YOUR GUIDE TO INSURANCE SUCCESS, SINCE 1934

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How you can shine brightly during the dark times of the hard market

> INTERVIEW aura

**ON HOW CLIMATE** HAS CHANGED

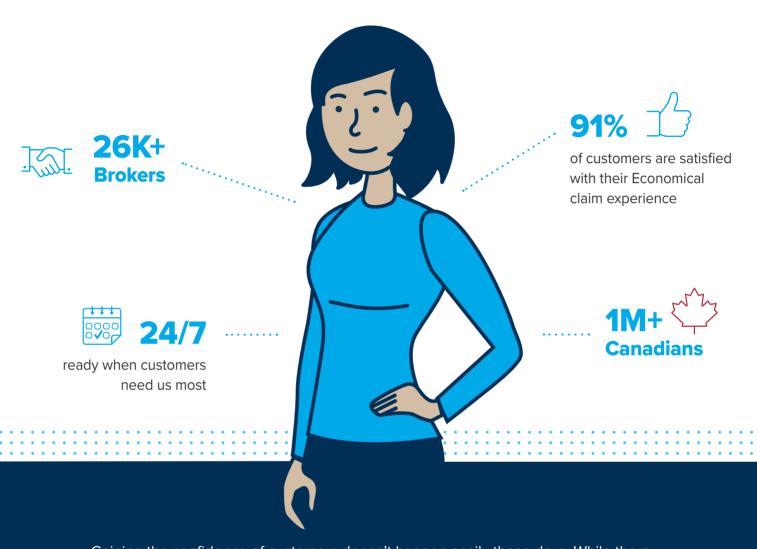
THE INDUSTRY'S **CATASTROPHE SEASONS** 

# **KEY INDUSTRY DECISION-MAKERS SHARE THEIR PRIORITIES FOR CHANGE OVER** THE NEXT YEAR

**SHARING DATA WITH INSURTECHS** THE RIGHT WAY **HOW TOWERING INBOXES TEST ADJUSTERS' ETHICS** 

WHY INSURERS **ARE ABANDONING** ALBERTA'S OIL **PATCH** 

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### **○**Canadian derwriter

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Volume 86, No. 11 | December 2019

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#### FROM THE EDITOR

Our fearless prediction of when the hard market will end

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CANADIAN







#### **Market outlook**

Canadian Underwriter fearlessly predicts the end of the hard market

s we enter another year of the hard market, featuring higher rates and withdrawn coverage, brokers dealing with frustrated consumers want to know: when is this wretched market cycle going to end? Longer than you think.

Most predict the current market conditions will last well into 2020, and I've heard guesses of up to 18 months to two years. Intact recently mentioned in a conference call that if industry ROE gets back up to 10%, the hard market conditions will be gone. The last time the industry saw that level of ROE was four years ago, and it has plummeted down to just over 4% last year, according to figures from Insurance Bureau of Canada (see our 'By the Numbers' section on Page 38).

Personally, I would not be surprised if it was well into 2022, or even early 2023, before Canadians see any genuine drop-offs in their premiums.

Because right now, the industry is making headway only on the rate regulation side of the business. Problem Number 1 for the industry right now is that rate regulation in Canada is too slow: insurance companies can't raise rates fast enough to offset their escalating claims costs. Yes, Ontario and Alberta are open to auto reform that would allow insurers to close the gap between setting the price of their product and the ultimate price of a claims payout. But this is only tackling the revenue side of the insurer's ledger. What about costs?

As near as I can tell, no one in government is moving quickly or effectively to address the many root causes of insurers' rising claims costs. Too many Canadians are crashing their cars because they are driving distracted. Cars that are supposed to prevent collisions are too expensive to fix. And in an era of increasingly frequent natural catastrophes, too many people are building their homes and businesses in harm's way.

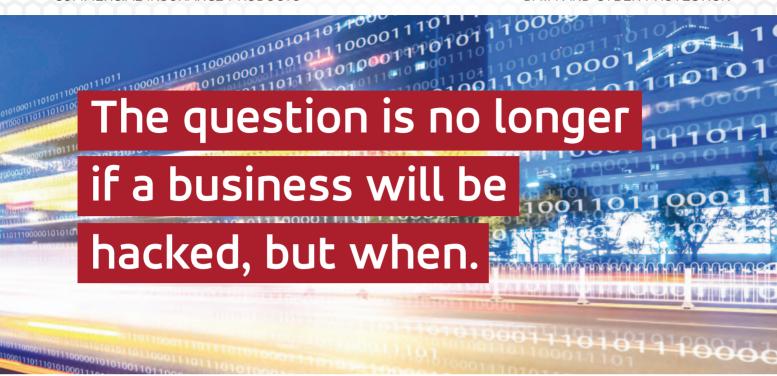
Until any meaningful reforms help to curb these societal dynamics, which are at the true root of insurers' claims costs, we can expect hard market conditions to linger. All of which is to say, buckle up everyone: journeying through this hard market cycle may be a longer trip than you imagine. cu

david@canadianunderwriter.ca









#### THE FACTS

Canadian businesses are hit by cyberattacks each year

of email scams target small and mid-sized businesses

\$149k is the average cost

of data breach recovery for small and mid-sized businesses

# Padlock Cyber and Data Breach Coverage Now Quoted on All New Commercial Business

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# perspectives

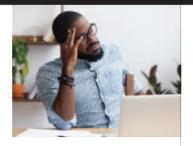
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#### War for talent: Does the P&C industry need reinforcements?

The story: Strain on the industry's existing staff resources means things are slipping through the cracks, leading to customer service issues, brokers heard at the recent Insurance Brokers Association of Ontario Convention.



#### Jay says:

We are in strange times. On the one hand, companies say they are understaffed to handle the demand; on the other hand, they have to cut labour costs and downsize.

This is very interesting. As a Millennial, all I hear is how "there are no jobs." Perhaps the industry should put more effort into recruiting and training college grads.

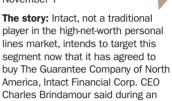
If the industry is suffering from a shortage of willing applicants, it only needs to look at compensation. Triple the compensation and the shortage disappears instantaneously. The title should read, 'Not enough applicants for jobs that don't pay enough.' Truth.

#### Simon Fenn says:

Operating a commercial brokerage outside of Toronto presents its own challenges. Until we have all-day, north-and-south rail service, it will continue to be a challenge to attract young talent to our firm. We operate in a unique environment, in which young brokers have an opportunity to develop their skills and become specialists quickly. It's a shame that location determines our "pick of the crop" when we want to bring in a new line of leaders to succeed those who head towards retirement. Such a huge opportunity impacted by inadequate provincial infrastructure!

#### Intact now targeting this "under-served" market





#### Clinton D'Souza says:

earnings call.

Intact plus Aviva, Chubb, AIG — the market is only so big. So, what will differentiate one from the other is the customer experience. Do high-net-worth customers want to have a better digital experience?

#### Bradley Vooren says:

AIG has exited the Canadian personal lines market completely. Aviva Ovation is not competitive above the \$3-million replacement cost threshold. Chubb and GCNA (Intact) are really the only two options, as well as Lloyd's.

#### What carrier CEOs said when asked if MGAs should be regulated

November 1

The story: Insurer CEOs gave their opinions on whether MGAs should be regulated at the recent Insurance Brokers Association of Ontario Convention.

#### Simon Fenn says:

The role of MGAs has become very similar to that of insurers of late, almost the same. I expect this is as a result of the prolonged soft marketplace we recently experienced, where insurers were more willing to underwrite tougher classes that traditionally have been the MGA's realm/purpose. There is an old saying: "Desperate times call for desperate measures." When the end of the soft market seemed to be forever in the distance, the need to maintain income levels caused insurers and MGAs to broaden their appetite. This resulted in MGAs and insurers looking very much the same. As the marketplace hardens further, the role of the MGA will return to specialty, since insurers — embattled by catastrophic losses impacting combined ratios — are retreating from underwriting the tougher classes.

#### Why this commercial food spoilage claim from ice storm was denied

The story: A Court of Appeal for Ontario case discussed coverage for business interruption and spoiled food when the loss was caused by damage to power transmission lines off the client's property.

#### Shubham Gupta says:

There is a very standard endorsement available to take care of this issue. I am surprised the policy didn't have that.



#### Intact's take on the impact of no-fault auto insurance

November 11

The story: No-fault insurance can be helpful to insurers provided the coverage is not too generous, the CEO of Intact Financial Corp CEO says.

#### LMVSLaw says:

"Generous" means "more than is necessary," not "still well below what our injured insured will need to pay bills and recover."

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# declarations

HIGHLIGHTS

Winter Driving p.13 | Interest Rates p.15 | Big Moves p.19



### **Turning off the taps**

Global insurers are starting to withdraw from providing insurance coverage to the oil sands, which accounts for about two-thirds of Canadian oil production. What this means for your clients in the oil and gas sector...

BY GREG MECKBACH, Associate Editor

backlash against the so-called "tar sands" could make insurance more expensive for a big part of Canada's oil and gas sector.

"There is a big drive generally from insurers to put pressure on industries that they believe are responsible for the potential increase in carbon emissions around the globe," says Gary Hirst, CEO of CHES Special Risk Inc.

Axis Capital Holdings Ltd. will stop writing new insurance and facultative reinsurance for oil sands extraction and pipeline projects as of Jan 1., 2020, the Bermuda-based insurer announced this past October. And a memo obtained by Canadian Underwriter in October, while its authenticity cannot be confirmed, suggests that Munich Re also plans to stop underwriting both primary insurance and facultative reinsurance for the construction of new oil sand sites.

Canada's oil sands account for about one-tenth of 1% of global greenhouse

gas emissions, according to Natural Resources Canada (NRC). Canada was the world's sixth-largest crude oil producer in 2017, the Canadian Association of Petroleum Producers reports. Last vear, the oil sands accounted for 64% of Canada's oil production, says NRC.

"We have seen a lot of insurance companies over the past four or five years adopt coal policies and get out of insuring coal mines," said Sven Biggs, Vancouver-based climate and energy

#### COPS AND CRASHES | NOV 18

Fewer traffic officers patrolling Toronto's city streets has led to an increase in collisions and deaths, says Toronto's top cop, Mark Saunders. He has called for a new unit to oversee crash-prone areas around the city.



#### COMMERCIAL LINES **INCREASES** | NOV 16

Commercial property, umbrella, and public company directors' and officers' (D&O) lines are each expected to see widespread rate hikes of 20% and higher. in addition to capacity withdrawals, according to Willis Towers Watson.





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campaigner for Stand.earth. "Tar sands is kind of the next front in that."

Stand.earth is one of 32 groups that sent letters this past August to several insurers urging them to stop underwriting the Trans Mountain pipeline, which takes product from Edmonton to a tanker terminal on the Burrard Inlet near Vancouver. Reuters reports the letter was sent to 27 companies registered to insure the pipeline.

