned that the primary carrier's interest in mitigating the loss might dissipate in light of its lawyer's view that the claim would clearly exceed the carrier's \$1-million limit, thus leaving the rest to be picked up by Markel. The primary carrier had not developed a resolution strategy, nor had it scheduled a mediation to attempt to negotiate settlement. Instead, the matter had been set down for a 15-day trial commencing within five weeks of their notification to Markel.

With the carrier's consent, Maeve made a prompt decision to assume the defence of the claim and assign new legal counsel to take over the defence. The primary carrier agreed to tender their policy limits to Markel and, with effective control of the defence, Maeve had our legal counsel schedule a mediation in advance of the quickly-approaching trial. She then instructed our defence counsel to obtain expert evidence that the primary carrier overlooked in order to rebut the plaintiff's projections for the cost of future care. This additional expert evidence would prove crucial in negotiating the claim at the scheduled mediation.

In spite of the vague evaluation provided by the primary carrier's lawyer (upwards of \$2.5-million or more), Maeve's proactive handling of this excess file resulted in a total settlement of \$1.11 million - well below the primary carrier's best-case scenario.

Markel had no duty to defend this claim. But Maeve's proactive approach shows the positive outcomes that can result when brokers err on the side of caution and report all claims to every excess layer in the tower, no matter how minor the claim may seem at the outset. cu

Jeff Smith oversees claims and operations at Markel Canada, He holds an H.B.A. from York University as well as FCIP and CRM designations.

TRUSTED ADVISOR

I love my career as a broker, but my current brokerage has a toxic work environment. How do I keep my sanity until I find another employer?

Stressed Out Broker



Dear Stressed:

There's no reason for work to be so hard. But it's true that too many smart and capable people end up leaving their jobs, not because of the work itself or the benefits, but because they were tired of pushing a rock uphill every working day, notes Forbes. What are tell-tale signs of a toxic workplace culture? One obvious sign is that managers and employees have split into two completely separate camps that seldom interact. When that happens, there's no collaboration; it's a one-way communication in which the manager tells the underlings what to do. Sound familiar? So, what can you do? First, put on your own oxygen mask. How's your health? When was the last time you seriously thought about your future, taking your career and life into consideration? Second, plan to fix work relationships that have soured or are emotionally draining, as suggested in a recent blog in Harvard Business Review. It's easy to become that person who constantly complains. Ask yourself: have I been too hard on my colleague these past few months? Am I fostering cynicism instead of hope? If the answer is yes, work through the problems with one or more people in your circle. Finally, form a coalition. Plan a series of meetings in which people can talk about what's important to them at work, what they want, and what they need. Codify this in a team code of conduct. Old habits die hard, but you don't have to be subject to the toxicity that characterizes your company.

BY THE NUMBERS



INCREASING CLAIMS RATIOS

CANADIAN P&C INDUSTRY

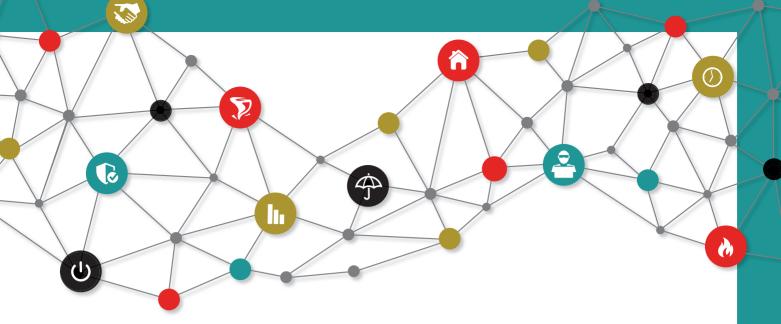
LINE OF BUSINESS	2017	2018	% INCREASE
Property (Home)	58.3%	62.4%	+ 7.0%
Property (Commercial)	62.6%	75.9%	+ 21.2%
Auto (Personal)	75.3%	77.2%	+ 2.5%

DECREASING CLAIMS RATIOS

CANADIAN P&C INDUSTRY



LINE OF BUSINESS	2017	2018	% INCREASE
Auto (Commercial)	71.2%	68.2%	- 4.2%



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BUYING INSURANCE

The human bias

How human decision-making and behaviours will shape your analytics and AI

BY WEIKE, Managing Partner, Simon-Kucher & Partners

t a time when Canada's property and casualty insurance industry is exploring how to use artificial intelligence and analytics to reshape the insurance customer experience, it is important to remember the role of the human decision maker.

