

MSA

Research Inc.

Your Source for Insurance
Research Informationwww.msaresearch.com

January 7 2013

**THOMPSON'S
WORLD INSURANCE NEWS****GRANITE**
Claims Solutions
Global Adjusters &
Marine Surveyors

1-800-668-6100

www.graniteclaims.com

• CANADA'S INDEPENDENT NEWS SOURCE FOR INSURANCE PROFESSIONALS • NOW IN OUR 25TH YEAR •

**B.C. coast condo owners face
quake deductible increases**

THERE'S not much help in sight for condo owners in search of earthquake insurance in coastal B.C. now that insurers are raising rates and deductibles or fleeing high-risk areas (*Thompson's*, Dec. 17).

Mike Valiquette, vp sales for Hub International Coastal Insurance in the Vancouver suburb of Port Moody, told *Thompson's* he has not yet had trouble finding quake cover for his clientele.

"But I'm not sure what's around the next corner," he added.

Companies are seeking deductibles as high as 20% of property value, and almost all insist on at least 10% — which he described as a "backbreaker."

"In the condo market, assuming you aren't washed out to

sea, when you are writing post-event there will be no strata corporations that will be able to raise the 10%. There just won't," he said.

And he noted that if only half the owners in a condo building have insurance to cover up to \$25,000 of their share of the deductible, the building probably wouldn't be rebuilt.

"Thirty per cent of the people in the building I'm looking at don't have their unit-owner policy, and they don't have \$20,000 in the bank to help with that deductible, because their mortgage is eating up everything they can borrow."

"So there's absolutely no solution.

"Even at 10% (deductible), we're screwed."

Continued on page 3 ►

Further fraud ring charges laid

CHARGES against nine more people alleged to be involved in an insurance fraud ring represent a significant step in the industry's fight against crime.

"For the first time, we see medical practitioners allegedly operating at private, for-profit medical clinics included in the charges," said Rick Dubin, investigative services vp at the Insurance Bureau of Canada.

"The nature of the criminal charges announced in this case — including offences related to alleged organized crime activity, proceeds of crime, money laundering, conspiracy and fraud — speak to the suspected highly organized exploitation of the insurance system."

Dubbed 'Project Sideswipe,' the investigation culminated just before Christmas with the latest charges against former owners, principals, managers and medical and legal service providers for at least nine facilities generating suspected false insurance claims. The latest actions follow charges laid last summer in connection with the same investigation.

The facilities, located in Toronto, Brampton and Mississauga, included medical assessment centres, injury treatment clinics, legal services offices and auto repair shops and were extensively involved in the auto insurance claims associated with alleged staged collisions.

Continued on page 2 ►

2013 FORECAST**Rising expectations forcing
technological integration**

CONNECTION, connection and connection.

To hear Daniel Mirkovic tell it, those are the three most important words for selling insurance this year.

"Probably the most important trend for 2013 and beyond is the expectation by customers that you're fully integrated across channels," said Mr. Mirkovic, a former insurance vp at the B.C. Automobile Association who now heads Vancouver-based Square One Insurance, an MGA dealing exclusively in home insurance.

"For many years now there's been all this discussion about how you have to have a web presence. If you don't have a web presence you're not really in business."

Now even an Internet presence no longer does the trick, he said.

"Increasingly that's not even going to be enough, just having a storefront and a web presence. Customers are expecting that all of your channels, from the phone to the web to the storefront, are going to be fully integrated. What that means is that when someone starts an interaction with you — let's say a quote — in person, they expect to be able to finish it online or by phone."

The new president of the Insurance Brokers Association of Ontario said it is imperative for those in the channel to keep up with the rapidly changing customer attitudes regarding technology use.

"Today's consumer wants to have a variety of interaction points, and therefore I would argue that they have adapted to using technology to connect with us," said Debbie Thompson, of Beyond Insurance Brokers in Whitby. "As brokers we just need to accept their offer. We have the ability to become social in the social media space. Something our competitors can't do."

Meanwhile, the ceo of the Insurance Brokers Association of Alberta said he believes the channel is losing customers to new Canadians, new entrants and new technology.

"People want to do online transactions, and chances are when you go online you're going to find a direct writer or a bank before you'll find a broker," George Hodgson said.

That's why IBAA is turning to the myinsuranceshopper model, which is due to be up and running in the province March 15.

"We're working feverishly to try and get the brokers signed up onto it and to get them involved in it," he said.

