The Cover Note

WINTER 2012 - Volume 5 Issue 1

EDITORIAL

2012 is a very special year for BFL. It is our 25th year of existence. I am thrilled and awed both, that we have been around for a quarter of a century. Like all entrepreneurs, although I had a vision of what BFL should become, in all honesty, I had not thought so far into the future when we first opened our doors.

Barry F. Lorenzetti

As is the case for any other company, the road was, and still is, paved with challenges, risks, opportunities arising from an ever changing business environment, the evolution of client needs and technologies, globalization, regulation and a multi-generational work-force, just to name a few.

These issues confront business people everyday, to whatever industry your company belongs. In addition to the fact that these issues need to be addressed and managed, reality is that every increment of change requires you to adapt to a new reality with its own set of rules and consequences. Just think about the role of Director or Officer, about cyber risks and trademark infringement, about social media and supply chain disruptions. As society and technology evolve, so does the risk management and insurance business.

As a result, over the years, risk management has been pushed to the forefront and insurance products have had to be adapted. Clients have assumed larger portions of risk themselves as a means of controlling their insurance program and when they do purchase insurance, they look to underwriters who are able to respond to their special insurance needs by offering made-to-measure products.

All in all, survival and growth of any organisation over time is about its ability to adapt to and deal with its ever dynamic environment.

At BFL, we had to work really hard, be creative and daring, but most of all flexible in order to carve a place for ourselves in the market. I am extremely proud to say we have succeeded, and how!

However, beyond rejoicing about everything we did right to achieve this milestone while experiencing strong and continuous growth, there are countless individuals, clients, business partners, insurers, law firms, adjusting firms and all other stakeholders in this industry that we need to thank.

We are truly grateful to all who gave us a chance to prove that we can and do deliver.

But make no mistake; BFL's story does not stop here. Our team is not only highly qualified, it is strongly motivated. And we plan to maintain our offer of impeccable service, innovate and adapt, in order to continue what we started 25 years ago. ♦

Survival and growth of any organisation over time is about its ability to adapt

In this issue

GREEN INSURANCE IS GROWING

Geoff McKee, Vice President and Senior Client Executive, Real Estate
BFL CANADA Risk and Insurance Inc., Montreal

Everyone seems to be thinking about the environment these days. Virtually every town and city has a recycling program and schools are impressing on kids at a very young age the need to be environmentally-friendly. My children won't even let me run the water long enough to shave or brush my teeth without lecturing me on wasting water.

Since the late 1990s, when the first 'green' building was constructed in the United States, emphasis has been focused on developing and constructing green-certified buildings in Canada and around the world.

Leadership in Energy and Environmental Design (LEED) consists of a suite of rating systems for the design, construction and operation of high performance green buildings, homes and neighborhoods.

Canada Green Building Council (CaGBC) is the sole Canadian licensee of the LEED Rating System, LEED Workshops and LEED Professional Accreditation as developed by the United States Green Building Council (USGBC).

The first building to be designated LEED in Canada was in Victoria, B.C. in 2001. Since then, approximately 500 green buildings or spaces within buildings have been LEED-certified in Canada. There are four LEED levels available – certified, silver, gold and platinum. Which LEED level a building is awarded is dependent on the number of points gained through the certification process.

Points are awarded based on water and energy efficiency, indoor air quality, and the environmental friendliness of construction materials and the development site. Although constructing buildings to LEED standards (i.e. using recycled building materials), having lighting sensors, low-flow toilets, paints with low volatile organic compounds and green roofs is considerably more expensive than non-LEED standards, the building owner will recover those costs over time with lower operating costs and healthier working and living environments for the occupants, whether it be workers, residents or tenants. Energy and water consumption costs can be reduced by over 50%. Vegetative roofs can cost upwards of 10% more to build but their lifespan is estimated to be double that of a conventional roof, not to mention the fact that they are far more energy efficient. The additional costs can be realized in energy savings in the first two years. The energy savings and storm water pollution reductions, meanwhile, continue for the life of the building.

Studies have also shown that LEED-certified buildings command far higher rental and sales levels and lower vacancy rates. A recent study by the CoStar group found the following:

LEED buildings command rent premiums of $11.33 per square foot over their non-LEED peers and have 4.1% higher occupancy.

And, in a trend that could signal greater attention from institutional investors, LEED buildings command a remarkable $171 more per square foot when put on the market for sale.

One of the factors leading to this phenomenon is that the demand for LEED-certified buildings far outstrips the current supply.

So there is little doubt that LEED-certified buildings are the way of the future as far as energy savings and healthier environments, but what happens in the event of a fire or other covered insurance claim?

Insurers are typically required to rebuild the structure as it existed prior to a loss using traditional construction methods and to current building code standards. The issue in dealing with a LEED-certified building is that many of the construction methods and materials are more expensive than in a traditional construction project.