The existing Trans Mountain, now owned by the federal government, was built in 1953 and the federal government has approved a twinning project. If completed, the expansion would essentially triple the capacity from 300,000 to nearly 900,000 barrels a day. Construction was about to begin at press time.

Munich Re is one insurer that received a letter about Trans Mountain this past August, Biggs says.

Canadian Underwriter obtained a memo in October purporting to be an internal Munich Re "Crossline Alert." That memo says Munich Re plans to stop underwriting both primary insurance and facultative reinsurance for the construction of new oil sand sites. Munich Re did not confirm or deny the document's authenticity. The document pertains to oil sands sites and their infrastructure, but not to the oil produced at those sites. It defines a site as a place where oil sands are exploited through open pit mining, steam-assisted technology, or extracted from the oil sands.

Publicly, Munich Re supports the goal of the United Nations Framework Convention on Climate Change, also known as the Paris Agreement. The Canadian government has ratified the Paris Agreement, which aims to limit the global average temperature rise to +2 C, relative to pre-industrial levels.

Insurers should help to mitigate climate risk and transition to a low-car**SURVEY SAYS...** 

#### How do you like my winter driving?

BCAA Insurance recently released the results of its 'Winter Driving Survey.' which strongly suggests that B.C. motorists are ill-prepared for the winter. The study canvassed the opinions of 1,443 adult B.C. drivers.

admit to being nervous behind the wheel when bad weather hits. And yet...

take a 'wait-and-see' approach to readying their vehicles for winter (e.g. a complete vehicle check-up or installing winter tires).

wait until the last minute, or have no plans at all to prepare their vehicles for winterl

#### And how do B.C. motorists rate themselves as winter drivers?

71%

say B.C. motorists are "poor" winter drivers

say B.C. drivers are "probably the worst winter drivers in Canada."

enue directly from the extraction of oil

bon economy, Albert Benchimol, CEO of Axis Capital, stated in October when Axis announced its plans to stop insuring some oil sands sites.

Zurich plans to speak to customers with exposures of more than 30% to thermal coal, oil shales and oil sands, the company announced in June.

Depending on the outcomes of those conversations, Zurich "pledged" at the time to stop underwriting companies that generate at least 30% of their revfrom oil sands.

"It's interesting that international insurers are taking this decision, whereas Canadian domestic insurers are probably not," Hirst says.

"So, it then becomes a question of whether it is economical to pay the insurance, or perhaps now those producers will actually move away from buying insurance from commercial providers and just self-insure the risk." cu

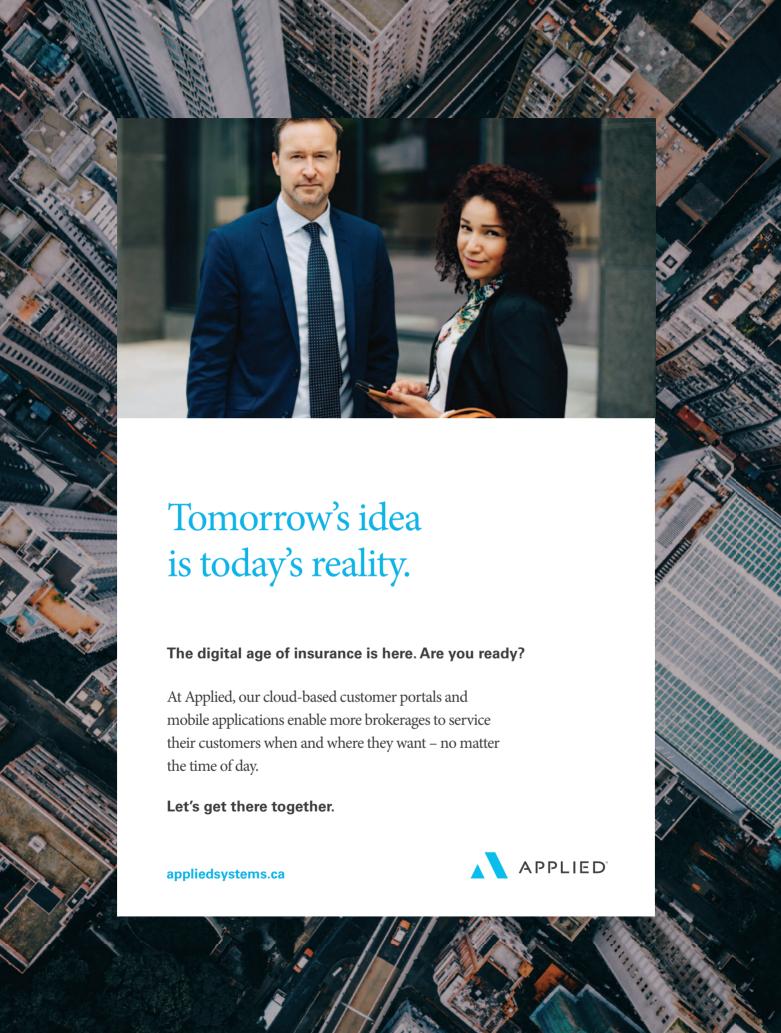
**DON CHERRY RISK | NOV 16** After iconic hockey analyst Don Cherry was recently let go from his 'Coach's Corner' segment on Sportsnet, a risk management expert said employers should put early-intervention strategies in place for controversial, high-profile media commentators.



#### NUNAVUT GOVERNMENT HACKED | NOV 15

The Nunavut government started returning to normal after its computers were paralyzed by a ransomware attack that encrypted individual files on various servers and workstations and locked out regular users. The ransom was not paid.







INTEREST RATES

### The mirage of high returns

It could be decades before insurers make decent returns on their investments. Why Canadians pay higher premiums when interest rates are low...

BY DAVID GAMBRILL, Editor-in-Chief

ne of the many reasons for the current hard market is that low interest rates have stunted insurers' investment income, which commonly makes up for deficiencies in premium pricing. Absent significant investment returns, insurance companies must resort to 'Plan B,' which is to charge consumers higher premiums. That's exactly what's happening now.

But if insurers are waiting for interest rates to rise to help supplement their premium income, the news from financial observers is grim. They could be waiting for up to 20 years, according to one Swiss Re analyst.

"Interest rate levels are likely to remain extremely subdued for a long, long, long time," predicts Jerome Jean Haegeli, group chief economist and managing director of Swiss Re.

Haegeli talked to Canadian Underwriter at the 2019 National Insurance Conference of Canada (NICC). "If you look at our latest forecast from Swiss Re, the 10-year forecast is 1.6% for end of this

year, and at the end of next year about 2%," he said. "Lower interest rates in the long run bears the question: What does the insurance company do? We looked at the case of Japan. On the one hand, for P&C it means more underwriting discipline, which could be a good thing. But there is only so much you can do."

Haegeli looks to the zero-interest-rate policy of Japan, where for the past 20 years interest rates have been as low as you can go - 0%. In that environment, Haegeli observes, Japanese insurers are

#### RE-THINKING CYBER RULES | NOV 14

Government bodies should be allowed by law to collaborate and share information with the private sector for the purpose of protecting against cybersecurity threats, according to the Bank of Canada's chief operating officer.



#### **FAIR TREATMENT EDUCATION** | NOV 13

Focusing on industry incentive programs used to boost sales, the Canadian Council of Insurance Regulators highlighted to need to inform the broker community about the regulator's fair treatment of customers (FTC) guidance.



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#### **NEW OFFERS**

starting to look to make money in illiquid assets (real estate, stocks with low trading volume, or collectibles). Although illiquid assets still have (sometimes high) value, they are difficult to sell.

"We have to be realistic enough that some of the forces that drove the Japan rates to below [average statistical norms] are also playing out in the global economy," said Haegeli. "That keeps rates lower for longer. I wouldn't be surprised to see in 20 years' time that we are going to have 40 years of Bank of Japan zero-rate policy. That backdrop is not favourable for interest rate increases."

In Canada, interest rates "are not going to go up dramatically," says David Chilton, a former Dragon on CBC's Dragon's Den and the best-selling author of *The Wealthy Barber*, a guide to financial planning. "Things are not going to normalize for a very long time, for a simple reason: There's way too much debt in the world to allow for that."

Banks lower interest rates to encourage people to borrow money; it is assumed that people will spend the borrowed money to get the economy moving again. Low interest rates have been in place since at least the global financial crisis of 2008. But the result of governments, companies and people borrowing money, as Chilton observes, has been massive debts on the balance sheets.

The U.S. debt reached \$22 trillion as of Februray, according to the U.S. Department of the Treasury. Canada's debt level, in contrast, sits at about \$686 billion as of March 2019. But Canadians' individual debt level is very high at 175% of disposable income.

Given these debt levels, to raise interest rates significantly now would risk triggering an immediate economic recession, Chilton told the 2019 Insurance Brokers Association of Ontario (IBAO) Conference. Cu

#### **ONLINE PAYMENT OPTIONS**

Vendor: FIRST Insurance Funding of Canada (FIRST Canada)
Target Audience: Brokers



What It Does: An online payment options page configured to present all of a clients' payment options, as well as a consistent process for all

FIRST Canada now offers a new way for brokers to offer customized, streamlined and consistent online payment processes to their clients. A new online payment options page is configured to present all the payment methods offered to the client by the brokerage. The brokerage has an option to brand the newly-designed, user-friendly online payment options form. A wide variety of payment methods are offered, including (but not limited to) monthly payments, credit cards, cheque, single bank withdrawal, bank wire, online banking, etransfer, EFT, and PayPal.

#### MEDICAL SECOND OPINION (MSO)



Vendor: The Co-operators and WorldCare Health Inc.

Target Audience: Group benefits clients

What It Does: A product for institutions that recreates online the experience that someone with a mental health concern would receive if they were to visit a physician or psychiatrist in person

The Co-operators, in partnership with WorldCare Health Inc. (WorldCare), has launched a new Medical Second Opinion (MSO) product for mental health, now available to the insurer's group benefits clients. It is billed as "the only institution-based MSO product that virtually recreates the experience a client struggling with either a critical medical or mental health illness would receive if they were to visit a physician or psychiatrist in-person," the company announced. The new MSO product combines the critical illness medical second opinion review with an additional layer that provides access to hundreds of sub-specialized psychiatrists and 60 specialty clinical and research programs that address virtually every aspect of psychiatric disorders, including child and adolescent psychiatry. Clients are intended to receive rapid, comprehensive and customized evaluations, coupled with the resources and guidance needed to make ongoing medical and mental healthcare decisions with confidence. The evaluations are completed by WorldCare's medical second opinion providers, including the Massachusetts General Hospital Department of Psychiatry.

#### **ONLINE QUOTING SOLUTION (OQS)**



Vendor: North Kent Mutual Insurance Company (NKMI), Cognition+

Target Audience: Consumers and agents

What It Does: An online quoting tool for personal lines automobile,

homeowners, condo and tenant packages.

