BFL
Makes a difference
Fall 2008 The Cover Note

EDITORIAL

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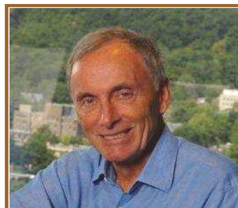

Barry F. Lorenzetti

"Our personnel are our greatest asset" – you would think this is a cliché used by many companies. Only, it's no longer a cliché, it's a reality for various companies and industry sectors, especially in certain provinces, and the Risk Management and Insurance Industry is appreciating it first hand.

The insurance industry is finding it tough to recruit and retain personnel. Candidates are few and mobility is high, thus the upward pressure on salaries – a short-term band-aid.

Unfortunately, this problem affecting our Industry and others will be spreading to all economic sectors sooner or later. It cannot be attributed to known structural elements of one industry in particular. It is simply a reality: demographic decline has become a structural element of our economy.

In reading these lines, some of you may wonder what, if anything, this has to do with Risk Management and Insurance. Our Industry is not the only sector affected by the scarcity of qualified personnel: our clients' organizations are starting to experience it or will be experiencing it soon as well. Not only will they lose productivity and creativity in the process, they will experience problems in maintaining the quality of the products and services they offer.

While waiting for a spectacular jump in birth rate or a major influx of qualified immigrants, Canadian companies will have to get used to investing in training for new personnel as well as in implementing sophisticated personnel retention strategies. Corporations will eventually need to reengineer their processes to take into account this new reality. •

BFL CANADA CONSULTING SERVICES INC.

Last July, BFL CANADA signed a letter of intent to acquire one hundred percent (100%) of the assets of GGA Benefit Consultants (GGA). This firm is headquartered in Montreal and is licensed across Canada.

GGA has been providing employee benefit consulting and wealth management services for over 25 years to selected clients. GGA also provides services for the design and administration of Group Insurance Plans, Pension Plans and Deferred Profit Sharing Plans.

On October 1st 2008, the closing date, the new subsidiary will be officially known as BFL CANADA Consulting Services Inc. Thomas A. Guay has been appointed President of this newly-formed subsidiary.

What is the World Coming To?

Penny Dyte, B. Com.
Managing Vice-President
BFL CANADA, Calgary

- ♦ Roche - Swiss pharmaceutical company has put in a bid for the remaining 45% shares it does not own in Genentech, a Californian company, making it potentially the biggest in the biotech industry. Not just now — in history.
- ♦ Teva (Israel), already the largest generic drug company has agreed to buy Barr (New Jersey).
- ♦ Tokio Marine offers $4.7B for Philadelphia Consolidated. The biggest ever Japanese acquisition of an American financial services company.
- ♦ "The Post-American World" by Fareed Zakaria - Obama was seen reading it. Think about that!
- ♦ New South Wales (Australia), coal's "dirty energy" has turned Australia into one of the world's highest per person emitters of greenhouse gas. A Green paper, issued July 16th, proposes to cut pollution with an emissions-trading scheme. Aim? 60% cut in emissions by 2050 with a proposal that a corporation must buy permits in order to be allowed to emit carbon.

The above excerpts from "The Economist" magazine, June and July, 2008 issues, are indicative of what we read and see today; all of which point to a shift for Risk Management professionals and Insurance Brokers in analyzing risk. There are now global concerns about the economy (war, US downturn, eyes to China), an aging demographic (hiring shortages and a growing pharmaceutical industry) and the environment (fact or politics?). There is no doubt that we, astute business people and risk management philosophers, know what our own companies are doing or saying about these issues but, have we really made the shift to alter our risk management thinking from micro to macro with a look for effect?

An aging demographic, an awareness of environmental issues and a more global world has raised several risks that we know about through media but, are we truly aware how these risks face us as risk management and insurance professionals? Now, in 2008, global risks issues could be defined differently. One could argue, in fact, that a risk matrix should now be realigned to better address globalization issues to allow a more proactive risk management approach.

