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Alberta advances plan to allow captives

THE ALBERTA government introduced legislation last week that it says will increase insurance capacity by easing both access to reinsurance and rules for relocation of Alberta-owned captive insurers to the province.

Bill 16, the Insurance Amendment Act, follows legislation introduced last year that will make Alberta only the second province after B.C. to allow captive insurers.

The new bill adds a 'redomestication' provision to specifically address relocation of foreign captives to Alberta.

The new section on redomestication provides instruction for the relocation process, outlines responsibilities for owners, specifies required documents that need to be filed with the superintendent and other procedural requirements.

If passed, Bill 16 will amend both the Insurance Act and the Captive Insurance Companies Act.

It will add new reinsurance provisions to allow provincially licensed insurance companies to focus solely on reinsurance and to enter into limited partnerships to raise capital.

The government said increasing access to reinsurance within Alberta should have a positive impact on the overall insurance supply in the provincial market.

"This will help ease shortage and high prices and better position traditional insurers in serving Albertans and Alberta businesses."

Different parts of Bill 16 would come into force on various dates.

The legislation to allow captives that was introduced last year, known as Bill 76, was passed last year but is awaiting proclamation.

The government said the ability to set up a captive will be available after related regulations come into effect later this year.

It said Bill 76 was aimed at allowing businesses to set up their own insurance subsidiaries to cover risks that are difficult or expensive to insure in the regular market.

That includes businesses in the energy, agriculture, forestry and manufacturing sectors.

"We're delivering a regulatory framework that will help generate more insurance activity right here in Alberta, leading to more opportunities for Albertans in sophisticated finance

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Flexibility cited as key for return to office

THE RETURN to the office environment post-pandemic will require managers to take a flexible approach to their employees, executives said during last week's Insurance Institute of Canada CIP symposium.

"People need to be treated as individuals, they need to be respected and they need to have their individual needs met by their company or they'll just leave because it's relatively easy to do," said Stephen Stewart, president and CEO of Stewart Specialty Risk Underwriting.

Mr. Stewart said an individual approach will help people feel support, trust and respect from their employer, which will lead them to work harder and more efficiently in what he described as a "virtuous cycle."

"The offices that we left behind in March 2020 are not the offices that we're returning to," said Naomi Khan, senior VP and human resources leader at Marsh Canada.

The new normal will be a hybrid model, she said, and that will require flexibility and trust from employers.

That trust might be new for more traditional companies or managers who are used to be able to see their employees all the time, Mr. Stewart said.

"People are having trouble with that. But if you hire the right people, trust shouldn't be an issue."

Keeping employees happy will also require career development opportunities, said Trevor Buttrum, director of operations at career resource company TalentEgg.

"The insurance industry has a wonderful story to tell in terms of its investment in people," he said.

"I'm not sure that we talk enough about the investment in credentials and continuing education through the Insurance Institute and the CIP program on the part of the employer in the employee to be able to achieve success and results."

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Insurers ideally suited to offer new services

THE P&C INDUSTRY's success at managing its own risk has made it ideally suited to offer new services to other sectors, a new report from the Insurance Institute of Canada says.

"Being good at managing our own risks opens opportunities," report author Paul Kovacs said during the institute's virtual CIP symposium last week.

"Risks are evident across society and there are many opportunities to help others managing risk and for us to think more broadly about what it is that we do and what we might do going forward."

The report, titled 'Managing Risks: Implications for the Insurance Industry in Canada,' is the latest in the institute's emerging issues research series.

It said there is an opportunity to introduce and expand risk management services to a broader consumer base and for the industry to shift away from responding to losses and increasingly provide services to reduce the risk of loss.

Insurers' efforts to help policyholders reduce the risk of loss can be central to the purpose of the industry, the report said.

The knowledge and skills successfully applied to manage the risks facing the insurance industry could increasingly be applied to support the needs of insurance customers beyond risk transfer.

The author notes that the p&c industry has faced significant challenges over the past 20 years, including government intervention in the auto insurance business, increasing basement flooding and wildfire claims, a severe financial crisis, persistently low interest rates, the growing problem of cyber attacks, a crisis with condo insurance and the COVID-19 pandemic.

But despite those issues, insurers have performed better than almost any other

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CEOs in Canada are relatively optimistic

NEARLY 80% of Canadian CEOs believe global economic growth will improve in the next 12 months, according to professional services firm PwC.

The optimism comes amid significant concern about like cyber security and macroeconomic volatility, PwC found in Canadian executive input for its *25th CEO Survey*, which was released earlier this year.

The optimism could be because CEOs were focusing on their near-term prospects, which arguably looked good when the focus was on pre-February 2022 economic signals and the continued reopening of the economy.

However, volatile macroeconomic and geopolitical conditions mean CEOs must realign their priorities, PwC warned.

When asked about the impacts of climate change in the next 12 months, 51% of Canadian CEOs said it could inhibit their ability to sell products and services.

