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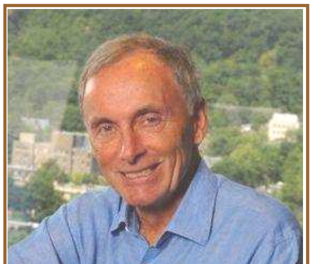
The Cover Note

EDITORIAL



Barry F. Lorenzetti

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INSIDE THIS ISSUE:

I am very happy to address you on this occasion of the first publication of the BFL Canada Newsletter – The Cover Note. Our foremost objective is to provide you with food for thought and information on the gamut of topics and issues which converge to or stem from the world of Risk Management and Insurance.

One such topic which, I am quite certain, you all are reflecting on at this juncture is global warming/climate change and how it will affect our world as individuals but also how the economy and respective industry sectors and companies will be affected by it.

While scientists and politicians are still debating the measure of this phenomenon, all organizations should be pondering the extent of their vulnerability and preparing not only to minimize the impact on their operations but also, for the industries most at risk, the survival of their organizations.

There already has been discussion about how, for instance, catastrophe property insurance will be affected by more frequent and more severe events: erosion of capacity and higher rates. This however, could be only the tip of the iceberg.

For many reasons, including the evolution of the economic world order, climate change will most probably be coupled with steep price increases for energy in all its forms and shortages in some parts of the world. This previous sentence seems simple enough – harmless enough – just words on a page; but their significance will be very hard felt in time.

The cost structures of whole industries will be transformed and the companies not prepared for this will be bought out, consolidation will surely occur in many industries (which is not good news for consumers, individual and commercial alike), companies will take more risk with respect to insurable events and expose themselves, and the divide between rich and poor we have been witnessing in our society will only be exacerbated and possibly cause serious social tension.

The availability and affordability of energy is at the core of the current economic model and unless important progress is made in the development of cheap renewable energy sources AND we learn to conserve energy seriously, there will be unimaginable impacts on our daily lives.

There is one industry which our economy relies on heavily and where this situation is foremost on the minds of all: trucking. Sherry Orr, Vice-President in our Calgary office and National Practice Leader, Transportation for BFL Canada addresses the issue at greater length in an article below.

Till next time!

Global warming and the Trucking industry

Sherry Orr
Vice-President
National Practice Leader — Transportation
BFL Canada, Calgary

The trucking industry has been seen as being a major polluter and having significant impact on the amount of green house gas emissions. In 2004, transportation of every type consumed nearly 31% of all energy used in Canada as reported by Statistics Canada. This is the second largest user after industry. The green house gases (GHG), identified as emitted by transportation, include carbon dioxide, methane and nitrous oxide.

Statistics Canada reports there were 761,000 tractors and trucks (weighing at least 4500 kilograms) registered in Canada in 2006. These trucks consumed about 8.8 billion litres of diesel fuel per year. This is an increase of about 32% since 2000. Virtually every item that is in your home or office has been moved by a truck, at one time or another. Many companies rely on the trucking industry not only to move their products but to act as a mobile warehouse. This "just in time delivery" allows manufacturers and other companies to be more competitive by saving them the expense of large inventories. The demand for more trucks has also been in response of our growth in trade. Between 1990 and 2003, cross border trade to the US grew five times faster than domestic traffic, handling 90% of all consumer products and foodstuffs.

The trucking industry is actually implementing many positive and proactive measures to reduce GHG's and to improve our environment. The Canadian Trucking Alliance (CTA) is a federation of all the provincial trucking associations. For many years the CTA has been very active in dealing with environmental issues and has made recommendations relating to the trucking industry and global warming. In June 2006, the CTA issued at all levels of government a paper titled "Trucking & a Made in Canada Clean Air Act". This paper can be found at www.cta.ca. This 14 point action plan outlines measures that, if implemented, would result in emissions savings equivalent to removing 235,000 trucks from the road. Some of the key recommendations are:

Engines – in the fall of 2006, smog–free truck engines and ultra-low sulphur diesel fuel were introduced. This new generation of engines and the ultra low sulphur fuel are mandatory and are regulated by Federal law. With the use of this new technology between 2007 and 2010 the emissions of particulate matter and nitrous oxides will be virtually eliminated. The Province of B.C. has recently announced a mandatory retrofit program for commercial heavy duty diesel vehicles manufactured between 1989 and 1993. There could be up at a 50 percent net reduction in particulate matter of emissions from these vehicles.