Perhaps taking on a face of:

- An aging population = more biotechnology advancements and a more limited hiring pool.
- Technology/Information - how does one stay on top of the demand to know it all? Privacy?
- Economy - what happens in a "Post-American" world?
- Environment - While Elon Musk (PayPal co-founder), Larry Page and Sergey Brin (founders of Google) and Vinod Khosla (one of the founders of Sun Microsystems) invest and create, China is developing wind energy, Brazil has the world's second largest and most economical biofuel which provides 40% of the fuel consumed by its cars and should soon supply 15% of its electricity (through the burning of sugarcane waste). There is even more written about such things as a "smart" electrical grid ... computer - hardware, software and "wetware" - people, economics and politics.

Impressive but telling that we are on the verge of seeing some real innovation. How do we become prepared and proactive? How do we address growing technology overlapping in all facets of our business, shifts in production models, talent realignment to cover "gaps" in expertise, environmental spending relative to environmental damage, and more?

It would seem that, amongst the existing issues of reactive risk management (which constantly test how proactive one was in the placement of coverage in the first place) coupled with the ever increasing need for good communication channels internally and externally due to staff turnover or realignment, there needs to be some proactivity on these always present but ever larger issues. So, here are a few things to think about.

- When was the last time you had a risk matrix done on your corporation's reliability on IT systems, software and people (both internal as well as external)?
- Don't forget to look at possibilities of fraud or theft.
- Does your insurance portfolio give enough coverage for any cyber risk exposure?
- How much is your corporation spending on research and development and on what?
- Get up to speed on your own company's investment strategies. How much is related to environmental issues?
- What is the investment strategy of your key insurers? Time to ask also what global issues they find themselves exposed to, currently. We need only look at recent US based economic problems to see the impact this could have on insurers.

- Key man insurance and kidnap and ransom coverage ... time to review the application to protect your true "key" employees and not just executives. Is your head of IT key to your operations? Do you have a contract negotiation specialist that requires protection? With hiring shortages, there are some individuals in your corporation whose absence would be detrimental to operations and not just strategy. Besides, we all know it could be months to replace them with like calibre.
- What is your corporation's attrition rate? Do you know what "normal" is? Where are the turnover spots? Is this an exposure to your operation and what is the company's plan to ensure continued compliance and training? Is there a correlation to losses within the corporation's self-insurance retention? Is this a flag to build a risk mitigation plan?

This list is a good start but could, of course, be added to or subtracted from. The point being that there are additional, evolving hotspots that warrant an occasional second or third look to ensure timeliness in a time of world politics, economics and money for real technological advancements. •

Servicing Teams - Stability, Creativity and Continuity

Commentary on the Insurance Institute's Recent Demographic Analysis

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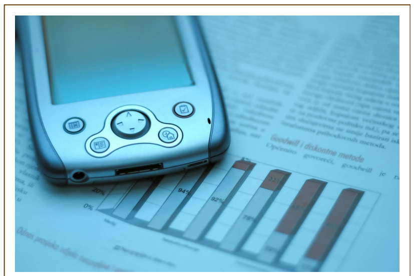
Many clients of the Insurance industry do not pay much attention to what goes on behind the scenes in terms of the servicing of their account. They mostly focus on their direct contact, the individual broker or the underwriter.

It is becoming increasingly important for clients to enquire about the team servicing their account and to request that this team be comprised of individuals with varied experience and varying seniority, whether broker or insurer. It appears, from the recent Insurance Institute survey on demographics that the Insurance industry is in for a ride with respect to ensuring a sufficient and qualified workforce to respond to its business needs. The survey offers statistics and observations that speak for themselves – here are a few:



The insurance industry as a whole has a median age of 41, same as Canada as a whole. But unique to the insurance industry is its proportion of baby boomers (aged 41 to 60), which in 2007 was 49 percent of its overall work force, and 70 percent of its management group, compared to just 45 percent for Canada as a whole.