OQS provides consumers and their agents with web-based access through North Kent Mutual Insurance Company's current website, employing the software solutions provided by Cognition+. The solution provides a quick consumer quote for personal lines automobile, homeowners, condo and tenant packages. Additionally, it provides a more detailed quoting tool for their agents, so that the agents may further assist clients who have more complex requests. The interface keeps consumers anonymous until they wish to proceed with their agent of choice. Consumers can download or email themselves a copy of the quote and arrange for initial contact with their sales representative.

#### LIMITATIONS LOOSENED | NOV 13

The two-year time limit to take auto accident benefits disputes to Ontario's Licence Appeal Tribunal (LAT) is not a "hard limitation" period, the province's appeal court has ruled, effectively saying that the clock starts running when the facts are discovered.



#### ELECTRIC CAR CRASHES | NOV 11

Luxury and SUV electric cars are 40% more likely to encounter accidents involving third-party liability than electric cars in smaller size categories, according to AXA research. AXA compared crash risk of electric cars and traditional cars.





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#### A different class of leadership

Once a student at the head of his broker class, Joseph Carnevale will become president of IBAO in 2020



WHO: Joseph Carnevale

CURRENT ROLE: President, Insurance Brokers Association of Ontario; partner and managing director of sales, Brokers Trust Insurance Group Inc.

P&C EXPERIENCE: 14 years

PROFILE: Former chair of the Toronto District Catholic School board. Until recently served on the complaints committee of the Registered Insurance Brokers of Ontario (RIBO)

Joseph Carnevale takes over next month as president of the Insurance Brokers Association of Ontario (IBAO).

Carnevale works in Vaughan as a partner and managing director of sales with Brokers Trust Insurance Group Inc. As IBAO president, Carnevale will succeed Jeff Gatcke, who becomes chairman of IBAO next month.

Gatcke works out of Kingston as a broker with Earl Shaw Insurance Brokers Ltd.

Carnevale's previous roles with IBAO include director for Toronto and York Region. He has spent his entire 14-year career in the property and casualty insurance industry at Brokers Trust, receiving his Ontario broker's licence in 2005. That same year, he won the IBAO top student award. His areas of expertise include condominium corporations, commercial rentals, manufacturing, wholesale and construction trades.

From 2010 until this past October, Carnevale served on the complaints committee of the Registered Insurance Brokers of Ontario (RIBO). Before entering the insurance industry, Carnevale held a variety of different positions, including chair of the Toronto District Catholic School Board from 2001-03. He later served in several different capacities — including director of investigations — for the City of Toronto's municipal licensing and standards division.



Valérie Lavoie has become the president and chief operating officer of Desjardins General Insurance Group. Lavoie, who is also the executive vice

president of property and casualty insurance for Desjardins Group, joined Desiardins in 1994



Peter Corsano has ioined FirstOnSite Restoration as executive vice president of operations for eastern Canada. He was previously Aviva

Canada's assistant vice president of national auto, property claims services and vendor management



John Jones is the new president of the Canadian Independent Adjusters' Association (CIAA), succeeding Sarah Hirst. With 30 years of industry experience, lones is vice president of

business development and broker markets at the Mississauga, Ont.-based Sedgwick Canada Inc.

SUMMARY

CAT LOSSES

#### Blaze after the quake

INSTITUTE FOR CATASTROPHIC LOSS REDUCTION

A strong earthquake in the Montreal region could cause between \$10 billion and \$30 billion in economic losses from fire damage, according to a new study from the Institute for Catastrophic Loss Reduction (ICLR).



"Accounting for fire department response, water system damage, weather and other conditions, the growth and ultimate final burnt area of fires are estimated to result in median losses of between \$10 billion and \$30 billion," ICLR said in the report, Fire following earthquake in the Montreal region.

These are median estimates. There are smaller probabilities of greater or less damage. Numbers will vary based on the specific earthquake scenario, time of day, weather and other factors.

Since fire losses following an earthquake would be "virtually fully insured," they would have a very significant impact on the Canadian insurance industry, ICLR reported. Fire losses would come on top of shaking and other losses, which would be insured to a lesser extent.

According to the report, strong shaking in the Montreal area - home to about 10% of Canada's population - would lead to hundreds of ignitions. Breaks in the water supply and damage to fire stations would compromise the capacity of firefighters to suppress the fires. Extensive damage from strong shaking would be accompanied by significant destruction due to fire.

The study looked at possible impacts from three realistic earthquake scenarios: a Magnitude-6.5 event centred in downtown Montreal and two Magnitude-7 events, one to the northwest and the other to the southwest of the city.

Expected losses could be reduced significantly through investments in an auxiliary supply of water for firefighters, seismic retrofits to firehalls, and other loss prevention actions, ICLR says. "The risk need not be tolerated and can be significantly reduced."

#### M&A INSURANCE | NOV 11 M&A transaction insurance has grown in the Canadian market by an estimated 20% yearon-year compared with the broader Americas

region, Richard Angevine, senior public relations consultant with Liberty Mutual Insurance told Canadian Underwriter.



#### **COMMERCIAL TRUCKING | NOV 8** Commercial trucking underwriting rules are

killing some small family-owned businesses, Ontario's deputy opposition leader told Canadian Underwriter, adding that insurance for newly-trained and licensed tractor-trailer drivers is now almost unaffordable.





# **cu** | Is it possible that over the long term, Canada's P&C industry will be paying \$2 billion annually to insure catastrophe damage?

Yes, it's certainly possible. There has been an upward trend of Cat losses and the industry has been increasing its exposure to flood and water. Of course, we have the large events like the Fort McMurray wildfire and the Alberta floods that could be considered to skew the timeline; but in 2018, there was no \$1-billion event, and yet Cat losses were still greater than \$2-billion. We are comfortably crossing the \$1-billion mark every year, and have already done this in 2019. It wouldn't surprise us to see an average \$2 billion annually within the next few years.

# **cu** | You mentioned the industry increased its exposure to water damage when it started offering overland flood coverage in 2015. How does this play out in the Cat loss numbers?

Since 2015, the percentage of Cat losses related to water has increased. In some years, this has been nearly a quarter of the annual loss.

### **cu** | To what extent is climate change a factor in all this?

In addition to the industry becoming more exposed to flooding, we've seen a lot more water-related events come into the picture over the past few years. Cat season was always defined as the summer due to severe thunderstorms in the Prairies, with hail and strong wind gusts bearing through in Western Canada. But since 2017, Ontario and Quebec have dominated the Cat losses. This year, we had five catastrophes in the first quarter, and the decadal average is one. Four out of five of these first-quarter Cats were mainly water-related; Greater Toronto Area (GTA) bore the brunt of these events. Several intermittent warm-ups with rainfall in the cold season resulted in seepage, ice damming, sewer backups, ice jams and overland flooding. With Canada experiencing a significant rate of warming, particularly in the winter, an active first quarter could become the norm and not just impact the GTA.

### **cu** | Which part of the year is typically the worst for catastrophes?

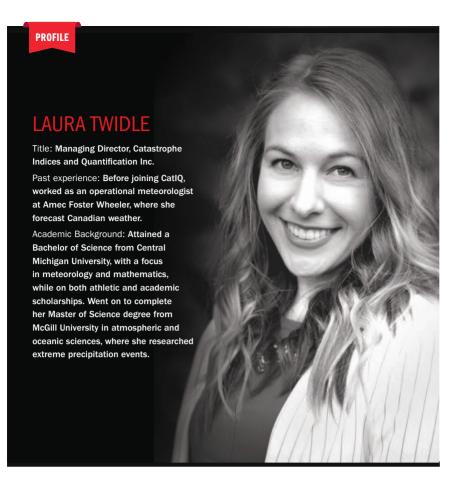
That's been changing. Historically, what we've called Cat season is the third quarter, since July is typically when we see the most Cats and the most loss, mainly a result of severe thunderstorms in the Prairies. In 2018, we had more Cats in the third quarter, but the second quarter was more impactful due to loss mainly because of the May windstorm in Ontario and Quebec. This year, the first quarter was unusual. It was more impactful than the third quarter; if we include the April flooding in eastern Canada, the losses were significantly higher. Because of the spring Cats in Ontario and Quebec, we are seeing a shift in the timing of the peak for losses and events. One concern would be that the third quarter returns to being the peak Cat season, while the first and second quarters continue to experience significant Cat loss.

### **cu** | What are the most common types of Cat claims?

Cat claims relating to physical damage are more common than non-physical claims such as business interruption and additional living expenses. Regarding specific types of damage reports, claims relating to sewer backups, seepage, and wind damage — downed trees, torn shingles and siding, for example — occur year-round.

# **cu** | Where in Canada are you most likely to see the most damaging Cat losses?

Insured catastrophes happen where people are, so it's heavily biased towards densely populated areas like the GTA. Atlantic Canada gets walloped with intense weather-systems frequently in the winter, and hurricanes in the fall, but from a Cat loss perspective, the area is less densely populated, and generally equipped to handle such storms. However, this is not always the case, as we saw from the damage caused by Hurricane Dorian this past September. In the interior of Canada, just off the foothills of Alberta, severe thunderstorms will always develop there. All you need is some atmospheric instability and easterly winds at the surface, and you have yourself a thunderstorm. If there is







enough upper-level support in the atmosphere and wind shear, the storm might become severe and sustained to reach the highway that runs between Calgary and Edmonton. A significant portion of Alberta's population lives along that corridor, and so that area will always be susceptible to severe thunderstorms that produce large hail, and damaging wind gusts and therefore Cat loss.

cu | Tell us a bit about the CatIQ Connect conference coming up in Toronto on Feb. 3-5, 2020. I understand you are taking a bit of a different approach to this conference. How so? CatIQ Connect is the annual Canadian Cat conference that brings together experts from the industry, all levels of government and academia to discuss best practices and innovative solutions to mitigating loss to Cats. The theme next February will be a solutions-based approach to Cats. We have already talked a great deal about the challenges that come from Cats. What we really want to do at CatIO Connect2020 is to say: 'We all know this problem exists, and here is a potential solution,' or 'Here is the next step to mitigating catastrophic loss.'

Our steering committee has put together a great agenda featuring outstanding speakers. The 2020 keynotes include Roy Wright, president and CEO from the Insurance Institute for Business & Home Safety. We'll have a fireside chat with Maryam Golnaraghi, director of climate change and emerging environmental topics of the Geneva Association. And we'll hear from Kathy Bardswick, president and CEO of the Canadian Institute for Climate Choices.

