handbook

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ETHICS

Balancing act

What happens when an agreement is breached due to COVID-19? Experts share their thoughts

BY CIP SOCIETY

While industry stakeholders are no strangers to hard markets, they have few (if any) playbooks available to help guide them through a hard market during a pandemic.

At the best of times, underwriters have the daunting task of balancing the best intersts of the company with maintaining harmonious relationships with their brokers and clients. Yet, when you layer on the impact of the recent COVID-19 situation, the issues are now amplified.

Take the following scenario, for example: An underwriter is working on a commercial policy renewal in conjunction with a broker with whom the insurer had a longstanding and mutually beneficial relationship. The mutual client (a small manufacturer) has been on each of their books for many years, with a commendable claims history. While reviewing the file, the underwriter notices that one of the conditions of the previous year's renewal was that the client would complete a few key items of risk mitigation during the one-year term before the upcoming renewal.

Unfortunately, due to the impact of the economic downturn related to the COVID-19 pandemic, the client was unable to comply fully with the risk mitigation requirements. Added to this was an apparent and rather common cash flow problem due to sudden and unexpected declines in revenue.

Now the underwriter feels the full weight of the current market. She realizes her next decision would be based upon ethics as opposed to mathematics. She has a solid and loyal client (and broker), commendable claims history, and a generally profitable file. On the other hand, she's confronted with a breach of an agreement during a challenging time (the pandemic) in a hard market. How should the underwriter approach the situation?

Darcey Garrington, FCIP, CRM, MLIS
Manager, Alberta & BC Commercial Property Underwriting
SGI CANADA Insurance Service Ltd.

Since the underwriter has a longstanding history with both the broker and the client, the underwriter should not be surprised that the client is affected by the current pandemic (as many businesses are, directly or indirectly). Many businesses are in breach of agreements prior to the pandemic and working with these businesses during this tough time is key to keeping a relationship with both the broker and client, as well as supporting the economy as a whole.

The policy for this client may contain a Declaration of Emergency endorsement. In that instance, the underwriter would not have a choice but to renew the policy, and then review further once the state of emergency is lifted by the provincial government. Even so, the underwriter can still talk to the broker and client about which items of the risk mitigation plan have been completed, which remain outstanding, and what is a reasonable time frame for the client to complete these items once the state of emergency is lifted and the client is allowed to operate in some capacity.

Should the underwriter receive answers that are agreeable, then extending the deadline on the agreement would appear the most reasonable thing to do, avoiding a breach, and instead extending the terms of the agreement. The underwriter could also go the extra step to offer payment options to the broker/client if the client is on direct bill with the insurer.

Thomas Newby, CIP, CRM, CAIB
Manager of Commercial & Farm Underwriting
Edge Mutual Insurance Company

Given the strength and history of the relationship between the client (and broker) and the insurance company, consideration for a renewal can and should be made.

During a pandemic, an underwriter is given the opportunity to show their mettle. Not all customers or all situations are created equal. But this particular scenario requires taking a moment to pause and carefully consider all options available. A skilled underwriter now has the opportunity to be creative and flexible at a time when it is desperately needed.

Depending on the actual loss prevention measures, the underwriter has many options at his or her disposal.

One is to offer a renewal that has no change in coverage and extend the deadline for the client to get the outstanding matter addressed. If the outstanding recommendation was relatively minor, the extension can be made for another term. For a more serious concern, the extended time will vary to include the completion of the outstanding items as soon as possible after the pandemic.

Other options include altering or reducing coverage, amending the deductible on specific items or exposures, or charging an additional rate for the increased exposure that the company is looking to avoid or mitigate.

Increasing the rate would potentially drain additional resources from a client that is already suffering from the economic downturn. This option should be chosen only if there is no other choice.

An insurer demonstrating every effort to retain a profitable insurance account is a welcome relief to a loyal customer who needs it. Exploring options also reminds the broker that they are business partners now and in the future. Being fair and equitable is as important now as it ever has been.

Julie Pingree, CIP
Sr. Vice President, Corporate Underwriting
Northbridge Financial Corporation

In my view, it's important to look at all the facts when making decisions. The pandemic situation has introduced an additional consideration when assessing underwriting actions. A loyal customer who has demonstrated a willingness to work with the company to complete the risk mitigation may need a concession to allow them more time to complete the work. Having said that, the broader financial challenges related to the pandemic should also be factored in.

While flexibility on timing to complete recommendations might be reasonable, if the risk deficiencies present a safety hazard or could lead to significant loss, they will need to be addressed. If the client's new financial reality will not allow them to invest in the necessary improvements, a decision to retire from the risk might be the right one. Hopefully by having an open dialogue on the situation, a plan can be agreed to that will work for both the customer and the insurance company. CU

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DEAL TRACKER

Latest acquisition news & activity

La Capitale $ SSQ Insurance

La Capitale and SSQ Insurance have merged to create the third-largest property and casualty insurer in Quebec. The new name of the combined company will be announced this fall.

Jean-François Chalifoux, until recently CEO of SSQ, is now CEO of the combined company.

La Capitale was Canada's 13th-largest P&C insurer in 2019 with net premiums written of $1.15 billion, according to the *2020 Canadian Underwriter Statistical Guide*. SSQ had net premiums written of $293 million in 2019. So the combined total in P&C premiums would leave the merged insurer in 13th place in the Canadian P&C industry.

Saskatoon Insurance Agencies $ Andrew Agencies Ltd.

With its acquisition this past June of Saskatoon Insurance Agencies, Andrew Agencies Ltd. now has 20 offices in Alberta, Saskatchewan and Manitoba.

Saskatoon Insurance Agencies has been in business more than 50 years. The brokerage places home, auto, commercial and farm coverage. Andrew Agencies is part of the Moston House Ltd. Group of Companies.

The acquisition of Saskatoon Insurance Agencies comes two years after Andrew bought Wawota Agencies (2000) Ltd., which is based in the Saskatchewan community of Wawota, about 200 km east of Regina. In 2017, Andrew bought its first Alberta brokerage, Airdrie-based McCracken Insurance M.I.L. Ltd.

Navacord $ Cooke | Hull Blanket | Smiths'

With its new partnership with Cooke Insurance Group, commercial brokerage Navacord has expanded into Atlantic Canada.

Cooke has four offices in New Brunswick, two in Nova Scotia and three in Prince Edward Island.

Navacord also announced three other new partners: Toronto-based Hull Group, Edmonton-based Blanket Insurance and Regina-based Smiths' Insurance.

Although the deals are acquisitions, Navacord refers to them as partnerships because the partners typically buy into Navacord, with Navacord taking a majority interest in the brokerages.