Cook calls for comprehensive catastrophe cover for Canada

COMPREHENSIVE catastrophe coverage for Canadian policyholders could capture more premiums for the country's p&c pot, a longtime industry player said last week at the Insurance Institute's annual Industry Trends and Predictions breakfast in Toronto.

Philip Cook, ceo of Omega Insurance Holdings, noted that the reinsurance industry generally defines a catastrophe without having to define its cause — and Canadian insurers should be striving to get to that level.

He credited the insurers here that have come out with new flood products so far but said it is regrettable that there hasn't been more consistency.

"Companies have stepped in but they are all doing it differently, which is fine for diversity but it means that other insurers have a lot of catch-up to do," Mr. Cook said.

"The industry would be best served by offering a comprehensive catastrophic coverage because flood is the flavor of the month now but earthquake was the flavor of the month before that.

"If we were to be selling coverage based on catastrophic exposure without defining it, (the p&c industry) would get a much broader base of premium income because everyone in Canada is exposed to one sort of catastrophe or another."

He said that while new exposures in the property insurance arena are not necessarily expected this year, global figures from 2015 are notable for p&c insurers.

"It has been estimated that out of the $85bn of catastrophic losses in 2015, only $32bn was insured.

"So the largest insurer ended up being governments," Mr. Cook said.

"If we can't find a way for the insurance industry to work with those governments and get some penetration and an insured portion, we actually run the risk of becoming insignificant.

"The industry needs to show that we can be significant because it's not a good situation that governments are the biggest insurers out there."

MR. COOK also addressed regulation — more specifically, less of it.

He said the industry is hoping for changes through the review of the mandate of the Financial Services Commission of Ontario (*Thompson's*, Nov. 16 issue).

"The rationale for the changes is the dilemma, which we have recognized for years, that in Ontario the same regulator looking at prudential and solvency requirements also regulate rates — which creates an automatic friction.

"The regulatory side wants strong and healthy surplus and on the market conduct and rate making side the regulator is pushing for better or lower rates.

"There is never not going to be friction."

He added that if FSCO decides to follow recommendations from the mandate review, it will solve some of its major problems. And any change at all will be positive.

Mr. Cook noted that regulation is cited as the number one concern in the insurance industry according to PwC's 2015 'Banana Skins' survey. He said it is estimated that 25% of insurers' expense ratio is allocated to regulatory compliance.

He said the "Internet of Everything" is likely going to affect the insurance industry more than anything else in 2016.

"The indications from the scientific community is that there are 1.6 billion connected things on the municipal level around the world creating 'smart' cities.

"Almost everything is the Internet of something which will cause a lot of very interesting exposures."

Mr. Cook said that more exposures will also become apparent through the increase in the sale of driverless cars, which are expected to number 20 million or more over the next 10 years.

"Connectedness is creating a significant exposure but a new auto business will dramatically change underwriting.

"Consider that this year is the first year we'll see drivers who were born in the 21st century — a scary thought for parents and underwriters," he said.

But how will the industry rate the risk if there is no driver at all?

"Governments and the industry are going to need to grapple with this and while I can go on about it it's important to just think about the limitless exposures on the liability side — like product recall, failure and even fraud pieces — there will be a huge move back to the liability side of the account."

Mr. Cook said that while there are no definitive financial results from 2015 yet, an update of the third quarter results based on fourth quarter changes from prior years suggests that the industry will produce an underwriting profit in 2015.

"Domestic companies will have a combined ratio of 97% and foreign companies will have a combined ratio of 92%," he said. "Combine that and it will come close to around 96%, which means a four point underwriting profit.

"We did make a small underwriting profit (in 2014) and it looks like we will be comfortable in 2015."

He said the industry is still far from seeing a swing in its cycle and the market will likely remain soft for the foreseeable future.

Despite pricing pressures, insurers are beginning to figure out how to make money at the bottom of the cycle.

"We saw evidence of that last year," Mr. Cook said.

"If that continues, and there is no reason that it shouldn't, then we can conclude that the industry has discovered how to operate in that soft market, and that in itself won't prompt a change."

Cyber risk management becoming standard practice

CONVERSATIONS about cyber security are quickly becoming standard at the executive level of corporations of all sizes.

Matthew Davies, assistant vp and cyber liability manager at Chubb Insurance Co. of Canada, told *Thompson's* that privacy breaches and network security issues have been pressuring company decision makers to look closely at their cyber risk management.

"Also, insurance brokers are becoming more familiar with insurance products that address cyber exposures which allows them to advise their clients on the availability of such coverage."

Mr. Davies said that in addition to growing awareness of cyber security, increased legal obligations have forced companies to manage sensitive information more closely.

"Canada's Digital Privacy Act was passed into law in 2015 with full enforcement expected by late 2016 (and) as a result organizations should be reviewing their corporate information management policies and procedures to ensure they are in compliance with the changes that this legislation will impose."

He noted that cyber security has been part of good corporate governance since the Y2K data storage conundrum.

"Although it never manifested itself as a threat, most organizations were ready just in case it turned into a doomsday event," he said.

Kevvie Fowler, cyber security and national forensics leader at KPMG, noted that back then it was rare that cyber risk made it up to the senior executive level.

But these days companies see it as a boardroom issue.

"Major breaches get a lot of attention but the aftermath and impact of cyber insurance lies not only in mitigating risk but other services that did not exist a number of years ago," Mr. Fowler said. "Inquiries directed towards insurance companies include tailored products, assessing controls, determining risk and other factors associated with the risk.

"Policies have evolved and insurers need to do their due diligence in assessing the risk profiles of each company."