Insurance adjusters may not agree to pay for the more expensive materials and methods unless the policy has been amended appropriately. These additional costs can include:

- The increased construction cost of using 'green' products or LEED-certified materials or construction methods;
- The additional cost of Energy Star appliances, lighting and electrical systems, low-flow plumbing fixtures and other energy efficient plumbing systems and sensors;
- The cost of using environmentally friendly materials for interior finishings (paints, carpets, etc.);
- The cost of replacing vegetative roofs;
- The additional cost of disposing of damaged materials in an environmentally friendly and sustainable way;
- The increased fees to hire a LEED Accredited Professional to oversee the reconstruction of a damaged LEED building and engineering or other consultants to oversee repairs and other building systems commissioning expenses.

Fortunately, certain insurers in Canada and in the United States have designed policy enhancements to tackle just these issues.

For example, Affiliated FM has come up with a Green Coverage endorsement which addresses all of those concerns, and then some.

BFL CANADA Risk and Insurance Inc.
45 Westwind Drive
Hammonds Plains, NS B3Z 1K6
Tel: 902-864-4982
Fax: 902-864-0200

2590 Laurier Blvd, Suite TBC 600
Quebec City, QC G1V 4M6
Tel: 418-658-6337
Fax: 418-654-2045

2001 McGill College, Suite 2200
Montreal, QC H3A 1G1
Tel: 514-843-3632
Fax: 514-843-3842

BFL CANADA Risk and Insurance Services Inc.
2685 Queensview Drive, Suite 101
Ottawa, ON K2B 8K2
Tel: 613-722-7798
Fax: 613-722-7829

181 University Avenue, Suite 1605
Toronto, ON M5H 3M7
Tel: 416-599-5530
Fax: 416-599-5458

BFL CANADA Insurance Services Inc.
175 Carlton Street, Suite 205
Winnipeg, MB R3C 3H9
Tel: 204-594-0260
Fax: 204-594-0259

877 Henderson Highway
Winnipeg, MB R2K 2L8
Tel: 204-661-2446
Fax: 204-663-0344

1167 Kensington Crescent NW, Suite 200
Calgary, AB T2N 1X7
Tel: 403-451-4132
Fax: 403-313-3365

5185 South Ridge Drive
Kelowna, BC V1W 4Z4
Tel: 250-863-8859
Fax: 778-477-0011

1177 West Hastings Street, Suite 200
Vancouver, BC V6E 2K3
Tel: 604-669-9600
Fax: 604-683-9316

1-866-688-9888

Some of the highlights of their endorsement include coverage for:

- Additional costs to replace damaged property and materials with green alternatives;
- Additional costs to replace damaged roofs with green roofs including vegetative systems;
- Additional costs for the removal, disposal and recycling of damaged property;
- Air flushing with 100% outside air;
- Replacement filtration media for ventilation systems;
- Costs to hire an accredited green consultant to assist in green design and reconstruction;
- Certification or recertification in accordance with the client's choice of recognized green authorities.

In addition, recognizing that going green or repairing or replacing green buildings may take extra time and effort, the endorsement provides extended business interruption coverage for the increased time it may take to undertake covered green practices, including the extra time to secure green certification.

One of the added benefits of Affiliated FM's green coverage is that even if the insured is not LEED-certified prior to the loss, the insured can choose the level of certification that's right for their business with no restrictions. In other words, they may opt to go from being uncertified to the gold or platinum level as long as the additional costs are within the limits of liability they have purchased. These limits are a single limit and are in addition to the standard coverages on the policy.

Chartis Insurance Company also have their own version of a green endorsement which is called the "Upgrade to Green" endorsement. Similarly, they cover the additional costs to upgrade interior finishes, interior plumbing systems, lighting systems, heating and cooling equipment, roofing systems along with personal property. In the event of a total loss to a non-LEED-certified building, you can upgrade to the silver level (all, of course, subject to the limit of liability on the endorsement). They will also pay the registration and certification fees charged by CaGBC up to a sub-limit.

Chartis also includes in their endorsement, subject to varying sub-limits: recycling expenses, air testing and outdoor air ventilation of the reconstructed space, professional services along with building commissioning expenses.

While 'green' coverage has been slow, in some cases, to be offered in Canada, other insurers such as Travelers have their own versions of green enhancement endorsements which are now offered in Canada. These insurers allow for the insured to upgrade to a green-certified level or to maintain their level of certification following a loss, albeit with more modest limits of coverage.

Other 'green' insurance products, which we have seen being offered south of the border but not yet in Canada, include energy savings insurance whereby a building owner can insure against the risk that capital improvements fail to generate the anticipated energy savings. Also available is green reputation coverage which provides up to $50,000 in coverage, per occurrence, for costs to manage a reputational crisis when a green building fails to meet industry standards and public expectations.