Long Combination Vehicles – A simple definition of Long combination vehicles (LCVs) is where more than one trailer of a certain length are pulled by either a class 7 or class 8 tractor. For over 40 years, LCVs have operated in some Canadian provinces and for the past 17 years in several U.S. states. Safety studies have shown that LCVs are 2 – 3 times safer than single trailer operation, mainly due to the strict permit conditions under which LCVs operate. Weather conditions restrictions, time of day allowed for travel and extensive driver training all contribute to the safe operations of LCVs. Because the use of LCVs allow for more goods being shipped, recent studies state there is an approximate fuel savings of approximately 30% to their use. These fuel savings directly reduce the amount of GHG emissions.

Speed Limiters to be placed on trucks – the CTA has issued a policy statement recommending that trucks operating in Canada have a maximum speed limit of no more than 105 km/h. All trucks manufactured after 1995 would be required to have their speed limiter activated and set to this speed. Again, the fuel savings would significantly impact the amount of GHG emissions. The Government of Ontario introduced legislation in the fall of 2007 to adopt the CTA's recommendation of mandatory speed limiters on all tractor trailer units operation into, out of and within Ontario with the mandated speed of 105 km per hour.

While these recommendations and strategies will significantly improve the environment, the trucking industry will bear a huge financial burden. The cost for the new 2007 model of smog free engine is approx $8000, the cost for installing an anti idling device would also cost several thousands of dollars. In order to help reduce GHGs, our Governments need to recognize the efforts of the trucking industry by offering incentives for the purchase and implementation of the available technology.

In order to maintain pressure on the trucking industry to reduce GHG emissions, the shipping community can begin choosing to partner with those trucking companies who are proactively embracing environmentally friendly technology.

One of many good examples is expressed by Gene Orlick, President of Orlick Industries Ltd and the President of the Alberta Motor Transport Association. "The owners and staff of Orlick Industries Ltd. are committed to protecting the environment by using advanced technology solutions in many areas of our fleet, from smart dispatching techniques to detailed monitoring of driver performance and fuel consumption. We utilize many aerodynamic devices on our tractors to further enhance our fuel efficiency and reduce greenhouse gas emissions.

The SmartWay Transport Partnership allows us to track our progress and challenges us to continue to improve our performance in protecting the environment".

Back in the 1990's, safety was a major concern and shippers had very specific safety requirements for the trucking industry. Trucking companies were selected based on their safety standards and performance. Shippers need to take this same view on global warming; as they have an impact. By partnering with an environmentally conscious trucking company, shippers will be able to assist in the reduction of GHG emissions and will encourage further investment into environmentally friendly technology.

The number of trucks on the road is expected to increase in the future and we have an opportunity to select the type of equipment that is being used.

So, there is a choice. Trucking companies can choose to be environmentally proactive and the shipping community has the opportunity to utilize those trucking companies who are demonstrating the use of environmentally friendly technology. After all, it is our world and we can make a difference. ◆

My Corporation For A "Crystal Ball"!

Anne C. Taylor, CIP, CRM
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How can corporations plan and budget for the mysterious cycles of the insurance market?

The "mystery" of the insurance market is merely a perception, as we can go right back to the old theory of "supply and demand" or "claims vs. premiums" or "investment profit vs. losses ratio" to understand the historical cycles in the insurance market place.

We all know about "supply and demand" so that it certainly needs no explaining, except maybe to mention that globalization of markets largely affects supply as, for example, we witness the costly effect of large storms on a regular basis. That insurers must consider the "claims vs. premiums plus investment profit" ratio is also pretty simple, except for the increasing impact of catastrophes on insurers' results. This leaves the "investment profit" component, non existent per se in current times.

This situation has resulted in strict mandates to underwriters to adhere to underwriting rules but alas, along comes competition driving the pricing down.

Obviously, market softening is not an issue for budgeting but insurance is a cycle and the market will harden sooner or later. What can corporations do to avoid being taken by surprise when it comes to budgeting for insurance? How does a corporation achieve this with the volatile market place having such an effect on insurers' pricing?