Unlike Data — the android in the television series *Star Trek*, whose positronic brain allows him to make sophisticated computations — humans rarely make decisions with actuarial precision. Instead, our decision-making process and purchasing behaviors are shaped by psychological, emotional, cognitive and social biases. We must recognize and acknowledge these biases if we want to fully leverage AI and analytics to improve

how customers purchase and experience insurance.

Pain of Buying

According to certain economic principles, businesses should set prices at the point at which the demand for a product or service is equal to its supply. At this equilibrium price, both consumers and producers are satisfied.

In reality, consumers' purchasing behaviors rarely work this way. We recently studied the behaviour of people who were looking for credit protection insurance for mortgages. Our study showed that price sensitivities increased dramatically when the monthly insurance premium exceeded the underlying monthly mortgage by 2% or more. Instead of considering the absolute price of the insurance premium on its own, customers used their monthly mortgage payment from which to benchmark the value of the insurance coverage.

Another cognitive bias to take into consideration is the way we experience pain during the purchasing process. In a 2007 study with 26 adults, researchers at Carnegie Mellon, Stanford and MIT found the pain centres of the brain would activate when subjects saw prices they perceived as being too high.

Pricing sensitivities and the psychological pain of buying can be compounded in the digital age: a customer presented with product information "In a 2007 study with 26 adults. researchers at Carnegie Mellon. Stanford and MIT found the pain centers of the brain would activate when subjects saw prices they perceived as being too high."

that overwhelms, obfuscates or appears overpriced will simply move on to a competitor's offering a few clicks away.

To improve the buying experience, insurance professionals must do a better job of conveying to a prospective customer the product's value and its relationship to the price. Let's consider the example of credit protection insurance. In a recent project, we presented customers with four types of credit protection insurance in the event of death, disability or job loss. We found that customers heavily favoured buying life insurance over disability, critical illness and job loss coverage. Also, they did not understand the benefits of the various coverage options.

Instead of presenting price in isolation, which only serves to convey a loss (and invites comparisons with cheaper prices), we provided shoppers with reference points to support the relationship between price and value. We presented a visual product line-up, re-ordering them into a descending sequence. The highest value was presented first, before those with lower values, in a quantifiable form. The link between value and price was then made obvious to the human shopper.

To improve the insurance purchasing experience, we can leverage predictive analytics to provide guided recommendations for different customer types. We can also build an analytical understanding of our customer's pricing sensitivities, and tailor pricing levels and product recommendations accordingly.

The Desire for Fairness, **Equitable Outcomes**

Another psychological bias we must consider is our innate social preference for fairness or equitable outcomes. This issue hits a raw nerve with many insurance customers, a fact on which insurance startup Lemonade has been quick to capitalize. On its website, Lemonade says "traditional insurance companies make money by keeping the money they don't pay out in claims." Lemonade goes on to explain: "this is why getting your claims paid fast and in full is sometimes so hard."

If insurers want to maintain the trust of their customers, they must improve the perception that the industry has a deliberately slow and cumbersome claims process. On this front, there is an opportunity for insurance companies to leverage AI and behavioural economics.

In a recent call to Citi about an overdraft fee, I was pleasantly surprised when the automated customer service algorithm not only narrowed down why I was calling, but also automatically waived the overdraft fee. Citi's AI-powered customer service was able to quickly recognize my relationship with the bank, and resolve my issue in under five minutes. In the same way Citi leveraged AI to address a common pain point of its most valued customers (overdraft fees), insurers can do the same by transforming the long, complex claim process into a more streamlined and efficient one.

We must invest the resources to understand the emotional, cognitive and psychological factors that make the insurance experience a challenging one for our customers. Emerging technologies like AI present a unique opportunity to address our customer's pain points and reshape a customer experience worthy of the digital age. cu

Wei Ke, Ph.D. is a managing partner at consulting firm Simon-Kucher & Partners.

CROWDSOURCED

WHAT'S THE BEST WAY TO **MOVE HOMEOWNERS OUT** OF A FLOOD PLAIN?



Director, Operations Nacora Insurance Brokers Ltd.

I don't know why homeowners choose to live on a flood plain when they know it's a flood plain. Consumers need to be more educated about the perils involved. From an insurance perspective, I don't know what we can say [to make them move]: you get lower rates or full coverage if you're not on a flood plain? I don't think those are mitigating factors that [homeowners] would consider if they were asked to give up a house in which they've been living for I don't know how long.



Matthew Leyland Director of Personal Insurance. Brooklin Branch Manager Bryson Insurance

For most people, I think it's going to come down to finances. I don't think many of us can just pick up and leave. But it's really tough on the government to figure out how to fund people out of flood zones fairly. You need pretty strong financial incentives to move. Perhaps government could expropriate land elsewhere and offer enticing rewards to move people to those places?



