

EVOLUTION CONTINUES TO ACCELERATE: Insurers working to keep up

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customer preferences for how they want to buy insurance products and be serviced.

"We've been working to align our business to respect that evolution and that is not something we see slowing down," Mr. Somerville said.

"If anything we see it accelerating in 2015 and beyond."

Economical's Ms. Gavan said broker-based insurers need to support their partners through education and enhanced technology.

"I think that what we need to do is help our broker partners deliver on those consumer expectations and being able to provide the backend support though policy administration," she said.

"That is going to encourage broker access to our system to support the consumer 24/7 on a more real-time basis and improve more dynamic pricing to respond to market condition and ultimately make it easier for our broker partners to do business with us."

Although Economical has not made the same commitments to telematics as some other insurers, Ms. Gavan said that they don't eliminate future possibilities of adopting such technology.

"We've studied it and continue to monitor the situation and are ready to move at any time but we are not pushing forward right now," Ms. Gavan said.

"The cost of the device and monitoring, which automatically increases your cost on your policy and then it's a discount-only model — we struggle with whether or not the actual savings and benefits justify that cost at this point in time."

Mr. Somerville noted that another concern for insurers in the New Year is reaching the 15% auto premium rate reduction by August 2015, which was put forth by the government. While the passing of Bill 15 is a good start, reaching the target may still be a challenge.

"We are optimistic that we will find solutions that will move us in that direction," he said.

"Whether we get to the 15% is

going to be dependent upon the kind of reforms we get. We need more and bolder actions to be taken to move towards the 15% target."

Ms. Gavan and others share that opinion.

"While Bill 15 is welcome legislation, it's certainly not enough to get the industry to an overall 15% decrease," she said.

"And it doesn't happen overnight."

Another crucial matter for Economical and the industry at large is how the federal government will approach demutualization.

Ms. Gavan is hopeful that more progress will be made in 2015.

"The road to demutualization has been long but there has certainly been progress," she said.

"While we don't know exactly what the regulations will look like when they come, we do know that the department of finance has undertaken a comprehensive consideration process and have a very informed view of the issue."

There are chances for growth in the industry in 2015 but Sean Murphy, president of Lloyd's Canada, says that it will come from exploring new territories.

"Rates in Canada will continue to be under pressure and growth in traditional classes of insurance will be limited, however, there remains a large gap between economic and insured losses in developing economies which can be exploited as a future source of new premium growth," he said.

Mr. Murphy noted that other growth opportunities lie in new product innovation in emerging risks such as cyber and supply chain disruption, but to ensure growth the industry has to promote and communicate these new products effectively to customers.

At Intact Insurance, president Jean-Francois Blais said the company is aiming to continue to build "on our scale and brand and our people but consumer experience and technology are probably two areas that we will move hopefully significantly in 2015."

More competition expected New entrants challenge commercial players

COMPETITION and transformation are likely to feature prominently this year, according to the president and ceo of MSA Research, Canada's premier analytical research firm for the p&c industry.

Joel Baker says that on the commercial lines side, he expects the significant increase in competition will continue with new entrants into the market, particularly in specialty lines.

"While this is good for buyers it poses a long-term threat to commercial writers," he told *Thompson's*. "Underpriced lines will haunt them down the road."

Mr. Baker noted that it might take years for the consequences of this to become clear as claims develop.

Transformation in the insurance industry will likely come with the increased need for cyber insurance, as criminal and state-sponsored cyber attacks continue to become more sophisticated.

"Demand for cyber cover will increase but whether the market can offer responsive cover, at what the risk management community perceives as a reasonable price, remains to be seen," Mr. Baker said.

"This is certainly a growth area for the Canadian and global insurance industry."

In Ontario, the main concern for insurers, of course, lies with Bill 15 and whether the changes it brings will be sufficient in order for insurance companies to reach a government-mandated 15% rate reduction.

"We will discover whether Bill 15 will be enough to offset the mandatory auto rate rollbacks that are wending their way through the system. No one ever got rich betting on sustainability of that market; we're not holding our breath."

Mr. Baker added that with rate reductions being mandatory, it will be interesting to see whether the industry can absorb rollbacks while maintaining reasonable profitability.

Meanwhile, auto remains unprofitable for insurers in the Atlantic provinces, too — something he suggests is not a problem that can be resolved quickly.

"Reasons vary from rate restrictions to generous payouts," Mr. Baker said. "As other prognosticators have mentioned, this has limited capacity in Newfoundland as several markets have chosen to leave."

Weather will continue to be a big uncertainty for the insurance industry, he said. And while 2014 wasn't as disastrous as 2013, it's hard to say what 2015 holds.

While the industry is looking toward a solution for residential flooding, "there's nothing currently in place and in the meantime consumers and policymakers haven't been sufficiently educated as to the lack of coverage should another Calgary-type event happen," Mr. Baker said, adding that this poses a serious risk to the industry.

Institute set to launch new app

AS THE INDUSTRY evolves so must its educators. And so 2015 will bring some technological and program changes to the Insurance Institute of Canada as it continues to respond to stakeholder needs.

"From a technological innovation standpoint what we are doing is helping our members really improve and prepare themselves to this new dynamic in the industry — technological innovations," said Peter Hohman, president and ceo of the institute.

