Capitalizing on Change

There are plenty of changes on the property and casualty insurance front, all requiring care and consideration by industry players hoping, at worst, to keep pace and, at best, to advance to an improved position.

CIP Society Symposium 2014 Toronto

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Attendees of the recent CIP Society Symposium 2014, held this past April in downtown Toronto, heard expert views on issues ranging from p&c consolidation to flood, cybersecurity and customer expectations.

MITIGATING FLOOD EXPOSURES

Home and commercial insurance carriers are mitigating their exposures by changing their policies in the wake of 2013's devastating floods in southern Alberta, Jeff Burke, president and chief executive officer of Western Financial Group Inc., noted during a session at the recent CIP Symposium 2014, hosted by the Insurance Institute of Canada, in Toronto.

As part of a three-person panel at the symposium, Burke suggested that Western Financial brokers are seeing changes in both commercial and residential policies.

"Deductibles are going to $2,500 and $5,000," he said of residential sewer back-up coverage. "Rates are increasing in the neighbourhood of 30% to 35%."

One problem that brokers face, Burke noted, was that "we are not sure that consumers know, even though we have told them and have outlined it, they have a new policy and dec sheets."

Robert Tremblay, director of research for the Insurance Bureau of Canada and a co-panelist, said that consumers need to be informed. Oftentimes, Tremblay pointed out, policyholders receive their insurance policies in the mail and put them away, not going through things until something happens.

"That's when you discover, if you read the small print, that you are not covered for flood, or what you think is a flood is not a flood," he said.

Christine Duffield, senior vice president of client markets for Swiss Re in Canada and a co-panelist, pointed to an ongoing challenge: different people in different areas have different ideas about what constitutes flood.

In Europe, for example, people talk about floods from rivers, Duffield notes; in Ontario, it relates more to flash flood from heavy rain. "How can you develop a (flood coverage) solution when you are not talking about the same thing?"

For flood to be insurable, she suggested there needs to be a common understanding of what is meant by "flood."

The view at Swiss Re is that it is insurable, provided there are key elements of a successful solution. Among these, there would need to be an understanding that some areas are not insurable, a large pool of policyholders would be necessary, and flood maps would need to be available.

Burke said that in High River, Alberta alone, the entire town was evacuated during last year's flooding, leaving approximately 80% of the 550 businesses "heavily impacted."

"All of the commercial carriers that we have, have now changed what they are allowing us to write, and in most instances, it is very limited," he told attendees of commercial flood coverage in High River.

THE LURE OF TELEMATICS

Desjardins General Insurance Group (DGIG) is seeing encouraging receptiveness to its usage-based insurance products, Denis Dubois, the company's senior vice president of claims, acquisitions and general manager of Ontario, Atlantic and Western Regions, said during the CIP Symposium.

"To date, our pick-up rate on our new business is between 30% and 40%," Dubois reported of the Ajusto personal auto option, suggesting that the reason for the healthy rate is that there is "no downside for a customer to sign into the program."

But for those who are opting not to sign up, he suggested there are likely two main reasons.

The first revolves around data privacy, he said, noting that some people "are concerned that what we're telling them will not be what we do."

The second reason, Dubois suggested, is that people simply do not trust the insurance industry, finding it difficult to believe that a program offers the potential for discounts, but not also penalties, signing cost or other types of charges.

"That's an issue for the insurance industry — that trust factor in the population," he told session attendees. "That's why we're not at 90%," he argued.

"The people who are coming in are the people who believe that they can have the discount because of their driving habits," Dubois said.

As to whether the program appears to be more attractive to particular segments of the population than others, he noted that there are no hard lines. "Our target is the population and that's what we're seeing in our profile," he reported, except for uptake among the senior population, which is a bit smaller.

In March 2014, in reporting partial results for 2013, DGIG cited a 3.8-point improvement in loss ratio, pointing out at the time that its auto premium increase was the result of UBI.