Tracy Archer Chief Operating Officer Knight Archer Insurance Brokers

It really has to come from government.

I think it's about placing restrictions on rebuilding in a known flood plain after there has been a loss. I'm not sure you can entice people to leave before that loss happens. I'm just thinking of places where there has been flooding; honestly, no one is ever interested in moving. They will do whatever they can to try to put up barriers to protect their property, build dikes, different things like that. But I think the only way to truly deal with it is through government policy.

HIGHLIGHTS

Finding your insureds p. 40 | Defending arson p.42 | Intoxicated by pot p.44



CATASTROPHE CLAIMS

Where did everyone go?

How do you keep track of your insureds when disasters force your clients to abandon the primary address you have on file?

BY EMILY ATKINS

hen the evacuation call gives residents less than five minutes to leave home, they're lucky to have a charged cellphone to take along, let alone a list of the numbers they might need while away.

Mass evacuations have been all too common this spring, with major flood damage reported in New Brunswick, Quebec and Ontario. When claimants are forced to move, it raises the challenge of keeping track of insured parties so that claims can be properly and expediently processed, ensuring both good customer service and reduced cycle times.

During the 2016 Fort Mac wildfire, adjusters and restoration firms alike were scrambling to find all the clients they

were assigned to help. With residents scattered – some as far away as Florida, according to one report – it was hard to track them down, especially because the contact information insurers had on file included mainly home numbers.

Ultimately, policyholders were tracked down using a combination of phone, email, and social media but it was a tedious and labour-intensive job that slowed down claims processing and increased cycle times.

The industry learned from the experience. More information is collected from claimants when they report a loss. Not too long ago, when adjusters received a first notice of loss, the information typically included just the policyholder's

home address and home phone number.

Now when a loss is reported, it's standard to gather an email address, cell phone number and the best number at which to reach people. "You've got, immediately, two or three alternative ways to get a hold of the policyholder in a catastrophe situation," says Jim Eso, Crawford and Company (Canada)'s senior vice president of property and casualty.

And when those don't work, the industry has also learned to use social media. "Fort Mac was probably where we first really saw a differentiated way of communicating with policyholders," Eso says.

Displaced Fort Mac residents scattered far and wide, staying with rela-



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tives, returning to homes in other provinces, or holing up in hotels. But they came together spontaneously in social media groups. And these groups made it easier to locate claimants, Eso says.

Fort Mac was also the first time carriers used electronic funds transfer to make living expenses payments to displaced claimants. "You couldn't get a cheque to somebody if you didn't know where they were," he says.

In the aftermath of the Fort Mac fire, the municipality faced the additional challenge of identifying which of the damaged or destroyed properties were insured. They asked Insurance Bureau of Canada to help. Some residents also required help in identifying their insurers. According to Mario Fiorino, IBC's legal director and assistant general counsel, this was an unprecedented data request. IBC managed the request by acting as an intermediary between its members and the municipality.

The lessons learned in Fort Mac have been widely adopted in subsequent emergencies. For example, carriers placing mobile contact centres close to the site has become common practice. Started on a large scale in Fort Mac, insurers are repeating the practice at other Cat sites, including the Ottawa-Gatineau area after six tornadoes caused more than \$300 million in insured damage in September 2018. "It's as simple as a motor home and a tent and a shelter set up where people could just drop in, rather than waiting for the carrier to send someone else to see them," Eso says.

Developing best practices

With every new Cat, the industry learns how to communicate better with insureds. IBC generally conducts a post-mortem after every extreme Cat, Fiorino says. The purpose is to identify issues and lessons learned from each event; the ultimate goal is to build up a national, coordinated catastrophic response plan that would include a data-access protocol between government and the industry.

"It's an incremental process, where we are learning from the past," Fiorino says. The industry is mindful of the fact that there could be a catastrophic earthquake on the west coast, for example, or in the Quebec corridor. That "will call for an unprecedented, coordinated response between government and industry," Fiorino says.

On the claims side, the focus is on making the situation better for the insured through the benefits of faster processing and better customer satisfaction.

"What's one step I can do today that's

different from the way we might have done things in the past, so that we can try to enhance the customer's experience in what is already a terrible situation?" Eso asks. Collecting more complete information at the first notice is "just one thing that we could do better." Cu

Emily Atkins is a freelance author based in Ontario and is the past editor of *Claims Canada*.