On the first day, we will host a workshop in partnership with the Canadian Red Cross. The next two days include jam-packed information sessions around many topics flooding, earthquake, wildfire, mental health in disasters, from the on the ground perspective, financial solutions to climate change, resiliency, communication, and risk assessments, cu



# **2020 Symposiums**

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Toronto (GTA Symposium)	. Thursday, April 16, 2020
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Halifax (Symposium Atlantic)	
Cambridge (Symposium West)	. August 2020, TBD

To find out more about the CIP Society, please visit: <a href="https://www.insuranceinstitute.ca/cipsociety">www.insuranceinstitute.ca/cipsociety</a>

What are your priorities for change in the upcoming year? We asked 10 industry executives to name their Number 1 issue facing Canada's property and casualty insurance industry next year — and what the industry can do about it. We present their comments as a guide to help you plan for your business success in the future.

By David Gambrill, Editor-in-Chief





#### **Nick Creatura**

President, CEO **CNA** Canada

Within commercial insurance, 2020 is expected to herald a continuation of the current transitional market as industry participants seek out a new equilibrium. Shifts in carrier appetites, more intentional deployment of capacity, and increased differentiation in rates and terms will continue, spurred by a tightening retrocessional reinsurance market and continued sub-target returns for many insurers and reinsurers.

This dynamic is playing out over the backdrop of an increasingly interconnected world wherein few organizations are insulated from events and developments in other parts of the world, be they political, economic or technological in nature.

Tangible and intangible risks continue to proliferate, and the inter-connectivity of risks is creating a daunting new risk landscape. For example, an increase in technology dependency is linked to cyberattacks, data fraud, and critical infrastructure breakdown.

Heightened cyber and technological threats have been identified as a major potential blind spot. It likely that we have not yet fully comprehended the vulnerability of networked societies.

If we are to navigate the new tangled web of interconnected risks (both tangible and intangible), insurers, brokers and risk managers will need to work more closely together to build appropriate resilience into assets, processes, and systems.

Insurance business models must evolve from protecting against downside financial risk to proactively adding value through risk prevention and loss mitigation services. A great example is cyber insurance, where pre- and post-breach services have become an essential part of the insurance offering.

A healthy tripartite relationship between insurance broker, carrier and client is essential to leverage the carrier's insurance knowledge and expertise, the broker's advice and advocacy, and the client's organizational knowledge and stewardship. This requires more dialogue and greater collaboration among all parties.

This very same dialogue and collaboration are essential to navigate this transitional market effectively. Timely, relevant and high-quality information - delivered with transparency - will benefit all players as we work towards finding the new market equilibrium.

#### Louis Gagnon

President, Canadian Operations Intact Financial Corporation

I see two very important issues for insurance in **2020** — climate change and our ability to adapt; and cyber risk and the increasing need for protection. These challenges create an environment in which brokers and insurers can help customers become more resilient in the face of constant change.

Data is a common theme in both scenarios. With the increasing sophistication of technology, the explosion of data, and as people spend more time online, privacy breaches and cyber events will become more commonplace. As cyber risks increase, so will the demand for protection. This presents us with unique opportunities to do things differently, including designing products to protect the identities and reputations of people and businesses.

While we are protecting the data of individuals and businesses, we are also using data to better predict climate and extreme weather events. We are tapping the experience and expertise of our people to help customers and communities, and we are using data to analyze and forecast risks better. When severe weather events happen, we respond quickly, with the right supply chain partners to support restoration. We help to re-build the right way, in the right places, to get customers back on track. Building climate resiliency is a collective effort. Brokers, the industry, government and non-government partners must work together to build adaptation and resilience measures. Our investment in the Intact Centre for Climate Adaptation at the University of Waterloo helps homeowners, communities, governments and businesses reduce the impact of climate change.

Our meteorologists, behavioural scientists and data scientists at the Intact Lab continue to use data, artificial intelligence and machine learning to push boundaries, solve complex real-life problems, and deliver cutting-edge products that make a real difference to people.

Together, we'll help people, businesses and society prosper in good times and be resilient in bad times.





#### **Richard Grant**

Chief Operating Officer
Trisura Guarantee Insurance Company

Although the insurance industry is constantly evolving, one issue seems to remain on the back burner that I feel ought to be in the forefront — the risk of a mega-catastrophe. Canada is the only G7 nation whose insurance industry does not have financial backing from a federal government. Without a clear strategy in place, the industry could fall victim to a dire economic state, with smaller property and casualty insurers getting hit the hardest.

The impact of a mega-catastrophe on the industry has been an underlying concern for years. However, as is often the case, until there is a need for a response (until a disaster occurs), we likely won't see any action. In the event of a mega-catastrophe in Canada such as a major earthquake, a best-case scenario would be months of business disruption while everyone searches for alternative insurance options. Not only will there be a significant increase in property claims, but we would anticipate seeing an increase in surety and directors' and officers' (D&O) liability losses as a direct result of a catastrophe affecting the general economy. The Conference Board of Canada previously reported that, in the long term, we could potentially see cumula-

tive losses in Gross Domestic Product reaching almost \$100 billion. Alone, the insurance industry is not capable of covering all the losses that a catastrophic quake might incur, which could lead to the financial collapse of some insurers. The industry-funded Property and Casualty Insurance Compensation Corporation (PACICC) would step in to respond to claims by policyholders of these failed entities. This alone could cause larger insurance companies to fail as well, as PACICC places levies on them to pay for the claims. Eventually, this could lead to financial collapse throughout the entire industry. We will see a disruption in businesses, which inevitably will result in the failure of companies in many industries. For example, in the early 2000s, when a major insurer in Australia collapsed, medical services across the country were negatively impacted.

It's crucial we have a plan in place before it gets to that point. This will require a collaborative effort. Working with the Insurance Bureau of Canada, industry stakeholders should take the first steps toward action and open a conversation with the Office of the Superintendent of Financial Institutions and the federal government.

#### **Carol Jardine**

**President, Canadian P&C Operations**The Wawanesa Mutual Insurance Company

One of the most important issues facing the industry is the Canadian consumer's pocketbook. Canadian families have never been more in debt and GDP and wage growth aren't helping. Many families live one paycheque to the next.

These dynamics are linked to the challenges facing our industry.

Within the P&C industry, underwriting capacity globally has shrunk. Claims costs are increasing because of climate change, the sophisticated technology in today's cars, and injury recovery costs continue to climb. All of this is driving up loss costs and premiums. It's a recipe for consumer price shock, raising the risk of backlash from consumers, especially policyholders who are claims-free.

At Wawanesa, we start from the principle that as a mutual insurer we have an obligation to help families manage the increased costs of insurance within their household budgets.

Central to this work is partnering with insurance

brokers to equip them with the tools and options they need to assist consumers and businesses make the right risk management choices, selecting the right insurance options for their unique circumstances.

This involves investing in technology and systems to make the transactional side of our business easier to navigate. The goal is fast, reliable communications between brokers and customers, with options to control their risk acceptance and the price of their insurance. Let's say a customer asks a broker, "If I increase my deductible, how much will I save?" An instant, accurate answer from Wawanesa will help Canadians make better choices in an environment of rising premiums. That's what brokers need and what we are delivering with our new technology.

At the same time, we can't expect brokers to carry the weight of justifying higher premiums to consumers. As an industry, we need to do more to improve consumer literacy about rising costs and the essential service we provide to Canadians.





#### Valérie Lavoie

President, Chief Operating Officer Desjardins General Insurance Group

Rising home and auto insurance premiums will be the big issue for the industry again in 2020, driven by the growing frequency and severity of extreme weather events and the impact of distracted driving, fraud, and escalating repair costs.

Higher rates and regulatory pricing approval reforms may provide a much-needed boost to industry profitability, but they won't assuage disgruntled policyholders who have seen their insurance premiums account for a bigger chunk of their household budgets.

Some will choose to shop around. Some will increase deductibles, drop coverages or take other steps to lower premiums. Overall, the customer's trust in their insurance provider will likely erode.

In an industry in which long-term customer loyalty is so important, this this could prove costly. But what can we do?

As a start, companies need to reach out to customers facing big increases to explain why they are necessary and to suggest appropriate discount options.

This will be much easier for companies that are focused on customer experience and already have strong relationships with their clients. They're in a much better position to weather — and even prosper throughout — industry hard cycles and other challenges. Their clients are more loyal and also much more likely to recommend them to family members or friends.

Transforming the customer experience isn't a quick fix. Developing a customer-centric culture takes years of hard work and commitment. It requires a deep understanding of customer needs and wants, extensive employee training, and big investments to simplify processes and to digitize operations and transactions. The goal is to provide fast, reliable and hassle-free services, whether through an agent, a contact centre, website, mobile app, or a combination of these things.

It's clear the P&C insurance industry has a long way to go to be a leader in customer experience. The rise in insurance premiums is a good reason for companies to begin the journey.

#### **Rowan Saunders**

President, CEO **Economical Insurance** 

Insurers across Canada are exploring new ways to embrace digital and improve customer experience in the middle of a hard market. This necessary transformation is the most important issue we face. Within the context of an accelerated pace of change, Economical is focused on building an industry-leading and highly adaptable business through talent, technology, and innovation in the way we work. We are rethinking insurance.

Moving into 2020, Economical continues to transform its business to compete effectively with strong digital capabilities, sophisticated pricing models, modern tools, insightful metrics, as well as deep expertise and new skills to meet customer expectations.

During the last couple of years, we've transformed our personal and commercial lines operations while delivering exceptional customer and broker experiences. In 2020, we're committed to transforming our claims operations to extend business efficiency

improvements and best-in-class practices, benefiting our customers.

Many challenges face our industry, such as increasing weather events, persistent lower investment returns and significant auto cost inflation, placing additional pressures on insurers and brokers. This challenging climate is expected to continue, so we must work as an industry to find a balance between profitability and serving our customers. Our ongoing advancements to improve service levels to both brokers and customers will keep us ahead of the curve in a hard market.

Our customers are relying on us to deliver relevant coverage and a reliable experience. At the same time, our broker partners count on us to provide strong relationships, deep expertise, and efficient workflows. As Economical leans firmly into our future as a public company, our business remains determined to provide an increasingly seamless experience for customers and brokers.





#### Jason Storah

President, CEO Aviva Canada

I find it quite interesting, intriguing and frustrating that auto insurance is so complex in this country. Why is an auto accident treated differently in Quebec, Ontario, B.C., or Alberta? It doesn't make sense, because an accident is an accident regardless of which province in which you had it. If we as an industry were able to tackle that issue and remove some of that complexity - it could have a huge impact.

At Aviva, we are absolutely committed to simplifying Canada's auto insurance regime. We are working towards that goal on a number of fronts. I don't think the federal government has the appetite to tackle it, and I would argue that the federal government is not the right place to tackle it. It would be nice to see provincial regulators and governments coming together with industry stakeholders to help answer the question: 'Why are we allowing that complexity to continue and be exacerbated in some areas?'

How on earth would we even begin to tackle this issue?