In all of the examples mentioned above, your broker can help you to determine the level of available coverage that you should consider and the additional costs involved. The additional premium depends on the available limit purchased.

It is evident that 'green' insurance products are beginning to evolve quickly and will continue to do so, as the environment continues to be a hot topic, especially amongst the children and young adults who, fortunately, have been raised and programmed to be environmentally-conscious and who will be the business and political leaders of the future. ♦

Volume 5, Issue 1

A PENSION PLAN FOR SMALL BUSINESSES AND SELF-EMPLOYED WORKERS

David Vanasse, President
BFL CANADA Consulting Services Inc., Montreal

For several years, retirement savings reforms have been the subject of discussions, and the focus of numerous meetings between federal and provincial Ministers of Finance. Industry specialists agree that the current system is not in a crisis and, in fact, has some strong points; they do, however, recognize that too few Canadians are saving enough for retirement.

Thus, last November the federal government introduced a bill to implement a framework for a Pooled Registered Pension Plan (PRPP). The PRPP would allow small businesses to offer their employees a retirement savings option at low cost, while relieving the business of the financial burden and responsibility of a traditional pension plan.

At the provincial level, Quebec is the only province that has confirmed its position with respect to the PRPP and announced various measures to improve the pension plan system for the Quebec population. One of these is the eventual creation of a new type of retirement savings plan, called the Voluntary Retirement Savings Plan (VRSP), which will be harmonized with the PRPP, to facilitate mobility of the workforce and to promote "large scale" plans.

The current view is that various PRPPs/VRSPs would be offered through financial institutions, which would be the plan administrators. Here is a summary of the guiding principles currently being studied for the PRPPs/VRSPs:

- **Plan administration:** Regulated financial institutions, able to fulfill a fiduciary role, would be eligible administrators. This role includes the management of investment options, administration and communication with participants.
- **Participation:** It has not been decided whether participation of employers would be optional or mandatory. However, some stakeholders are in favour of a system requiring all employers to offer a savings plan, whether it is a traditional pension plan or a PRPP. Employees would have a choice to opt out of the PRPP/VRSP.
- **Role of employer:** An employer offering a PRPP/VRSP would only play a limited role. They would have to choose an administrator and remit employee contributions. They would also be able to make contributions, but this would not be mandatory.
- **Employee contributions:** Employees with access to a PRPP/VRSP would be required to contribute at a minimum base rate.
- **Investment selection:** The PRPP/VRSP provider would ensure that appropriate investment options are offered and inform employees.

In summary, for an employer who implements a retirement program, the appeal of the PRPP/VRSP is the virtual elimination of the administrative burden and fiduciary responsibility.

Nevertheless, several questions regarding the workings of the PRPP/VRSP need be addressed:

- **Tax rule:** Will the PRPP/VRSP be treated as a Registered Retirement Saving Plan (RRSP) or a Registered Pension Plan (RPP)?
- **Locking-in:** Will both the employee and employer contributions be locked-in?
- **Harmonization:** How will an employer's retirement program compare with the minimum requirements of the PRPP/VRSP?
- **Other requirements:** What type of investments will be offered (guaranteed investments, fixed term investments,...)? Will management fees be set in order to protect employees? What information should be disclosed to them?

As you are aware, some of the issues raised above could have a significant impact on the final product. Therefore, it would be wise to wait before forming a definite opinion.

Notwithstanding all of these issues, there is no escaping the fact that it is the employees' and employers' responses to this new savings vehicle which will be the deciding factor. Will employees welcome the opportunity to save more, or will their economic reality (taxes, rising tariffs and payroll deductions, inflation, etc.) prevent them from achieving their retirement goals? And will employers be willing to contribute to these plans in support of their employees, and at what level? All of these factors will be conclusive and will contribute to either the success or the failure of this planned initiative. Stay tuned. ♦

25 Ans | Years BFL CANADA

BFL CANADA Consulting Services Inc.
2590 Laurier Blvd, Suite TBC 600
Quebec City, QC G1V 4M6
Tel: 418-658-6337
Fax: 418-654-2045

2001 McGill College, Suite 2200
Montreal, QC H3A 1G1
Tel: (514) 937-4188
Fax: (514) 937-5585

181 University Avenue, Suite 1605
Toronto, ON M5H 3M7
Tel: (416) 599-5530
Fax: (416) 599-5458

1177 West Hastings Street, Suite 200
Vancouver, BC V6E 2K3
Tel: (604) 669-9600
Fax: (604) 683-9316

1-866-688-9888

Send comments or suggestions to Corporate Solutions, BFL CANADA: publications@BFLCANADA.ca