And organizations that are leading the way by making carbon-neutral or net-zero commitments are acting at least in part in response to this recognition: 62% said meeting customer expectations was an extremely or very influential factor behind their organization's carbon-neutral or net-zero goal.

Attracting and retaining employees was also an extremely or very influential factor for 59% of Canadian CEOs, compared to 48% for global CEOs in the survey.

And PwC said that the fact that cyber security has ranked as a top threat for five years in a row shows how challenging this issue remains for organizations.

Canadians driving less due to high gas prices

CANADIANS are driving less often and for shorter distances because of rising gas prices, the results of a new survey show.

However, most drivers are not notifying their insurer to inform them of changes to the amount that they drive, according to the survey, which was conducted by Leger on behalf of Ratesdotca and BNN Bloomberg.

When survey respondents were asked whether they notified their insurance provider about an adjustment in driving behaviour, most said no. The main reason was that they didn't think their change would impact their premium — 41% of respondents gave this answer. Another 39% said a flat "no." Only 17% of drivers report telling their insurance provider that they adjusted how much they drive.

More than half of those surveyed said that they are driving less due to the recent rise in gas prices, while 15% said they plan to adjust how much they drive in the future.

Cyber hygiene now crucial for cover

THE UNPROFITABLE cyber insurance market in Canada cannot be fixed simply by raising premiums, a market expert warned last week.

"Rate alone is not going to solve the problem," said Greg Markell, president and CEO of Toronto-based MGA Ridge Canada Cyber Solutions said at the Insurance Institute of Canada's virtual CIP symposium.

There has been a significant hardening in cyber rate in the last 12 months, he said during a session titled 'resetting cyber risk'

But he noted that has not solved the profitability problem.

Improving cyber hygiene among policyholders will be one key strategy required to improve the market, said Neil Jardine, global cyber risk intelligence and claims director at Boxx Insurance, another MGA based in Toronto.

"Underwriting has shifted a lot in the last few years," he said.

"I think that people are looking at cyber hygiene and what the exposures of companies are and putting a lot more controls on them."

For cyber to become a profitable line in Canada, policyholders will need to make cyber security an internal priority and not just expect that they can transfer all of the risk to their insurer, Mr. Jardine said.

He also noted that one challenge in achieving good cyber hygiene is a talent shortage in the IT field.

There are as many as two million IT jobs unfilled right now, he said, and that means there are not enough people monitoring and patching systems.

That growing talent gap can also be seen on the underwriting side, Mr. Markell said, with only about 15 companies in Canada underwriting stand-alone cyber policies over $1m.

And only a few of those companies could sustain more than two limit losses, he noted, which means that only about four or five insurers can write cyber profitably over the foreseeable future.

However, Mr. Markell said, there is room for optimism about the line with reinsurers having committed to long-term investments in the industry.

International investment in the Canadian market will be driven not by increased rates, he said, but by improved controls including limits, retentions and coverage.

IBC continues to advocate for adaptation

CANADA'S p&c industry has been consistent with a commitment to put adaptation on equal footing with mitigation and will continue to do so, the CEO of the Insurance Bureau of Canada said.

At the IBC's annual meeting last week, Don Forgeron said the insurance industry is well represented on a federal task force on flood insurance and relocation and will continue to work on the development of a national program.

"I don't think it's out of bounds by any stretch to suggest that IBC has become perhaps the single most active and effective advocate for better climate adaptation in Canada," he said.

A national adaptation strategy was adopted by the federal government in 2020 and a plan to develop a national flood insurance program was announced last month (*Thompson's*, March 21).

Mr. Forgeron said the bureau is also focusing on how inflation will affect claims costs over the next year.

"If we look at loss ratios in the second half of 2021, the combination of record inflation, labour shortages and global supply chain disruptions led to muted underwriting results," he said.

"As life returns to normal, we expect this will persist in 2022."

Auto insurance will also continue to be a key issue for the IBC, which will push for further regulatory reforms in Ontario, Alberta and Atlantic Canada over the next year.

Mr. Forgeron said that on the commercial insurance side, the bureau is awaiting analysis from professional services firm Deloitte to get a better sense of where the market cycle stands.

He said the IBC will use the report to help build its commercial insurance strategy and support business owners.

The IBC is Canada's trade association representing private p&c insurers and reinsurers.

New HR needs emerge

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Mr. Buttrum said employees need to believe that their employers care about their career success and that they can grow within their companies.

He said an individual approach is key in this area because every employee's career trajectory will look different.

"The days of one-size-fits-all HR are incredibly limited," he said.

"We need to consider the whole employee and the operational needs of the team that they're on and ways that we might be able to create an environment where they can thrive."

Insurers poised to expand services to help manage risks

➤ *Continued from front page*

industry in Canada over the past two decades.