I think that to achieve a more harmonized approach to auto insurance across the country, we must first have an honest conversation backed by data, not by anecdotes and self-interest. This could be done on a province-by-province basis. I envision an honest conversation with all stakeholders and parties represented, including insurance companies, brokers, consumer advocacy groups, health care providers, lawyers, etc., etc. The conversation would explore what works for consumers, and what works for the industry. What are the differences? Where are there overlaps? Where are there gaps? The point would be to get everyone in a room and develop a balanced scorecard. We should be taking our cues from other industries and looking at the insurance sector through an objective set of data searching for outcomes that benefit our millions of customers. They deserve stability and they deserve simplicity.

John Taylor

President, CEO Ontario Mutual Insurance Association (OMIA)

This year, we have not only a new year to think about, but a brand-new decade. The start of the last decade was a much different place: the financial world was taking its first tentative steps towards recovery, and many of today's market disrupters did not yet exist.

I think 2020 could be a very active and disruptive year for automobile insurers, with the potential convergence of three trends — auto regulation, model governance, and affordable repair costs. All of these trends will require action by the P&C industry as well as other stakeholders, including consumers and government. Although my perspective is Ontario-centric, these trends also have a national profile.

In Ontario, our provincial government has shown an appetite to move quickly on almost any proposed legislative change. They frame these changes around making life more affordable for taxpayers/ consumers and business more viable by reducing red tape. The automobile insurance marketplace may be ripe for this type of change, and 2020 may be the year when a fundamentally different auto insurance product is deemed "open for business."

From an insurer and distribution standpoint, we

may have to move quickly if the product is opened up to allow more options, fewer process-based restrictions, and an expanded online or digital marketplace for auto insurance.

A second trend, signaled by regulators, is insurer responsibility for "model governance." With analytical "black box" rating and selection models now a standard practice, there is increasing concern about the possibility of pricing decisions that lack transparency and that cannot be explained to consumers. Regulators have seen a groundswell of pushback against the random collection and use of consumer data by high-tech companies, and I think they are prepared to be the "conscience of consumers," by calling on insurers to make insurance pricing understandable.

Finally, 2020 may be the year to push for greater affordability regarding auto physical damage repair. With embedded technology at its core, the cost of repair has spiked. Ultimately this is passed onto consumers. A clear path must be identified to ensure the collision repair industry remains competitive and that proprietary manufacturer technology does not create repair monopolies.





#### Martin Thompson

President, CEO RSA Canada

Disciplined underwriting is the anchor that the P&C industry needs right now.

The insurance industry is currently experiencing some pain. Investment returns have been following a general downtrend over the last two decades, from a high of 10.4% in 1997, down to 7.3% in 1999 and a dismal 2% in 2018.

As a major stakeholder and investor in the national economy, return on investment is closely correlated with the yields on Government of Canada bonds, which have fallen for the last two decades. Nearly 69% of the P&C industry's invested assets are placed in bonds. Global economic volatility, including political uncertainty and trade disputes, has also had a long-lasting impact on the Canadian economy.

Our industry in Canada is a slow-growth one. Compound this with low interest rates, an elongated soft pricing cycle, increasing claims inflation and negative trends on large losses, and we face an unprecedented number of headwinds. This has been compounded since 2016 with significant losses stemming from changing weather patterns.

These factors are straining returns and ultimately driving the need for insurers to focus on profit over growth. A large part of the focus has been cost efficiencies. As an industry, however, we have not evidenced a strong track record of action on

underwriting performance to stem the trend of falling investment returns. Under current conditions, which we have to regard as the "new normal," a clear focus on insurance fundamentals to deliver returns is essential. Underwriting profits will have to become stronger to offset ongoing decline in investments.

Given the pressures we have been facing across many areas of P&C, the need for clear underwriting strategy, and the discipline required to manage policies and products that are unprofitable, are minimum requirements. We are aided by the advances in data and analytics, but the challenge is getting those integrated into decision-making.

The big adjustments we are seeing in the market makes life harder for our broker partners who have the challenging task of explaining this to their customer base. The role of a broker is now more important than ever. Brokers who work closely with their markets to understand the performance of customers in their portfolio will be well-informed about what lies ahead. Understanding performance and risk quality now can enable them to work with customers to understand how they can effectively manage their risk and insurance program.

"Lower for longer" is a challenge for all stakeholders in the insurance market; stronger underwriting focus will be a key determinant in successfully navigating this.

#### Silvy Wright

President, CEO Northbridge Financial Corporation

The industry's top priority should be helping our customers effectively navigate volatile market conditions. The challenges being faced in both commercial and personal lines are considerable, from rising auto repair costs, required auto insurance reforms across the country, deteriorating property results, to the growing number of severe weather events. These and other factors have prompted insurers to take action on underwriting, rating, appetite, and capacity this year. With the accelerating pace of change and new challenges coming to the forefront, we need to take more proactive steps to address these issues to continue providing stable, reliable, and affordable insurance

solutions for Canadian consumers and businesses.

As these challenges become more and more prevalent, it's our shared responsibility to ensure that consumers are well-informed of these trends. As an industry, we must continue to work with governments and regulators across the country to improve the auto product and ecosystem surrounding it, including the reduction of auto insurance fraud, which is driving unnecessary costs for consumers. Together, we also need to engage governments on climate change initiatives to ensure that adequate investment is made in disaster mitigation infrastructure to help lower community risk.





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BROKER OUTLOOK 2020

# The same out different

Hard market conditions will likely stay the same in 2020, but brokers will not. Here's how you can expect brokers to change over the next year...

By Adam Malik, Managing Editor



fter the calendar flips to a new year, Canadian brokers agree that the current hard market conditions are not likely going to look much different in 2020. But for brokers, the old adage is reversed: the more things stay the same, the more brokers will need to change.

It's no secret that the past 12 months have been rocky when it comes to market conditions – customers are seeing rate increases, and it's harder to place their insurance in certain classes of business. Many industry analysts have predicted no change for 2020. So, with higher premiums not being much of a selling point, brokers will have to think of some new, creative ways to corner their share of the market.

"The onus is on the broker to enhance their relationship with clients," says Kevin Neiles, Winnipeg-based president of Western Canada and chief marketing officer with Gallagher Canada. Some brokers may have fallen into the habit of delivering bad news, like rate increases, only at the last-minute, when renewals are looming. That doesn't help with promises to be transparent with clients.

"We want to tell clients bad news as quickly as possible, making sure they understand the market by being as transparent as possible," he explains.

Brokers have an opportunity to increase their presence in the public consciousness. "We work in an industry that is vital to the survival of our economy and people don't understand what we do — it's an interesting conundrum," says Monica Woldring, vice president of commercial insurance for InsureLine Brokers in Port Coquitlam, B.C. "They don't want to know [about insurance] unless there's something that's hitting them. They don't want to hear about it."

That said, brokers can think of many reasons why consumers would want to lean on brokers more heavily for advice in the future. Among them, Millennials — those who are between 22 and 38 years old this year — may become entrepreneurs in niche business markets. Brokers specializing in these areas can provide them with more tailored insurance advice. Canadian businesses face new and emerging risks such as cyber security events and data privacy, for which brokers can offer specific advice. And of course, many consumers these



days want insurance coverage in classes of business for which capacity has dried up; they can benefit from a broker's knowledge about how to navigate through a hard market.

When clients come to brokers for advice, they don't know much about insurance, so don't speak to them using industry jargon, Woldring recommends to brokers. "I have a problem with insurance people speaking insurance to customers instead of English," she said. "I don't talk about commercial general liability. I say, 'If you do something wrong and you're sued, that's what liability insurance is all about.' I don't use the terminology the same way."

During hard markets, brokers must find a way to satisfy their clients, notes Jody Lohr, Calgary-based vice president of operations at Lundgren & Young Insurance. To do that, they work on strengthening a broad spectrum of relationships. "We work with the markets, with the [broker] association, with our government, and advocate for consumers," she says. "It's going to be [about building] a lot of relationships where we all need to work together."

As the new year dawns, there will be a greater need for a more sophisticated broker, says Shawn DeSantis, president and CEO of Navacord in Toronto. "The trend is more sophistication from a broker perspective: more sophistication in Cat mapping, more sophistication in insurance programs, and more work on claims management and claims mitigation," he says. "It's just not about paying claims anymore. They're expecting the broker to use data and analytics to bring to them claims mitigation tools and ideas — to the point where they are actually avoiding the claims and not getting that disruption in the business."

#### **Specialization**

Standing out from the competition extends beyond just providing great customer service, says HUB International's chief sales officer Carol Mills in Burnaby, B.C. "Brokers will be challenged to think outside the box, and to be strategic about how they help their clients manage risk."

Risks are proliferating, as Mills observes. And so the need is shrinking for a broker to be all things to all people. "There is definitely a place for the generalist broker," she says, "but that generalist needs to know when to act as a general contractor and bring in specialists."

Nearly everyone with whom Canadian Underwriter spoke brought up cyber as an example of specialization. This high-profile risk continues to plague Canadian businesses. It's a complex topic with different levels of coverage.

Brokers must be able to speak to clients intelligibly about the topic. To do so, they will need to translate the techspeak of IT departments. "Standard run-of-the-mill property and casualty brokers are maybe not as comfortable doing that," DeSantis says.

A specialist in cyber can stay up-todate on new market trends and coverages better than anyone, Mills says. "People must have deep knowledge on subjects to handle the changes that are happening in our client's business," she says.

#### Data

If you ask Jeff Roy what will shift the broker channel the most in 2020, it's data. "I would suggest 2020 is the Year of Data," says Roy, president and CEO of Excalibur Insurance in Ontario. "Brokers will awaken and realize how important their data is. How do we use our data better? We can use structured data, but we don't have the ability to use AI [artificial intelligence or] machine learning to the extent we need to. There needs to be an evolution in how we share data as an industry, how we make data and how we use unstructured data."

Structured data, according to Webopedia, "refers to any data that resides in a fixed field within a record or file. This includes data contained in relational databases and spreadsheets." Examples include names, addresses, telephone numbers, insurance policy numbers, licence plate numbers, etc.

Unstructured data, on the other hand, is collected through telephone calls, text messages, emails and social media. That's where a lot of key information for brokers exists, such as if a client is unhappy and ready to leave a brokerage.

Data provide real-time insights into the consumer that might help change a broker's business. If, for example, signs in the data suggest that a client is ready to defect from the brokerage, "how we can take the next best action to retain that client?" says Roy. Similarly, if data suggest that a consumer wants to buy something, brokers will be able to reach out to that consumer to close the deal.

Data also help brokers do their jobs more efficiently, adds Neiles. Insurers are already using data to streamline the insurance-buying process. "They've been investing a ton of money over the last number of years and moving off of legacy systems on to newer, more effective, more efficient systems," Neiles says.