"When we do talk to them, in excess of 90% actually then sign up. So it's just a matter of us reaching each and every broker."

Continued on page 4 ►

ALSO THIS WEEK

- Catastrophes
- Alta. regulation
- Quebec fees

www.thompsonsnews.com

Consumers embracing technology as never before

► *Continued from front page*

In an irony not lost on Mr. Hodgson, many brokers ignored or forgot emails about the new online service, and responded only when he or other IBAA representatives contacted them by phone.

"Who are we to assume . . . that doing emails and brochures and stuff like that is going to work when the very reason for the broker existing, in part, is the personal touch?"

Intact Insurance president Jean-Francois Blais noted that Canadians are embracing new technologies as they have never done before.

"Thanks to these new technologies, consumers are increasingly empowered, informed, sophisticated, enabled and demanding," he said. "They have instant access to information, products and peer reviews. They use their laptops, tablets, and smart phones to interact with each other and with businesses.

"Despite these technologies, consumers still value, probably more than ever, what brokers have to offer — valued professional advice and product choice."

The Internet and enhanced call centre technologies open up opportunities for brokers who wish to reach out to new customers, interact with them, and generate positive response to their marketing initiatives.

"This is the reason Intact Insurance has rolled out a new buy online tool for brokers supported by enhanced marketing initiatives. This new tool provides brokers the opportunity to reach out to serve new and existing customers while remaining at the heart of the transaction and offering their valued professional advice."

Mr. Blais said technology also increases efficiencies as new standards allow insurers to better integrate their systems with brokers management systems.

Mr. Mirkovic and his colleague at Square One monitor their clientele's demographics and communication preferences closely.

"What we've found — and these are way different from what we had expected — is that about 60% of our customers start a quote online and 30% of our customers actually buy online.

"Of those who buy online, a portion of them started their quote either in person or on the phone. So having those channels fully integrated is becoming a must."

He said this shouldn't come as a surprise to anyone watching the way major retailers — not only Amazon and Apple, but Staples and Future Shop — are exploiting new media.

"I know that many within the insurance industry in Canada think, 'Oh, we've got time. Our customers aren't expecting that of us,' or, 'Those are . . . retail stores and we're more a professional service' and so forth, and it's not going to happen to insurance.

"And the reality is you just need to look

south of the border or across the Atlantic and you'll see how much insurance distribution has changed as a result of changing customer expectations as well as changing technology."

Nor are these expectations limited to Generation Y. One of Square One's first customers two years ago was an 80-year-old who sought a quote online, phoned with a few questions, then bought his policy online.

"I think it's becoming commonplace across all ages and really, it comes (down) to how comfortable people are with using the web. And if your web is designed well, or if your channels and processes are designed well, what we've found is this need and this expectation spans all age bands."

However, there always be those who prefer the personal touch — and they're not always older folk.

"We've been surprised how many 20- and 30-somethings come into our office and want to meet face-to-face with someone," he said.

"So I think there is room for various distribution models, but if you limit yourself to only having phone access or only having a storefront access, you will definitely be limiting your market."

The IBAA's Ms. Thompson, who took the reins of that association on Jan. 1, said she believes brokers may be missing an opportunity with their market share challenges.

"Brokers that have taken the time to educate themselves on how to adapt today's consumer are seeing growth from outside the channel," she said.

"We need to stop recycling business. Education and understanding is the key to this success, and IBAA will continue to provide brokers with the information they need to succeed."

Ms. Thompson said brokers are facing further challenges with the commercial sector.

"The commercial market in itself remains fairly competitive and brokers need to recognize that a higher degree of attention is needed in order retain that business," she said.

"Providing value added services, like risk management advice, are table stakes in today's commercial market. The professionalism and advice that comes dealing with broker needs to be what drives the customer experience."

Fraud and consumer protection are other areas she noted the association will be focusing on this year.

"Anti-fraud needs to be the focus of all stakeholders, and without implementation of the (Anti-Fraud Task Force's) recommendations, further rate stabilization will be out of reach.

"And consumer protection as it relates to credit is still an issue that needs to be resolved.