The insurance industry reported an underwriting profit every year but one since 2003, the report says, and while there have been no insolvencies in the Canadian p&c insurance industry over the same time there were a large number of failures in other industries.

That strong performance was a result of the insurance industry's skill in managing risk, according to the report.

Embracing enterprise risk management was key, said Mr. Kovacs, founder and executive director of the Institute for Catastrophic Loss Reduction.

The concept of ERM was developed about 20 years ago. Before that, risk management tended to involve in various parts of an organization looking at their own risks instead of enterprise risk management with a more holistic view and a focus on how to achieve goals rather than just on the risk of loss.

"Any company could do this but the insurance industry just quickly grabbed this and adopted it and tailored it for our industry," he said.

"Other industries are still trying to figure it out and are making progress because it's a good concept. But we've done really well managing our own risk — better than other industries — because we've taken this tool and really made it work for us."

Demonstrated success in managing its own risk has created an opportunity for insurance companies to expand the services it provides to consumers, the report says.

For example, the industry is leading an international discussion about actions needed to close the gap between economic loss and insured loss, and how to bring comprehensive financial protection to more consumers, such as the introduction of residential overland flooding insurance in Canada.

Some risks — such as cyber — are relatively new and did not exist 20 years ago. Others such as extreme weather have been evident for decades. Nevertheless, the report said, consumers are aware that the potential for losses has increased in both frequency and severity.

Other risks are known internationally but have not yet been experienced by Canadians — such as a major earthquake or terrorist attack.

The transition from traditional risk management to ERM across the Canadian insurance industry provides a strong and lasting foundation for the industry to move from the provision of financial protection to the business of managing risk, the author said.

He said the new ERM approach is also being adopted by more and more mid-sized corporate customers.

These policyholders are positioned to immediately engage the insurance industry in the exploration of risk management issues of direct concern to them.

"This includes provision of financial protection and much more. It is in the best interests of insurers and their customers when insurer knowledge and experience can be a direct input that adds value to the customers' risk management process."

The holistic approach of the ERM process requires as complete a picture as possible of the risks at every level to avoid the possibility of future unidentified risks, the report said.

It said consultation with division and project managers and also with external stakeholders can help ensure a comprehensive list that brings multiple perspectives into the process by taking into account more than the senior managers' points of view.

Most insurers in Canada have established a risk management department. Staff and resources committed to ERM increased considerably over the past 20 years, the author notes, adding that many insurers expect to allocate increased resources to risk management in the future.

He said insurers are increasingly looking to innovate and provide risk management support to consumers that extends beyond financial protection. While there are differences among companies about the path forward, timing and specifics, "important change is underway."

Loss reduction services for vehicle owners, homeowners and small businesses are only emerging for most insurers and will require time to be recognized as core industry services, he said.

"It is exciting to see the industry shift from responding after a loss to proactively working with commercial and personal lines policyholders to manage and treat risk," he said.

"With time the shift will be better understood by society."

THE REPORT presents five recommendations for action by the insurance industry.

The first is to step up efforts to inform regulators, shareholders and others in the industry about the insurance industry's success in managing its own risks.

"Those most directly informed about the industry may not fully appreciate the significant progress achieved by the insurance industry in the management of its own risks and the clear link between effective risk management and the capacity to achieve company objectives and better serve customers," the report said.

"The industry should do more to extol its success in managing risks facing the insurance industry."

The second recommendation is to engage other stakeholders to help them understand how management of insurers' own risks enhances their capacity to serve.

It said consumers, policymakers, the media and others with a casual understanding of how the insurance industry operates would benefit if they were better informed about the industry's ability to manage a wide range of risks.

"The industry may consider a campaign setting out the benefits of insurance for society."

Another recommendation is to continue to champion fire prevention, road safety and climate resilience action to benefit society.

It said insurance industry leadership has significantly improved safety and the quality of life for Canadians and that there is scope for the industry to achieve further progress and risk reduction.

"There is a growing awareness of the responsibility of society to use its knowledge to advance social goals, like the insurance industry using its knowledge and experience to advance public safety in Canada."

SKILLS AND KNOWLEDGE

The report also recommends expanding industry services to help individual policyholders reduce and better manage the risks they face.

It said knowledge used by the insurance industry to successfully manage its own risk should increasingly be provided as a service to vehicle owners, property owners and businesses to help them understand and and reduce the risks they face.

"Imagine a future where vehicle owners, property owners and businesses regularly seek advice from the insurance industry to aid with major decisions," the report said.

The final recommendation is to consider rebranding p&c insurance, perhaps as "the business of managing risk."

It said a guarantee of compensation for a covered loss in return for payment of a premium is a narrow yet widely held understanding of the purpose of insurance.

"Most insurance companies would like to help customers achieve their goals in a risky world," the report said.

"An industry campaign extolling the risk management skills of the insurance industry could expand to consider rebranding the industry as more than the promise of financial protection — insurance is the business of managing risk."