If brokers do not similarly upgrade their own systems to tap into their insurance companies' newer technologies, he predicts, brokers will soon fall behind. Overcoming inefficiency is a key driver of brokerage consolidation, industry analysts observe. cu

# underwriter and the second sec

### ON THE SCENE

# **Insurance Brokers Association** of Ontario (IBAO) Convention

Oct. 23-24

Toronto, Ontario

Brokers from across the province gathered for the two-day Insurance Brokers Association of Ontario (IBAO) Convention. After the members' meeting on Day 1, attendees heard from author and former Dragon's Den personality David Chilton. A series of BIP Talks followed, tackling the topics of climate change, federal election results, millennial marketing, the talent pipeline and regulation. Then everyone donned their evening best for the Awards of Excellence Dinner. The next day, CEOs from leading carriers offered their thoughts on the issues of the day before the hospitality at night wrapped things up.















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# Keynote: MAKING SENSE OF COMPLEXITY



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# handbook

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**INSURTECH PARTNERS** 

# Do you know where your data is going?

So, you want to work with insurtechs. A guide to how your contracts should handle the sharing of private consumer information between you....

BY ROISINE HUTCHINSON, Senior Associate, Walker Sorensen LLP

oday, the term "insurtech" is widely used to refer to the use of technology and digital innovation to create value and efficiencies in the sale and delivery of insurance and reinsurance. One of the key benefits of insurtech is the ability to efficiently process customer information and use that information to improve product offerings and the user experience.

Property and casualty insurance companies have increasingly come to view insurtechs as valuable partners in the distribution of insurance products. If you are thinking of entering into a contractual arrangement with an insurtech, here are three key issues to consider that relate to the use and exchange of data:

- Artificial intelligence (AI) and consumer data
- · Privacy issues
- Limitation of liability

# Al and defining "customer data"

From a business perspective, insurtech and the rapid adoption of AI and machine learning represent a new frontier of opportunity for the insurance industry. However, collaboration with insurtech companies and the increasing use of AI in nearly all aspects of the insurance business may raise new and complex legal issues for insurers, reinsurers, and agents.

Pay attention to how "customer data" is defined in any agreement in which personal information is being provided to develop or train an AI algorithm. No third party can "own" an individual's personal information, but a third party can have the contractual right to use it. On the other hand, an end product such as a predictive algorithm can be owned, and is therefore subject to intellectual property rights and obligations.

When negotiating ownership and use rights, the parties should consider whether the objective is to own the information used by the algorithm or the algorithm itself, and to ensure defined terms and ownership are clear. One approach in this situation may be to define different types of data based on the various

#### HANDBOOK

stages of the product cycle - for example, pre-existing information, information resulting from processing, and the final data product.

#### **PRIVACY ISSUES**

#### Consent and collection

The law governing the collection, use and disclosure of personal information in Canada is the Personal Information Protection and Electronic Documents Act (PIPEDA). Certain provinces, such as Alberta, British Columbia and Québec, have substantially similar provincial privacy legislation that applies instead of PIPEDA.

PIPEDA requires organizations to obtain the meaningful consent of the individual for the collection, use and disclosure of personal information. That information cannot be used or disclosed for purposes other than those for which it was collected, except with the consent of the individual. When the information being collected and used is considered to be sensitive, organizations must generally obtain express consent.

In its Guidelines for Obtaining Meaningful Consent, the Office of the Privacy Commissioner of Canada noted that the level of sensitivity of personal information can change depending on what it can reveal when combined with other personal information about the individual. The Supreme Court of Canada has confirmed that financial information, in particular, "is generally extremely sensitive," as it is "one of the types of private information that falls at the heart of a person's "biographical core."

## Use of the data

If the parties intend to use personal information to develop tools such as an-

ti-fraud predictive algorithms, then the consents must be examined carefully to confirm that this is permitted. PIPEDA is clear that an organization cannot use or share personal information unless it has disclosed those purposes to the individual when it collected their original consent. If the consent does not expressly disclose the development of anti-fraud predictive algorithms as a purpose for the collection, then fresh consent may be required. There is an exception: it may not be necessary to obtain fresh consent if it is reasonable in the circumstances for the individual to expect that their information would be used for developing anti-fraud predictive algorithms.

# **Data security**

PIPEDA also requires that organizations protect personal information using appropriate security safeguards. Recent amendments to PIPEDA require organizations to report any breach of security safeguards involving personal information if it is reasonable in the circumstances to believe the breach creates a real risk of significant harm to the individual. If you are the party providing customer data to the other, then ensure the written agreement requires the other party to have appropriate data security safeguards in place and to provide notice if there is a breach of those safeguards.

# Limitation of liability

Insurtech agreements are often collaborative endeavours that can benefit both parties, but consideration should be given to which party should be liable in the event of a breach of the agreement, and whether there will be any limit to their liability. Limiting liability to a multiple of fees paid may be appropriate in certain circumstances. However, it may also be important to draft exceptions to the limitation of liability related to breaches of privacy, data security, and confidentiality obligations that give rise to consequential damages beyond a multiple of fees. cu

Roisin Hutchinson is a senior associate at Walker Sorensen LLP, a business boutique law firm that focuses on advising insurers, reinsurers and agents.

# BY THE NUMBERS

# INDUSTRY PROFIT AT A GLANCE

Intact executives recently told investors that industry return on equity (ROE) levels would have to climb to about 10% before conditions would no longer be in place for a hard market. The last time that happened was in 2015. Here's a 20-year retrospective on P&C industry's profitability:





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**INSURANCE FRAUD** 

# **Deception Detection**

Technology should enhance your anti-fraud strategy, not replace it. Here's why...

BY DAN MCKENZIE, Principal Solution Architect, Financial Crimes, SAS

utting-edge developments in analytics, machine learning and artificial intelligence promise powerfully enhanced anti-fraud capabilities for insurers. Software can recognize and even learn patterns that detect and prevent fraud, while speeding customer service and reducing false positives.

"Enhance" is the key word. The most sophisticated software tools are worthless if they aren't built on a solid foundation of business processes. Steps 5 and 6 of an anti-fraud strategy aren't helpful if Steps 1 and 2 are neglected.

Fundamentally-sound business practices deliver results on their own. But when they are the core of a platform designed to feed those high-tech, analytical tools, the results can only improve.

# **Rules about rules**

The simplest tools are the most powerful. Years of underwriting and investigative experience teaches the patterns of customer and provider behaviour that should be red flags. For example, do personal injury and auto property damage correspond? Can four people suffer soft-tissue damage from a minor fender-bender? Was the accident reported to police? How recently was the policy taken out? What's the value of the car? People stage accidents with 1990-era Toyota Tercels, not brand-new Maseratis.

Similar rules aimed at third-party service providers can ferret out even more fraud. A customer can defraud a company out of a few hundred or thousands of dollars, but providers can cost compa-

nies millions. The "Impossible Day" is a standard: you can't provide 27 hours of service if you're open nine to five. Do all of a provider's invoices bump up against the limit for reimbursement? Do the costs of services line up with the industry average? Is a supplier submitting a large number of invoices for customers who work for the same company?

This doesn't require a huge software solution. A SQL database is enough for a basic set of rules. A dozen rules is a good starting point. Too many rules return too many false positives.

Keen-eyed adjusters will catch these red flags, but there is a limit to how much a human being can review. Applying an automated rule set allows an insurer to vet *all* claims.

The simplest tools are the most powerful. Years of underwriting and investigative experience teaches the patterns of customer and provider behaviour that should be red flags.

Here are a few rules about the rules:

- They must be simple.
- They must provide output that is easy to understand, and upon which it is easy to act.
- They are not static. They must be adapted or retired as circumstances change.
- · They don't all carry the same weight.

## Accentuate the negative

Negative lists are another fundamental tool. They spell out banned businesses with which the organization will not work, and/or business partners that will be subject to a greater degree of scrutiny.

Organizations take pride in the comprehensiveness of their negative lists and maintain them zealously. They are a pillar of banking, money-laundering and insurance fraud strategies. Negative list data must be used when onboarding a customer, provider or employee, and whenever sending money out of the organization.

Like rules, negative list data are dynamic. Blacklisted suppliers shut down operations and start new ones with new identity information. Fortunately, it's very difficult and expensive to create a new identity that will survive scrutiny, so the majority of fraudsters recycle identity information. They shorten or change names, blend fields — addresses, phone numbers — from a variety of identities.

Output from different lists must be treated differently. Phone numbers are retired and returned to the carrier pool relatively quickly, so they stay "bad" for

only a few months. Address changes take more time, so they stay bad longer. Driver's licence numbers are gold: like social insurance numbers, they are nearly impossible to change, and stay bad for good.

#### **Building on the basics**

Based on the fundamentals, insurers can use new technologies to enhance their anti-fraud strategies. Rules provide a toe-in-the-water opportunity for predictive analytics (PA). PA can help determine the weighting of various rules and model behaviour, focusing an investigator's time on the most likely fraud candidates.

There are quick wins when applying artificial intelligence (AI) and machine learning (ML). AI can hone the weighting and thresholds of rules. Because AI and ML are self-teaching, they can detect previously unknown patterns of behaviour that correspond to fraud. They are also useful for anomaly detection. Rules alone are difficult to apply to providers because of the variety of industries involved. ML can build rules based on industry norms and practices.

Social network analysis can reveal connections among suspect identities. Don't confuse it with social media or consumer-oriented social platforms, though they can be included. For example, a financial services provider can use list data across lines of business, including insurance, and discover thousands of undetected fraud risks. Social network analysis displays the links among various identities as a web, with suspect connections highlighted. If a particular identity's web is three-quarters red, there's a strong possibility of fraud.

These technologies are not Step 1 or 2. Don't underestimate the power of doing the fundamentals right. Start with a roomful of your best talent - underwriters, adjusters, investigators, and IT staff - and a whiteboard. Choose your rules carefully, be rigorous with negative lists, and build out automation from there. cu

Dan McKenzie of SAS has more than 15 years of experience in anti-money laundering and detecting insurance fraud. He has more than 25 years of experience in financial services.

# Latest acquisition news & activity



# Applied Systems \$ Policy Works

Applied Systems Inc., a broker management systems provider, recently acquired Policy Works Inc., a Calgary-based insurance software vendor.

Policy Works was co-founded in 1991 by Don Campbell and his son Kevin. Their vision included giving brokers a single tool to manage all of their commercial lines business. At the time of writing. Kevin Campbell was the CEO of Policy Works.

Based in Illinois, Applied Systems has a Canadian office west of Toronto in Mississauga.

Policy Works says its products allow brokers and Lloyd's coverholders to create legally binding commercial lines policies.

# Hub International \$ Regency, ProCorp and PDF Financial

Hub International Ltd. has acquired three Canadian firms: Regency Advisory Corporation, ProCorp Financial Inc., and PDF Financial Group.

Regency Advisory is an employee benefits consulting firm based in Saskatoon. Ottawa-based ProCorp Financial Inc. provides estate planning, group benefits, life insurance, critical illness insurance and disability insurance, among others. Toronto-based PDF Financial Group offers consulting and outsourcing services for employee benefit programs, human resources and related financial advice.