Risk managers need to understand how the market and the economic environment evolve and they need to obtain the support of their broker to keep monitoring the situation. As well, they need to be fully knowledgeable of their own corporation's risk profile and tolerance to risk in order to avoid dependence on a "crystal ball". ◆

Sensible Solution To Captive Reinsurance

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Toronto major account – Catholic Religious Self-Insured Retention Program (CRSIRP) successfully concluded negotiations on June 1, 2007 for reinsurance on their captive: CRSIRP Insurance Co. Ltd., domiciled in Barbados.

The captive, which is funded by members wanted to safeguard those investments and at the same time sought an economical vehicle to protect against shock losses.

The CRSIRP captive program reinsures the primary commercial liability for its 140 members in the health, welfare and education side of the Catholic congregations, as well as their Automobile Liability for 2,600 vehicles across Canada. Keeping insurance costs to a minimum is the clear mandate of its Executive Director, Michael Maher, CFC.

Conventional reinsurance of the captive proved expensive and 'band-aid' purchases of specific caps were hindered by disproportionate high minimum premiums.

BFL searched the Canadian, London and Caribbean markets for an economical reinsurance solution and finally found a partner offering such a solution in Bermuda.

The reinsurance solution provides the captive with specific liability excess of loss protection on an occurrence basis with an overall aggregate limit. To provide stability, the program is written on a three year term without cancellation provisions to the reinsurer. The premium is payable in six monthly installments and includes a generous low claims bonus.

This type of program is an excellent option for insureds, considering a captive where previously they were discouraged because of inadequate premium levels. Premium savings, input in your claims handling, and a guaranteed multi-annual term make it a definite alternative. ◆

Independent Review Committees

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In the Fall of 2006, the Canadian Securities Administrators (CSA) adopted new regulation, National Instrument 81-107, compelling investment funds to set up independent review committees.

The goal of this regulation is to increase protection of investors and, in order to achieve it, authorities changed governance rules applicable to investment funds.

It is believed that these new independent review committees will allow a more objective and independent oversight of investment funds, including conflict of interest situations involving the fund's managers. In addition to promoting investor confidence, this new regulation will also contribute to market efficiency.

Since May 1, 2007, publicly traded investments funds, amongst others, have the obligation of setting up an independent review committee.

The duties of the independent review committees include the following:

- Review all matters involving potential conflict of interest and make recommendations on their treatment;
- Approve certain inter-fund transactions (funds managed by the same fund manager);
- Approve transactions with issuers related to the fund manager.

The latter two enable fund managers to enter into transactions which, in the past, required the specific approval of securities regulatory bodies. This provides fund managers increased latitude to take advantage of opportunities, all under the watchful eye of the independent review committee.

The actions of the members of these independent review committees will undoubtedly impact the governance of the funds being overseen, be it the implementation of policies and procedures or the approval of a merger. The committee members are accountable to the various interested parties:

- The fund manager
- The investment fund
- Investors
- Securities regulatory bodies

The committee members are required to conduct themselves according to a specific standard of care and solely in the best interest of the investment fund.

In order to enable investment funds to recruit committee members, the regulation also provides for either the investment fund or the fund manager to provide indemnification for expenses incurred as a result of claims or suits arising out of the role of committee member.

This indemnification is similar to the one afforded Directors under the Canada Business Corporations Act.

However, just as the aforementioned indemnification, this indemnification of independent review committee members is not applicable to all situations and thus the personal assets of individual independent review committee members could be at risk.

In view of the above, the regulation permits the purchase of liability insurance by the fund manager for the benefit of the committee members.

Committees have become operational on November 1, 2007, providing better protection to Canadian investors. In their new roles, independent review committee members need to reflect on the protection they, themselves, need to be afforded through indemnification of their actions as members of said committees as well as adequate liability insurance which should be provided by fund managers.

Why should the committee be protected by insurance

- To ensure the fund or the fund manager are reimbursed for defense costs incurred on behalf of committee members as well as any indemnity paid (based on policy conditions).
- To facilitate the recruiting of qualified candidates to become members of the committee.
- To ensure indemnification of the committee is independent from the availability of funds under management.
- To ensure defense and indemnification are independent from the discretion of the fund manager (when applicable). ◆

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