In addition to continuing with social media tools such as a YouTube program which Mr.

Hohman said has been a tremendous facilitator in reaching out to the younger demographic, the institute will launch a mobile application in this year to help students practise exam questions and improve learning techniques on their hand- help devices.

"As an education facility we are looking to use mobile much more so our website is compatible with all the mobile devices," Mr. Hohman said.

And further enhancing its e-learning capacity, the institute will also be moving toward computer-

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Institute moves to three-week exam window

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based Chartered Insurance Professional exams later this year.

"We will have our first exam in December 2015 and then we will fully transition the industry by December 2017," Mr. Hohman said.

"We had that window to allow those people who really might not want to work in a computer-based environment the opportunity to finish up the more traditional way."

Not only will this "save sore hands," according to Mr. Hohman, but it will enable students to organize their time better as there will be a three-week window to complete the exam.

"It's very helpful for the students from a convenience perspective and even from an employer's perspective," Mr. Hohman said.

"Right now it's not uncommon for managers to lose a number of people out of their department during that one week window but now it will be spread over three weeks and that way they will be better able to manage how their staff move through the CIP program."

The institute is also planning to introduce some new programs.

It will offer an advanced CIP program, which is a four-course program designed to enhance the insurance knowledge and management skills to CIP graduates and a p&c insurance essentials workshop for senior executives who are new to the industry and need to improve their insurance knowledge.

And as a supplement for the essentials workshop, there will be a program for company boards of directors where the curriculum is fine-tuned for senior industry executives.

"We have already done that with success in just the last few months so we will see both of those programs continuing to gain traction into 2015," Mr. Hohman said.

The institute has also introduced a new mentoring program (story, page 3).

Insurers continue to face tough regulations

CANADIAN regulators are expected to continue to focus on capital requirements including the Own Risk and Solvency Assessment regime, which is due to be implemented this year.

According to Lawrie Savage of the international insurance consulting firm Lawrie Savage and Associates Inc., the relationship between Canadian regulators and insurance companies continues to be a good one.

"Canada's reputation is exemplary," Mr. Savage said.

"I have worked in some 40 countries as an international consultant in financial regulation and without exception I've found that Canada is well respected in this area, including for p&c regulation."

One of the reasons behind this successful relationship is outlined in a recent paper Mr. Savage wrote for the University of Calgary, which outlines how a "period of exceptional turbulence during the 1980s had the effect of giving rise to a superior system of regulation."

He noted that today, Canadian regulators have a tendency to worry, thinking that something might happen to tarnish the fine international reputation, which in turn might be detrimental to the regulation of p&c insurance companies.

"From a risk-based perspective, it seems to us that trying to apply a system that has been designed for gigantic institutions, to small institutions, will not be the best use of regulatory time and effort," Mr. Savage said.

He noted that many of the regulatory guidelines are designed with the big banks in mind, and they make some of the even larger p&c insurance companies seem small in comparison.

"There is an issue with respect to very small financial institutions having to struggle with guidelines designed for banks whose balance sheets are approaching the trillion-

dollar mark," Mr. Savage said.

"Small institutions just do not have the resources to maintain 'sound practices' at a level that is comparable to, say, a big bank."

And while the Office of the Superintendent of Financial Institutions takes the size and sophistication of an institution into account when applying guidelines, Mr. Savage said that's easier said than done when trying to put it into practice.

"An area where improvement

could be made is with regard to scaling down the application of guidelines designed for very large institutions, to much smaller institutions," Mr. Savage said.

"There is no formal and consistent process for doing this. So for the same reasons OSFI found it necessary to develop a complex framework for assessing risk, we'd say that there needs to be a formal process to take account of institutional size in a consistent manner."

New RIMS president aiming to enhance global presence

THE NEWLY elected president of The Risk Management Society said his primary goal for 2015 will be to continue to enhance the group's profile as a global entity for his colleagues.

"The focus is going to be that we keep RIMS at the forefront and make sure that we stay as the premier risk management association around the world," said Rick Roberts, director of risk management and employee benefits for Connecticut-based Ensign-Bickford Aerospace & Defense Co.

"We've really blended a lot of what we have been looking to do over the past three to four and my hope is to continue to grow on those things."

Mr. Roberts, who has been a member of RIMS for 25 years, and on its board of directors for seven, said that its strategic planning lies in three key areas: growing and fostering international networks, making sure that the establishment is run as efficiently as possible and continue outreach in educational establishments.

"There are a lot of people coming into risk management from the brokerages in their mid 30s to 40s," Mr. Roberts said.

"So we try to get them more active and involved and get them resources to help them grow into their positions quickly."

RIMS will continue to push for the recognition of risk professionals within members' companies to help senior management make informed decisions around the different risks that organizations face.

"RIMS is really trying to push things for our members to educate what strategic planning is about so that's where we hope to keep seeing things going," Mr. Roberts said.

He noted that the role of the risk manager has shifted significantly over the years to loss control and strategic planning.

RIMS will also continue lobbying efforts in Washington D.C. to try and reach decision makers for the Terrorism Risk Insurance Act, which was not extended upon its expiration in December.

"We are starting a letter writing campaign to congress people and senators to let them know that this is a very important issue and that the senate couldn't get this bill passed is really kind of silly."

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