Joining Hub Ontario are ProCorp president Hugh Doyle and Peter Demangos, founder and president of PDF. Out west, Regency's CEO Darwin Forbes and vice president lan DeCorby will join Hub Manitoba.

# Intact \$ **Jamber**, Routh Chovaz

Jamber Insurance Services and Routh Chovaz Insurance Brokers have joined Intact Financial Corp.'s BrokerLink unit.

Founded in 1999, Calgary-based Jamber places auto, personal property and commercial coverages, including commercial general liability, commercial property, business interruption, crime, boiler and machinery and professional errors and omissions. Jamber also offers group home and auto programs to employers, association members and unions.

Routh Chovaz Insurance Brokers is run by Erin Routh and Erica Chovaz. Based in Mississauga, Ont., Routh Chovaz places personal auto and property as well as group health benefits, travel and life and disability insurance.

# Canadian Underwriter

# ON THE SCENE

# Trisura's Annual Charity Softball Tournament

Sept. 18, 2019 Brampton, Ontario

Trisura held its eighth annual charity softball tournament in Brampton, Ont. Seventeen brokerages took part, raising just under \$24,000 for Project Trauma Support. The Canadian program helps military personnel and veterans, as well as first responders, with post-traumatic stress and operational injuries. Teams participating in the tournament had to make a minimum donation to the charity. Masters Insurance Ltd. won the day. Purves Redmond Limited finished second and Trisura placed third.















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HIGHLIGHTS

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STREAMLINING CLAIMS

# **Chain of command**

TD Insurance now owns several auto repair centres, yet another example of an insurer buying into the supply chain

BY EMILY ATKINS, Freelance Writer

hen Intact bought On Side Restoration in October, the company described its strategy as "buying into the supply chain." The company's intention is to streamline the claims-handling process for the consumer.

Intact's move generated a lot of buzz at the time, but industry observers point out that it's not the only time an insurer has experimented with buying into the supply chain. In fact, recent changes to TD Insurance Auto Centres could be the harbinger of a new evolution in Canada's automotive claims process.

## **Buying repair shops**

TD Insurance first launched a program

of co-operative agreements with a fleet of independent automotive repair shops in 2015, starting in Calgary. At the time, TD said its customers would be "able to complete all the steps of an auto collision repair process — file a claim, drop off their vehicle, get their vehicle appraised and repaired, and, if needed, rent a car - all at one location." The company provided an additional clue about how the centres would work with claimants, saying: "In addition, [customers] will only need to deal with one contact throughout the claims process - the TD Insurance adjuster onsite assigned to the claim."

It seems that TD has taken this experiment further and purchased some of

those repair centres outright. Throughout 2019, a number of the body shops were relaunched under TD livery. While the insurer couldn't supply a spokesperson to comment, we were able to speak to previous owners of those shops who confirmed that TD purchased the stores, which now cater exclusively to TD customers.

#### **Customer service**

On the face of it, the move to a more convenient, one-stop solution for customers makes sense.

"We are proud to be leading the market in offering this new, complete onestop shop concept for auto collision repairs in Canada," Craig Richardson,

"The main problem repairers have with the claims process is the growing burden of administration involved. A shop might deal with eight or 10 insurers. Each one has an administrative guide that is many hundreds — if not thousands — of pages in length, and each one is different."

vice president at TD Insurance, said when explaining the concept in 2015. "Not only does this initiative allow us to deliver critical repairs in a timely manner, TD Insurance employees will also be able to serve customers directly onsite, ensuring that we meet all our customers' needs, providing them with a more comfortable, convenient and caring experience."

It could be argued that repair shop acquisitions are as much about preventing collision centre fraud as they are about providing convenience to clients. A 2018 report from Aviva Canada said the insurer uncovered evidence of "widespread"

fraud inside automotive repair centres. Falsified towing charges, in addition to inflated damages and repair costs, were just some of the issues cited by Aviva, which noted that it had been charged more than twice the actual repair costs in 10 test cases.

By controlling the repairs part of the claims process, TD can prevent exaggerated costs and ensure strict adherence to their repair policies.

There are risks associated with owning part of the supply chain. For example, will customers feel that there is a competitive pricing process? Also, what recourse do claimants have if they disagree with the assessment of an insurer-owned auto repair centre?

# A growing trend

The TD Insurance model has parallels with Intact's acquisition of On Side Restoration, which officially closed in October 2019. Intact's deal allowed the insur-

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er to take ownership and control of one of its largest downstream suppliers and was lauded by Intact CEO Charles Brindamour as a way to "reduce claims handling costs and provide diversification to our property exposures with a new and counter-cyclical earnings stream."

Globally, it's common for insurers to partner with repair shops. SunCorp in Australia and New Zealand owns a number of its own repair shops. In the United States, Geico, State Farm and others have numerous co-branding arrangements and co-location agreements with collision shops.

Andrew Shepherd, executive director at the Automotive Industries Association of Canada, believes deals like this could be beneficial to consumers, "I think consumers would benefit by having a more seamless hand-off between their insurer and the repairer," he said. "Right now, after an accident, the consumer calls the insurer with personal details. The insurer determines which repair shop the consumer would prefer (and recommends one if the customer expresses no preference), and then transfers the personal information to the shop. This can be a time-consuming, error-prone, multi-step process that would be smoothed by co-location."

Some shops might appreciate the arrangement because insurance-related overheads have increased from 8% to 12% over the past 10 years, Shepherd said. "The main problem repairers have with the claims process is the growing burden of administration involved," he said. "A shop might deal with eight or 10 insurers. Each one has an administrative guide that is many hundreds — if not thousands — of pages in length, and each one is different."

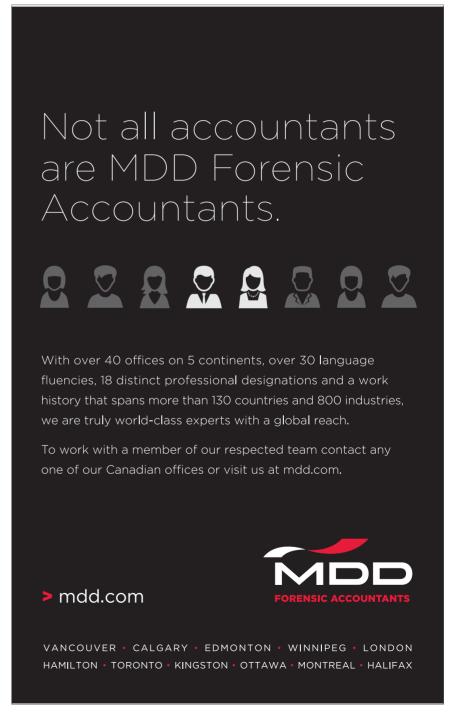
# **Muddy waters**

As in the Intact/On Side example, the role of adjusters becomes less clear when the insurer owns the supply chain. Scott Mastromatteo of NSA Claims is an independent adjuster, and while he can understand the benefits to consumers of a one-stop shop, he has some concerns.

"The claim process needs to remain open, transparent and fair to the insured/claimant and/or any parties involved," Mastromatteo explained. "The more that insurance carriers get into other lines of business, the more control they take over the claim and [the] lack of transparency [that may result]."

As insurance payouts increase, and premium increases follow suit, insurance companies could potentially feel more pressure to reduce costs and stabilize rates. That may lead some to expect TD to find efficiencies by owning the supply chain. But the jury is out on that.

Mastromatteo, for one, doesn't think these streamlined arrangements will benefit customers. "I suspect the 'cost-savings' from handling everything in one-stop will not end up in premium reduction, but rather in increased profits." Cu



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# ADJUSTER ETHICS

# Soaring above the pile

Does it become an ethical issue when claims workloads start to pile too high?

BY THE CIP SOCIETY, Insurance Institute of Canada

ive insurance adjusters, each from different companies, met several years ago while taking a series of industry and technical courses together. They remained friends throughout the years and meet regularly to discuss life, politics, and industry trends.

During their most recent meeting, they each lamented how their work-loads and casefiles have been increasing at an insidious rate. Now it appears to be catching up with them. Each of them described the large volume of work, a heightened level of detail and reporting required, and the fact that civility and courtesy seemed to be in short supply. They discussed how this negatively

■ ive insurance adjusters, each from affected them in terms of stress, long different companies, met several hours, the impact on their families and vears ago while taking a series of friends, and on their health.

Some confided that, in order to survive, they would simply "give in" during negotiations so they could close a file. Others disclosed that they were short-tempered with colleagues, clients, and sometimes with their families. They debated the concept of "doing more with less," noting how it could actually cost the industry in terms of reputation, absenteeism, overpaying on claims, mistakes, and employee turnover.

Who should be responsible to confront the workload issue and take corrective action? Should these adjusters suffer in silence?

# **MARK MACDONALD**

Manager, Claims Operations, Atlantic Region, Economical Insurance

No doubt many in the adjusting community, along with others in the insurance industry, are currently experiencing the same struggles as this group of friends.

It is important that this group of adjusters share their obstacles and stressors not only with each other, but with their supervisors and employers. Finding ways to cope with changing industry dynamics — while at the same time showing professionalism, ensuring customer satisfaction, and enjoying a work-life balance —

Considerable changes affecting the insurance industry can indeed be challenging; if this stress is not managed properly, burnout can result. During these times, it is critical for people in the industry to come together and support one another.

is a shared responsibility amongst those on the front lines, their managers, and the insurance industry as a whole.

Possible solutions include reduced intake of claims, alternate work arrangements (such as work-from-home options), time off, as well as internal or external coaching or training.

Considerable changes affecting the insurance industry can indeed be challenging; if this stress is not managed properly, burnout can result. During these times, it is critical for people in the industry to come together and support one another.

Those who are feeling particularly affected should seek assistance early on from their colleagues and their organizations. Together with their employers, employees should plan to address these issues before they result in damage to their mental health, their professional lives, or their personal lives.

#### **MILES BARBER**

Administrative Officer. Insurance Strategies Department, Manitoba Hydro

Adjusters adhere to both internal and external guidelines regarding file handling, reporting, and diarizing. These guidelines are directed at achieving best practices, which manifest in optimal file-handling activities such as:

- constructive interaction with both policyholders and third parties in loss adjustments;
- productive investigative results;
- timely responses to calls and emails;
- accurate loss quantification with suc-

cessful claim resolution and settlements.

An overworked adjuster may be tempted to replace these cornerstones of best practices with hasty alternatives that will undoubtedly result in mistakes.

Without question, adjusters are responsible for interacting with their managers when they find that their workload is affecting the quality of their work. They can request that no new file assignments be made until their file load is back under control, and they can request assistance with investigations and report processing.

The manager is responsible for properly managing each of their employees, as well as their workloads and file counts. They should make sure that the proper resources are available to their adjusters so that the adjusters can properly manage their files and overall workload.