There are insufficient entrants to the insurance industry to replace those exiting. Not only are the industry's entry-to-exit ratios very low, they are in a pattern of steady decline.

Forecasts indicate that 25 percent of the current insurance industry work force could retire by 2017 (actually 38 percent in British Columbia and 40 percent for insurance management workers across the country). Of course, with 40 percent of managers retiring in the next 10 years, there are not enough qualified workers to fill their shoes, causing a certain "Leadership void" nationwide.

One in three insurance brokers is expected to retire in the next 10 years. Given these statistics, all clients should be preoccupied with the people behind the servicing. A world class, well balanced service team will ensure stability and creativity in the products and services their clients receive and, at the same time, offer continuity – a definite plus.

This new approach will require certain adjustments.

For example, clients are often put off by the presence of very young people on a team and few brokers bring along the new recruit when making an important presentation to an existing or potential client. However, we must realize that we (service providers and clients alike) need them to ensure we ride the transition smoothly.

Another common situation is a client preferring their account to be serviced by a single broker because this arrangement seems easier. In reality, it is the perfect recipe for a lack of continuity and knowledge 'gaps' which impact the quality of both products and services received by the client in the servicing of their account.

Going forward, clients would be wise to ask that:

- a team be involved in managing their account, rather than an individual;
- this team be comprised of seasoned veterans of varied backgrounds but also of younger people who are learning the trade;
- that the members of the team remain consistent as much as possible or, if change is required or inevitable, that transition to new team members be gradual. •

AVOIDING SOFT MARKET TRAPS

Anne C. Taylor, CIP, CRM
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With the inevitability of a hard market, it is time to consider your options and plan for your upcoming insurance needs. Let's talk about the dangers of falling prey to the insurer's "Big Appetite" and competitiveness during the soft market; and how your Corporation should plan toward the eventuality of the hard market.

As the soft market evolves, insurers become increasingly competitive, causing prices to fall. As a result, underwriters suddenly find themselves in an unprofitable situation and the need to control their expenses becomes a priority. Add investment instability or the occurrence of a catastrophic event and the need to further control expenses, and the beginning of the hard market starts. Furthermore, the rate of market insolvency starts to increase, reducing market availability, causing more difficulties and further hardening.

The hard market arrives quickly as insurers test the impact of rate increases and learn what pricing the market will bear.

When the market hardens, standard carriers become more selective about what business they write and enforce more stringent policy terms, along with being very protective of their capacity. Consequently, they may no longer wish to write your type of business, leaving you in a perilous situation.

With insurers experiencing financial pressure during a hard market, Excess & Surplus Lines (E&S) carriers increase their writings considerably. When a Corporation has to consider moving to an E&S market, it must consider a number of factors, such as:

- Narrow coverage terms
- Restrictive endorsements
- Occurrence vs. claims-made forms
- Admitted vs. Non-Admitted carriers and tax implications
- Relationship with an E&S underwriter and the Corporation's broker
- Financial Rating

The bottom line: while it is enticing to take advantage of the competitiveness in a soft market and simplify one's insurance portfolio, a Corporation, with the assistance and advice of their broker, must do what they can to protect their future market capacity.

For instance, a Corporation, currently insured by many carriers, may be tempted to reduce their number of carriers in response to the insurers' soft market appetites, which result in a greater appetite than would be possessed in a hard market.

While coordinating with fewer insurers may have its advantages in the short term, one must consider such a decision very carefully before eliminating what may be the only means of assuring sufficient capacity when the market hardens.

It is advisable to consult with your broker in order to maximize the benefits of a reduced portfolio in the soft market, while safeguarding against the risk of reduced capacity in the inevitable hard market. This is just one example of protecting yourself against the effects of the soft market and, with careful planning and strategizing, your risks surrounding the impending hard market can be managed. •

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