Direct written premiums rose 8.1% in the fourth quarter of 2013 compared to the same quarter in 2012 as a result of increased marketing activity and the impact of the company's two UBI programs, the company reported. Last November, DGIG noted that approximately 38,000 customers had enrolled in its Ajusto and Intelauto UBI programs.

The telematics device used as part of the programs collects data, such as distance travelled, hard braking, acceleration and the time of day the vehicle is driven.

IMPROVED CYBER COVERAGE NEEDED

The insurance industry needs to come up with a better cyber coverage product, Peter Zaffino, president and chief executive officer of Marsh Inc., noted during one keynote speech at the CIP Society Symposium 2014.

Zaffino noted there are different types of cyber insurance covering losses in the event of a privacy breach, third-party harm and business interruption. "We have to come up with a cyber product that responds to all the different types of losses in one form," he argued.

"Traditional insurance is not as responsive as it needs to be. Is it an extension of property? Is it third party? Is it professional? What else is it?" he asked.

Zaffino pointed out that not only can business interruption be "substantial," but cyber security incidents also create liability risk. "They expose boards and management for not thinking through, what are the risk mitigation strategies?" he said.

Zaffino told attendees "there is not one fully effective solution to combat cyber. Most corporations are increasing their budgets to enhance data security. Companies are being held increasingly responsible for taking the necessary steps to protect not only their own franchise, their own reputation, but looking at these different risk mitigating strategies and coming up with a solution."

CUSTOMER IS ALWAYS RIGHT

Understanding consumer wants and needs — sometimes driven by technology — will be critically important for the insurance industry in future, Sharon Ludlow, president and chief executive officer of Swiss Re in Canada, told attendees of the recent CIP Society Symposium 2014.

"We can't quite staff all of our organizations with everyone under the age of 14," Ludlow quipped.

That said, "if you really want to get into the minds of the consumers as they will be in the future, either for home and auto, or on the life insurance side," she suggested, "you need to understand how the consumer buys, what their behaviour is, what they need, what they want at various stages of life."

With regard to consumer wants, Ludlow noted there is a "need to broaden our thinking to not just selling a product, but in fact, figuring out how and why the consumer wants to use it."

Exactly what does that mean? "We need to think about innovation. How do we do that? We need to think about the risks and where they're going, and we need to find the people, the right types of people, who can think broadly about those risks so we make sure we're there and viable in 10 years," Ludlow told session attendees.

COMING TOGETHER… IN A BIG WAY

Among the players to emerge in the wake of consolidation of the property and casualty market in Canada are some very large players, Denis Dubois, senior vice president of claims, acquisitions and general manager of Ontario, Atlantic and Western Regions for DGIG, suggested during the symposium.

"What we see down the road is not a $7-billion insurer. What you'll see is a $10-bllion insurer — and you'll see two or three of them," Dubois said.

With the completion of Intact Financial Corporation's $2.6-billion acquisition of AXA Canada in 2011, Dubois said that Desjardins officials decided to look at all the options.

The emergence of these large companies will not be in 10 years, Dubois suggested, but "probably within five years. So, do you want to position yourself as one of those or take another position within the market with the implications of that?"

Scale was certainly a consideration when Desjardins began discussions with State Farm.

Desjardins Group announced earlier this year that it had entered into a definitive agreement to acquire State Farm Canada's p&c and life insurance business, as well as its mutual fund, loan and living benefits companies.

"We have to come up with a cyber product that responds to all the different types of losses in one form," Peter Zaffino argued. "Traditional insurance is not as responsive as it needs to be. Is it an extension of property? Is it third party? Is it professional?"

Subject to regulatory approval, the transaction is expected to close in January 2015. The acquisition would make Desjardins the second largest p&c insurance provider in Canada, with annual gross written premiums of about $3.9 billion.

In late 2010, Desjardins announced an all-cash offer to acquire Western Financial Group. Among other things, the move provided a platform in Western Canada for global products distribution to serve existing clients of Western Financial Group and Desjardins across the country.

Dubois does not characterize the Western Financial transaction as "a p&c move," but rather the big driver for Desjardins was to establish a footprint outside of Quebec from a financial institution perspective.