Adjusters are professionals. They exhibit that professionalism when they communicate to their managers and external clients that they need help.

## **SUZIE GODMER**

Claims Adjuster, Vice President, Gouin, Perreault, Cloutier & Associés Inc. (GPC Inc.)

It is difficult to solve this situation, which is omnipresent in the insurance industry. But these adjusters must not suffer in silence.

If we go back 20 years, adjusters concentrated their efforts on settling their files. Now adjusters are spending more time on protocols and procedures, filling

out forms, and using different systems and technologies. Mergers and acquisitions have contributed to these new tasks, which sometimes result in the work taking more time. Although technology is supposed to make our jobs easier, managing all these processes often hinders our ability to rapidly assist the insured to return to their normal life in the best and fastest way possible.

I really like the KISS principle (Keep It Simple Stupid)! Let's get back to our claims basics: undertake an investigation, verify that the claim is admissible, and provide a just and effective settlement. Being able to delegate certain tasks will allow for a more efficient way for adjusters to process claims.

Many claims adjusters are retiring. The industry must ensure that the next generation is properly mentored before those who retire leave the industry. We must ensure that proper information is passed along so that the next generation of adjusters has the right tools required to do their work. At a time when communications are moving at lightning-fast speed, and procedures and systems are increasingly complex, let's get back to basics.

## **MONICA KUZYK**

Vice President, Curo Claims Services

Claims professionals believe in helping others. They go to work each day knowing that when they're speaking with their policyholders, something bad has happened. Adjusters are called upon regularly to put their personal lives on hold while they address claims volumes associated with catastrophic weather or disaster events. However, when operations are unable to return to a steady state, when new claims volumes are unable to be effectively managed, when load levelling has not been appropriately addressed, operational targets cannot be achieved. Loss ratios deteriorate, as do both the health and wellbeing of the adjusters; consequently, the organization's brand is at risk.

It doesn't have to be this way. Adjusters and management share in the responsibility of confronting workload issues and taking corrective action.

Managers need to be aware of when individual workloads become untenable. Adjusters must examine their own work habits and reflect on how they can be more effective with their time: Am I open to change? Am I leveraging all available tools to their full potential? How might I avoid rework and duplication? Through this process of discernment, 'Ah ha' moments are often revealed and personal and professional growth is enabled.

The phrase 'more with the same' does not have to mean longer hours, escalated workloads, higher stress and less support. Rather, it can be about harnessing the power of the individual, the team and organization, its people, processes and systems to their full potential.

#### **JOE COLBY**

Vice President, Claims (Canada) Echelon Insurance

It is important for employees to have

an open and transparent working relationship with their leaders. As such, the onus is on each of these adjusters to be direct and honest with their leaders on the challenges they have been facing and the demands made of them. After all, their direct leaders likely have the most control over their workloads and their general work environment.

The most constructive approach would be for each adjuster to make this all about balancing the quality and quantity of work. Adjusters should approach their leaders with a positive frame of mind. They need to be proactive and come to the table with not only the challenges each of them are facing, but solutions for management to consider. Often the best ideas to improve the balance between quality and quantity of work – including ideas around more efficient workflow and processes – come from people who are closest to the actual work.

Some obvious solutions include outsourcing some tasks to others in the department with a different skillset (e.g. administrative-type work). The focus should be on matching skills to the complexity of work. Also, there may be opportunities to use tools, technologies, and resources better to automate some of the routine elements of the job. Or you might simply prevent low or no-value-add activities from getting in the way of providing optimum levels of customer service and loss containment.

In the end, regular open and collaborative dialogue between staff and management can only help to improve the experience for the adjuster, customer, and company. cu

The CIP Society represents more than 17,000 graduates of the Insurance Institute of Canada's Fellow Chartered Insurance Professional (FCIP) and Chartered Insurance Professional (CIP) Programs.





**AUTO LIABILITY** 

# **Putting smart cars to the test**

Driver-assistance technologies are designed to help motorists, but how do they assist auto liability insurers?

BY TOM FLYNN AND MIKE YANG, MEA Forensic Engineers & Scientists

elf-driving cars aren't here yet, but Advanced Driver Assist Systems (ADAS) are widespread. These systems can independently warn drivers of potential risks, steer, brake and accelerate. As forensic engineers, we can see the influence of ADAS in the crash data that we can download from cars. And they are changing the way we reconstruct accidents.

## What are ADAS?

ADAS can be divided into passive and active systems. Passive systems will warn a driver of a possible danger and leave it to the driver to steer or brake to avoid it. Active systems, on the other hand, will take control of the vehicle and actively steer, accelerate or brake if the driver does not.

Lane Departure Warning (LDW) and Forward Collision Warning (FCW) are passive systems, while Lane Keeping Assist (LKA), Adaptive Cruise Control (ACC), and Automatic Emergency Braking (AEB) are active.

Lane-keeping systems are designed to prevent cars from drifting out of their lane. They warn the driver of a lane departure (LDW), or actively redirect the vehicle by steering or applying the brake on one side (LKA). Both systems rely on cameras to detect visible lane-marker lines; forward-facing cameras determine where the car is located relative to the lines painted on the road. Neither will work on roads without lines, and both will disengage if heavy rain, snow, or wear make the road lines impossible for the cameras to detect.

Adaptive Cruise Control is designed to maintain a safe following distance between vehicles. When engaged, ACC will maintain a set speed, and can slow down or accelerate with traffic according to a pre-set following distance or time. Some ACC are able to brake the vehicle to a stop. ACC controls speed through direct throttle and brake application; it relies on a camera and radar — which is less susceptible than the camera to the effects of rain, snow, or fog — to determine distance and relative speeds to objects ahead.

Forward Collision Warning and Automatic Emergency Braking are designed to recognize impending collisions, alert the driver (FCW) and apply the brakes if the driver does not (AEB). These systems use a combination of cameras, radar and

sometimes lidar — similar to radar, except using lasers instead of radio waves — to look ahead for obstacles.

#### **ADAS** cases

Crashes involving ADAS-equipped cars generate potential liability for manufacturers of cars and their ADAS technology. For instance, drivers could claim that their automated emergency brake systems should have prevented a collision with a car that ran a stop sign on a cross street. To get a clear view of that case, one must first separate the existing confusion surrounding the way the systems work and their limitations from genuine system failures.

In these kinds of cases, investigators will first identify the features or systems with which the car is equipped. Next, they will figure out which ones had been enabled, turned on, or disabled by the driver at the time of the collision. Then, an assessment of the effectiveness of the ADAS requires a big picture understanding of the crash circumstances and the limitations of the ADAS.

## **ADAS** limitations

Let's say a driver believes that his or her AEB systems should have prevented a collision with a car that ran a stop sign on a cross street. In this example, the driver might have experienced a system limitation rather than a failure. That's because forward-facing cameras and radar — upon which most AEB systems rely — may not detect vehicles approaching from the side in time to avoid a collision.

Understanding the specific limitation of a particular system may require a detailed engineering analysis. For example, our tests of Toyota's AEB system, published by the Society of Automotive Engineers, found that if the driver lifted his or her foot slightly from the accelerator pedal after the AEB warning sounded, the system would sometimes turn off.

Some organizations, such as the Insurance Institute for Highway Safety (IIHS), for example, have created a useful safety rating system for these new driver-assist technologies. However, these test results are not applicable to many accident scenarios.

# **Changing accident reconstruction**

In addition to generating new liability issues, ADAS are changing the way engineers reconstruct accidents altogether. Testimony from a driver is no longer sufficient to form the basis for assumptions about pre-impact steering, braking and accelerating that affect speed calculations.

In a recent intersection crash, for example, based on the amount of damage, we calculated that a car was travelling at the speed limit when it collided with a truck. The car's driver said he did not have time to react. Before ADAS, this would lead us to assume that the speed of the car did not change before the crash, and that the approach speed was therefore equal to the impact speed.

However, crash data downloaded from the car indicated that the AEB system slowed the car significantly before the collision, which meant that the car actually approached the intersection at well over the speed limit. There are currently no government standards for the performance of ADAS. IIHS safety ratings (noted above) are based on tests of rear crash prevention and pedestrian avoidance, and the test results are posted online. Although the IIHS data are helpful, many gaps still exist in the information that accident investigators need to reconstruct crashes involving ADAS accurately.

We should begin filling those data gaps sooner rather than later if we want to stay on top of the technology. It is clear that ADAS is becoming more common, and so a solid understanding of both ADAS function and limitations is necessary to determine whether the manufacturer of the car or the systems are liable in an accident.

Today, the extraction and analysis of ADAS data by forensic engineers can produce a more accurate picture of a collision. In cases like the example above, providing insurance companies with an analysis accounting for the ADAS data can tip the scale when it comes to assigning each party's percentage of fault equitably. Cu

Tom Flynn is a professional engineer in Ontario. He has conducted close to 300 technical investigations of vehicle accidents.

Mike Yang is a project engineer and a member of MEA Forensic's Collision Reconstruction group in Vancouver.



**ANNOUNCEMENT** 

# FIRST GENERAL CONTINUES TO EXPAND ACROSS CANADA!

First General continues to strengthen their network across Canada with the opening of a new location in British Columbia. The new office in Kelowna will service the entire Okanagan region.

"We welcome our new owners Ryan & Doug Eisenhut to our First General family! We are excited to work with dedicated and established entrepreneurs, and I am confident that this father-son team will provide exceptional quality service in the Okanagan region." Frank Mirabelli, CEO.

Ryan Eisenhut was a commercial insurance broker, specializing in Construction, Realty, and Oil and Gas. Ryan's extensive insurance experience and background helped move his focuses to the Restoration industry.



Doug Eisenhut owned a successful insurance brokerage in the Okanagan region for 40 years. He brings extensive knowledge in business finance, as well as knowledge of all aspects of insurance from customer service to the claims process.



"We are very excited to be part of a reputable banner such as First General. We believe we are aligned with First General's culture and philosophy." Ryan Eisenhut.

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# peer to peer



Insurers are updating their flood models with new climate data. This gives them a better idea of which urban areas are more vulnerable than others to risks such as sewer backup. I am telling you without a shadow of a doubt that brokers are going to have to invest in buying that same data. It is the only way we are going to be able to advise our clients properly. Insurers have greatly improved their data on property

flood risk. They tend to have good data on the claims histories of commercial properties, and they supplement this data with information from municipalities. Brokers are investigating how - and the cost - to buy the same data that insurers are using. Better flood models allow insurers get a better control of their risk. The same is also true of brokers, which is why they should have access to better flood data. Data

can help us to understand the issues before we submit a quote to the markets. If a client is thinking of leasing space in a property, for example, I want to know ahead of time if that property is at high risk of flood and therefore uninsurable. If it's going to be an automatic decline, I need to know that, so that I can plan accordingly and find a different way to get my client covered. Data can help us do that. cu

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