Continued on page 5 ►

2013 CANADIAN P&C EVENT SCHEDULE

| Date | Event | City / Venue |
|-------------|--|---|
| Jan. 24 | Ins. Institute Of Ontario, Annual Convocation | Toronto — Metro Toronto Convention Ctr. |
| Feb. 5 | CICMA / CIAA, Joint Conference | Toronto — Metro Toronto Convention Ctr. |
| Feb. 6 | Ont. Ins. Adjusters Assn., Convention | Toronto — Metro Toronto Convention Ctr. |
| Mar. 19 | Farm Mutual Reinsurance Plan, Annual Meeting | Toronto — Sheraton Centre Toronto |
| Mar. 20-22 | Ontario Mutual Ins. Assn., Convention | Toronto — Sheraton Centre Toronto |
| Mar. 22 | Cdn. Assoc. of Mutual Ins. Cos., Mid-term meet | Toronto — Sheraton Centre Toronto |
| Apr. 21-24 | RIMS, Annual Conference & Exhibition | Los Angeles — L.A. Convention Ctr. |
| Apr. 24-26 | Ins. Brok. Assn. of Manitoba, AGM & Conference | Winnipeg — Fairmont Winnipeg |
| May 5-8 | Ins. Brok. Assn. of Alberta, AGM & Conference | Banff — Banff Springs Hotel |
| May 22 | Canadian Insurance Financial Forum | Toronto — Metro Toronto Convention Ctr. |
| June 12-14 | Ins. Brok. Assn. of B.C., Annual Conference | Whistler — Location TBA |
| June 23-25 | Canadian Commercial Insurance Summit | Muskoka — Rosseau Marriott Resort |
| Sept. 8-10 | Cdn. Assn. of Mutual Ins. Cos., Convention | Whitehorse — High Country Inn |
| Sept. 12-15 | Cdn. Independent Adjusters Assn., AGM | Banff — Banff Springs Hotel |
| Sept. 22-24 | National Insurance Conference of Canada | Gatineau — Hilton Lac-Leamy |
| Oct. 6-9 | RIMS Canada, Annual Conference | Victoria — Location TBA |
| Oct. 17-19 | Ins. Brok. Assn. of Saskatchewan, AGM & Conf. | Saskatoon — Radisson Hotel |
| Oct. 23-25 | Ins. Brok. Assn. of Ontario, Convention | Toronto — Fairmont Royal York Hotel |
| Oct. 29-31 | RCCAQ, Conference | Quebec City — Hilton |

New made-in-B.C. education system tops IBABC agenda

THE BROKERS association in B.C. is hoping to ring in a new certification system in 2013 — which could mean ringing out the Canadian Accredited Insurance Broker program.

"We are developing our own made-in-B.C. education system that'll be out in about a year's time," said Insurance Brokers Association of B.C. president Andrew Tablotney, of Legear Pelling Insurance Agencies in Richmond.

"We've had a lot of pushback from our members in terms of the CAIB not being as functional and friendly as it should be to educate our members.

"Why do I need to learn how to insure a tugboat or an airplane if all I'm doing is talking to people about condos and tenants' (insurance)?" That's been the comment for years and we've agreed with them and presented that argument at the national level."

The B.C. program would incorporate CAIB elements to begin with, "but if the national doesn't address the concerns about its viability, then it may well be replaced in its entirety."

In its own house, IBABC is reviewing its board structure and recruitment strategy. Recent additions to the board have come from single-owner brokerages, and Mr. Tablotney would like to see more representation from larger outfits.

"They always support us financially and sometimes at the directors' table, but it would be nice to have one of the bigger brokers send one of their people through," he said.

"We're also looking at our whole system, the way we're set up. For instance the Kootenays now are saying that they really

don't need two people. With consolidation they're down to such small numbers that actual voting members are minimal so participation is way down, so we may look at consolidation of some of our areas, and maybe go to a larger number of at-large members."

The IBABC is also re-examining its rate structure this year, the first such review in 15 years.

"Way back when, the cap that we put on for the larger brokers was in anticipation of maybe 15 or 20 locations, not 60 or 80 locations. So there's been an unnecessary drag on the smaller brokers, who have been paying a substantially higher proportion of fees for the association."

The association is looking at several models, including one that would tie a brokerage's fees to its revenues from the Insurance Corp. of B.C.

"We feel that probably 75-80% of what we do is our negotiations with ICBC in terms of securing increases and dealing with the systems and programs and making sure the systems work well for brokers," Mr. Tablotney said. "So we're looking at somehow incorporating the income of brokers in some way as part of their fee structure."

Speaking of ICBC, he said there's a good chance the Crown insurer will take another stab at setting rates via a revised driver risk model.