ARSON TRIAL

Playing with fire

How an insurer successfully defended a risky arson case in which no charge was laid

BY GLENN GIBSON, President, CEO, The GTG Group BY ANDREW ECKART, Mediator, Lawyer, Eckart Mediation Incorporated

e have not seen a lot of arson cases go to trial in civil court recently, but in Patrick Guilbert and Guilbert Enterprises v. Economical Insurance Co., the insurer successfully defended the denial of a fire loss claim in civil court despite the absence of a criminal charge.

The case was heard by the Manitoba Queen's Bench in March.

Arson cases require a three-pronged proof, the "Arson Triangle." These are:

- 1) proof of an incendiary (deliberately set) fire cause:
- 2) proof of motive or some other form of connecting evidence; and,
- 3) proof of exclusive or ample oppor-

In some jurisdictions, actual proof of motive may not be required; however,

in all civil cases there must be evidence connecting the subject to the fire. The evidence can be in the form of direct proof, or the trier of fact may make an inference based on circumstantial evidence that proves each of these requirements.

Background

In Guilbert, the plaintiff operated a hardware store in a small Manitoba town. Patrick Guilbert was the principal and controlling partner of the business. The store was destroyed in a fire on Feb. 25, 2015. Guilbert filed a claim with Economical for more than \$3 million.

Guilbert had been experiencing worsening financial issues for at least a year. A deal to sell the business fell through several days before the fire. On the day

of the fire, Guilbert was the last person to leave the store. Within four minutes, an employee saw smoke coming from the building.

Various fire investigators felt the fire started in an attic, but the origin of the fire and the ignition source was a matter of debate. The RCMP did not lay criminal charges in the case. A final proof of loss was submitted by the insured in June 2015. Two months later, the insurer denied coverage for the loss.

The trial

At trial, the court spent considerable time on the insurer's arson defence. The onus was on Economical to prove this fire was intentionally set.

The insured conceded he had a failing

business, providing motive.

Three investigators examined the scene. Two concluded that the fire case was "undetermined." The third, brought in by the insurer, was clear that the timing, area of origin and rapid spread of the fire were consistent with an incendiary fire.

The judge preferred the testimony of the insurer's expert. The judge critiqued the insured's expert and found there was, in fact, no evidence of an electrical fire. As well, the insured's expert conceded during cross-examination that the facts of the case were consistent with an incendiary fire.

Interestingly, given the lack of opportunity for the experts to review scientific or physical evidence, the judge found that the expert reports were not essential to his conclusion. The judge thus may have concluded arson was established based only on the circumstantial and direct evidence of the non-expert witnesses at trial.

Analysis

Like in most cases, there was risk in taking this matter to trial – but here especially so. The public authority concluded that the cause of the fire was "undetermined." The insurer's fire expert did not attend the scene. He was drawing his own conclusions by reviewing the work product of the fire marshal and the claimant's expert. As it turned out, the insurer's expert clearly did a terrific job in the witness box, convincing the trial judge that it was only logical that this was an incendiary fire.

The judgment shows how much weight the judge put on circumstantial evidence. The court addressed several questions, including whether it was logical for an accidental fire to break out in this building only a few minutes after the owner had left the scene. The judge concluded that clearly the only one with motive and opportunity to start the fire was Guilbert.

In this trial, there was overwhelming motive reinforced by exclusive or ample opportunity. These two parts of the Arson Triangle won the day for the insurer.

It is a serious decision for an insurer to deny coverage for a claim by alleging the insured committed a criminal act. This is particularly true in situations where the public authorities have not laid criminal charges.

In this case, the insurer clearly felt there was overwhelming evidence of motive combined with ample opportunity. The gamble was whether or not the insurer's fire expert would be convincing in the witness box, and whether or not the plaintiff was credible. In this situation, policyholders across Canada won the day, with the court turning aside a claims payment worth more than \$3 million. Cu

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RECOVERY I CANNABIS QUESTIONS



CANNABIS CLAIMS

Ask the right questions

Post-marijuana legalization, how will adjusters know if a driver is "intoxicated"?

BY CHLOE MATHIOUDAKIS, Litigator, Field Law BY ERIKA CARRASCO, Partner, Field Law

anada's legalization of recreational cannabis continues to raise a question for auto insurers everywhere: Is cannabis an intoxicating substance similar to alcohol? If so, how should insurers address this risk to promote safety on Canadian roads?

Driving under the influence of cannabis remains "impaired driving" under the Criminal Code. Research from the Canadian Centre of Substance Use and Addiction shows that cannabis use doubles the risk of being involved in an automobile collision. The same research shows drivers on cannabis are less able to:

- · track moving objects
- respond to more than one source of information

· respond to sudden changes in a driving environment.