The last proposed change foundered in the spring of 2011 when public outrage over the prospect of a single speeding ticket leading to three years of higher rates prompted the provincial cabinet minister in charge of ICBC

to pull the plug.

"Eventually DRM will be dusted off and brought back to the table," Mr. Tablotney said.

"There'll be a learning curve, but ICBC said that it is prepared to provide the necessary training. I guess the frustration will be at the front desk, trying to explain to your clients why their premiums have changed based on their driving record.

"At this point in time we don't even know what the model is."

Mr. Tablotney summed up his 2013 wish list in three words: "More earthquake capacity."

Spurred by federal regulations on quake reinsurance and alarming risk models, Economical Insurance announced just over two months ago that it would stop issuing or renewing earthquake coverage in Victoria and other parts of southern Vancouver Island. This prompted panic among area brokers, as no other insurer was available to meet demand.

Economical eventually agreed to move back the date by four months — with a 25% increase in premium.

"The problem you've got is you've got all these programs on the Island and they've been setting their rates artificially in comparison to what the marketplace was really charging. From talking to Economical that was part of the problem: With what these programs were charging, after commissions they were losing money.

"So I feel sympathy for the brokers on one hand, but I feel sympathy for Economical on the other hand. They didn't anticipate reinsurance rates jumping 15%."

Disappearance of major insurance markets worries brokers

► *Continued from page 4*

Other provinces are the leading the way, by taking action to protect consumers from this unfair and deceptive practice."

The IBAA's Mr. Hodgson said 2013 is going to be a tough year for personal property insurance in Alberta.

"Over the last two years there's been two very significant catastrophic loss events in Alberta, one being the wind and hail in Calgary and the other being Slave Lake," he said.

"I do know that some insurers are looking at fairly significant increases in premiums. I also know that some are looking at fairly significant increases in deductibles. And I also know that some are looking at coverage.

"And I would imagine at the end of the day there will be the odd one that will be looking at all of the above."

But he indicated the Calgary hailstorm and Slave Lake wildfire may have been triggers, rather than root causes, of a rate increase.

"The bottom line is a lot of companies have kept property-low for quite a number of years and my reading of climate change and whatnot generally is, I think people knew that storms were going to become more severe and in some cases more frequent. I think some knew that this was coming and now we're playing a certain amount of catch-up."

He also expects mergers and acquisitions to continue, among brokers and insurers alike. He said broker consolidations don't affect IBAA's structure or revenues much and are offset by an ongoing counter-trend of small start-ups.

But the disappearance of major insurance markets from brokers' shopping baskets is a worry.

"A merger in my view, whether it be in insurance or Target buying out Zellers, I don't think the consumer's very often well served by it," he said. "Having said that, I guess having a few large markets is better than having no markets, right?"

"So I think this is inevitable over time. There's still a pile of small markets out there."

Smaller companies, especially mutuals, may find niches in the marketplace vacated by the big boys, but Mr. Hodgson said they can do only so much. "The problem is that if catastrophic events cause larger companies to rethink, a smaller company doesn't have as much to rethink with."

A bigger concern is that mergers have affected more broker-based insurers than direct writing companies.

Continued on page 6 ►

Associations all face unique challenges

► *Continued from page 5*

"My greater concern is that, in Ontario and Alberta in particular, we have been losing market share to the direct writers," Mr. Hodgson said.

With that in mind IBAA directors are hitting the phones to inform members of services and educational offerings.

"They're really glad to hear from us. It's funny because they'll say, 'I wish you had a course on this,' and we'll say 'Actually we have three courses on that.'

"Oh, I didn't know that." "Well we sent you four emails..."

Like other associations, the IBAA has had to grapple with the increased ownership of brokerages by financial institutions. In the case of Western Financial group the Alberta association has taken a slightly different tack from its Saskatchewan counterpart.

"There's always some discussion, but at the end of the day Western Financial Group qualifies as a broker," Mr. Hodgson said.

"They're not owned by a credit union, they're owned by a company that also happens to own a credit union. And they also market insurance for a number of insurance companies. So in that way they qualify as well as anybody else does in our membership."

Saskatchewan brokers association president Garth Neher of Southey Agencies said he and his colleagues will be watching January membership renewals with more interest than usual.

They are the first since October's annual general meeting ratified a rule change affecting brokerages owned by credit unions in that province.