A charge for impaired driving due to cannabis use under the Criminal Code will likely be a significant fact in proving a driver was "impaired" or "intoxicated" at the time of an accident. However, jurisprudence suggests that a criminal conviction or an illegal level of an intoxicating substance will not be enough to conclude that an individual is under the influence of alcohol/drugs. Rather, incapacity must be established by the insurer on a balance of probabilities, often with circumstantial evidence.

In the context of insurance coverage, the Supreme Court of British Columbia in 2015 debated what constitutes an "intoxicating substance" in Venkataya v. Insurance Corporation of British Columbia. In Venkataya, the Insurance Corporation of B.C., the province's public insurer, denied coverage for total vehicle loss following a single-vehicle accident. The insurer contended that the claimant was under the influence of an intoxicating substance that rendered him incapable of controlling his vehicle, and/or that he willfully provided a false statement on a proof of loss. The driver stated he "had not taken any drugs or alcohol in the 12 hours preceding the accident."

Mohammed Yusuf Venkataya was driving home in Surrey-Delta, B.C., after consuming one bowl of Kava - a traditional drink from Fiji with sedative "A charge for impaired driving due to cannabis use under the *Criminal Code* will likely be a significant fact in proving a driver was 'impaired' or 'intoxicated' at the time of an accident."

properties – but no alcohol or drugs takaya? whatsoever. Police officers witnessed him driving erratically, crossing several which lanes with traffic barriers, before eventually crashing.

Kava use was legal in Canada at the time. However, the insurer alleged Kava consumption on the night of the loss had intoxicating effects on the insured driver, which led to the loss.

The court ultimately disagreed with the insurer's position regarding the intoxicating effects of Kava. Supreme Court of B.C. Justice Peter G. Voith ruled that the science was "thin" and did not align with the police eyewitness testimony regarding Venkataya's behaviours and condition on the night of the accident.

The court also considered the issue of whether Venkataya had made a wilfully false statement material to his claim when he denied to his insurance adjuster that he had used drugs, "prescription or otherwise," before driving that night; he signed a statement to that effect. The court concluded Venkataya had not made a false statement, given that he was truthful and credible surrounding all other aspects of his claim; also, he could not be faulted for having overlooked the significance of the language "or other-

wise" as it related to his consumption of Kava that night. The court ordered the insurer to pay for the vehicle and costs.

Considerations for insurers

Luckily for insurers, cannabis is not Kava. There is a framework for prosecution of cannabis-impaired driving in Canada; there is also a significantly larger and more reputable body of scientific research into the effect consumption of cannabis has on a driver's abilities behind the wheel.

However, significant difficulties remain in identifying the level of impairment of an individual who has used cannabis before getting behind the wheel. Roadside drug tests are complicated by the fact that cannabis stays in the blood for 30 days. Moreover, with cannabis, individuals may not appear "impaired" in the ways they would on alcohol or other drugs.

What have we learned from *Ventakaya*?

When taking statements in a case in which impairment might be a factor,

using the term "prescription medications" may capture the use of medical cannabis, but it is important to specifically reference recreational cannabis as a substance consumed in the 24 hours prior to the occurrence of the loss. Questions should elicit specific answers, such as the format in which it was consumed and the strain taken.

Additionally, if insurers must decide whether to deny coverage in a situation similar to Venkataya's, they will need to prove that the use of cannabis had the effect of an "intoxicating substance," thus rendering an individual unable to control their vehicle. Insurers should ensure that brokers and adjusters understand the potential for cannabis-fueled impairment. Cu

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peer to peer



Hardly a day seems to go by without a phishing attack, in which a cyber criminal convinces a computer user to click on a suspicious link or divulge their username and password.

And it's not just financial services companies anymore - local universities, governments and other institutions are being targeted, often paying millions in ransom.

Training is critical to help organizations prevent employees from clicking on suspicious links or opening suspect attachments. For the general end-user

population, anti-phishing training may involve sending a "test phishing scenario" to an employee. If the employee clicks on the link by accident or enters their credentials, they will be given a training session or warning.

For "privileged" users, who have access to more sensitive data or information, more targeted training is advised. Here, we also suggest that these users are required to use two-factor authentication; in other words, computer users are granted access only if they use the correct password and a USB token.

About passwords: people tend to use simple things like their birthdays, or their kids' birthdays or names. It's not a great practice, because obviously with the advent of social media, this data is already out there and available. Try to use more complex passwords or phrasing instead of just letters. Sometimes I tell people: "Get your favourite book. What's the first line of the book?' Use that as a way to create a password for your sensitive accounts. Use the first sentence of the book, plus your favourite number. That sequence is very difficult for an adversary to recreate. cu



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