There are limits to their representation on the board of the Insurance Brokers Association of Saskatchewan, and they are permitted the use of the Bipper logo only if their insurance offices are not in the same building as their credit union owners.

FULL MEMBERSHIP

"From the initial conversations that we had (it) sounds like they're still going to apply for full membership even though that restriction is in place," Mr. Neher said.

"But kind of like every other process, we don't have the signature on the dotted line or the payment at this point."

There are no other big-ticket changes planned for IBAS in 2013, and no major negotiations with Saskatchewan Government Insurance.

"Touch wood, we don't have a lot of panic fires at this time."

But that doesn't mean there's no work to be done. Mr. Neher told *Thompson's* it will be a priority this year to make sure the broker channel stays up to date technologically in order to hold its ground against direct insurers — and to keep up with changes at SGI.

"SGI has been evolving their online product that they introduced last year, and any time SGI makes a change we all want to be aware of it," he said.

"That is why part of our goal is to try and make sure we're in communication and see if we can align ourselves as much as we possibly can to make sure that broker-centric model is in place."

So far that effort has stopped short of using the myinsuranceshopper online model pioneered in Ontario and New Brunswick, which the Alberta brokers association is rolling out early this year.

"We looked at it a number of years ago and due to economics at that point we just couldn't really piece it together," he said.

"But it's definitely a (vehicle) that we see as a way for brokers to be in the public's eye. So we've been talking to Alberta and waiting to find out how (it works there).

"Every company is developing their online presence and touch, as SGI is. So we want to make sure that we work with them to make sure that we don't lose the broker-centric portion of that."

Saskatchewan's economy continues to thrive, and Mr. Neher expects this to create more business in — and draw more insurers to — the province.

"There are definitely some hotter spots than others in the province," he said.

"But the mining, oilfields, has been keeping our members busy writing business and... has created an opportunity where some of the markets that didn't necessarily view Saskatchewan as a real hot place to be have changed their view."

Quebec's broker association is hoping to dodge a bullet looming for its members this year with harmonization of the QST and HST and the associated increased operating costs.

Michel Duciaume, new chair of the Regroupement des cabinets de courtage d'assurance du Québec, said in a letter to members that the province's finance minister has confirmed the brokers' situation will be reviewed.

The RCCAQ says the tax harmonization that took effect Jan. 1 will increase brokerage operating costs by close to 10% of their taxable purchases.

"Representations are continuing and we may well end up asking RCCAQ members to support our efforts by asking to meet with their (members of the National Assembly). In our view, the future of a significant portion of the brokerage sector in Quebec is at stake."

Mr. Duciaume, of Assurancia Gatineau, said he would like to see the brokerage sector recover 1% to 5% of the direct insurers' market share over the next five years.

"To that end, we will have to change how we do things and rigorously follow a market share action plan."

Insurers expect greater u/w discipline in 2013

THE PRESIDENT of Canada's largest p&c insurer says the economy will continue to present challenges and opportunities for the p&c industry in 2013.

"First and foremost, the industry will continue to operate in an economy characterized by modest growth, low interest rates and volatile financial markets, factors that will impact performance in the coming months," Jean-Francois Blais of Intact Insurance said.

"An economic environment of this nature is conducive to greater underwriting discipline and will bring more resolve to contend with the numerous challenges that we are facing."

He listed inadequate pricing conditions in commercial insurance, uncertainties over the outcome of the auto insurance reforms in Ontario and a home insurance product that is not designed and priced for changing climate conditions.

"In commercial lines, pricing adequacy remains challenging but some improvements are expected to take place albeit at a moderate pace," Mr. Blais said.

"Auto insurance should continue to improve notably in Ontario as the reforms succeed in slowing down claims inflation. However, the most important challenge facing the industry will be to ensure that the personal property product remains available and affordable in light of the higher prevalence of severe storms and the increased level of catastrophic losses."

There are also the continuing regulatory issues to contend with.

"From a market conduct perspective, relatively little progress has been made over the years to develop a regulatory framework that would promote a vibrant and innovative industry. In fact over the past year we have witnessed the emergence of legislative or regulatory proposals aimed at building upon the current rules-based approach which would limit the ability of insurers to innovate. Such initiatives constitute a step backward and ignore the tenets of more modern regulatory approaches which promote enhanced competition among insurers for the benefit of consumers."

As for the industry's main challenges, Mr. Blais cited technology changes (separate story, page 4) and also the need to attract people to the industry.

Continued on page 7 ►