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PULSE

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ONTARIO RISK AND INSURANCE MANAGEMENT SOCIETY

THE HEARTBEAT OF RISK MANAGEMENT, OCTOBER 2014

2014 RIMS Canada Conference in Winnipeg, Manitoba

By: Paul Provis, ORIMS Vice President

The 40th annual RIMS Canada Conference was recently held in Winnipeg Manitoba. It was well attended by delegates and industry partners from all over Canada and the U.S. The conference was kicked off by the Sunday welcome reception at the new Canadian Museum for Human Rights. Attendees were treated to a sneak preview of the impressive facility, which had not yet been opened to the public. It is the first national museum built outside of Ottawa and provides impressive views of the city from the Tower of Hope.

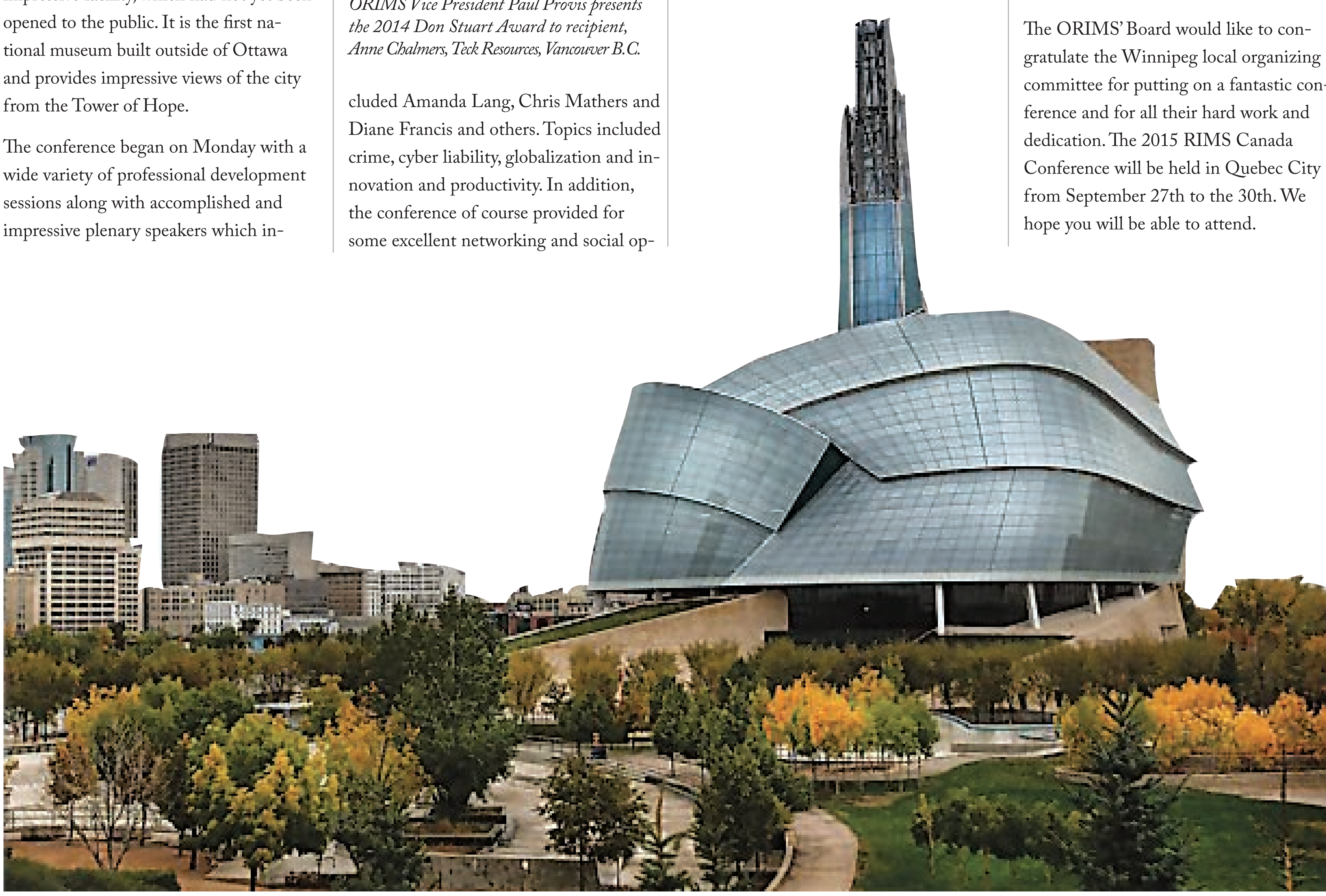
The conference began on Monday with a wide variety of professional development sessions along with accomplished and impressive plenary speakers which in-

ORIMS Vice President Paul Provis presents the 2014 Don Stuart Award to recipient, Anne Chalmers, Teck Resources, Vancouver B.C.

cluded Amanda Lang, Chris Mathers and Diane Francis and others. Topics included crime, cyber liability, globalization and innovation and productivity. In addition, the conference of course provided for some excellent networking and social opportunities at some of Winnipeg's finest restaurants and landmarks (and golf courses too).

At the conference, ORIMS was pleased to once again present the Don Stuart Award which is bestowed annually to a member of the Canadian Risk Management community who has met the criteria of having made outstanding contributions to the field of risk management in Canada. At the Wednesday morning awards presentation, I had the privilege of presenting the 2014 Don Stuart Award to Anne Chalmers of Teck Resources, from Vancouver B.C. Anne was recognized for her over 25 years of accomplishments and service to the Risk Management community.

The ORIMS' Board would like to congratulate the Winnipeg local organizing committee for putting on a fantastic conference and for all their hard work and dedication. The 2015 RIMS Canada Conference will be held in Quebec City from September 27th to the 30th. We hope you will be able to attend.



TO PROMOTE AND ADVANCE EXCELLENCE IN RISK MANAGEMENT

INSIDE THIS ISSUE

MOVING TARGET How Mobility Challenges Cyber Security – And What to Do About It

By: **Matthew Davies,** AdC, FCIP, CRM, Director - Professional, Media & Cyber Liability, Chubb Specialty Insurance - ChubbPro

BYOD: When Personal and Corporate Data Mix

Companies with staff who spend significant time outside the office may rely on mobile devices to get the job done. Many of those employees may want to use their own mobile device, rather than carry around additional company-issued devices. This "Bring Your Own Device" (BYOD) approach, while convenient, raises some significant risk management questions around the mixing of corporate and employee data. If your company allows or encourages this practice, you can balance employees' needs and yours:

Have a policy. Clearly communicate to employees what their responsibilities are, what configurations are required, what you will monitor, and what information you will collect. Require employees to sign your policy.

Balance security and privacy. Just as you need to protect your company's private information, employees will want to protect theirs. Balance these needs as you develop and implement your BYOD policy. Legal counsel can help you navigate the complexities of this issue.

Know your licenses. Your company likely uses many different software applications—each with its own licensing requirements that spell out how many users or devices are included. Ensure adding employee devices will not violate licensing agreements.

Set clear limits. Prohibit employees from "rooting," "jail breaking," or other means of circumventing mobile phone restrictions—for instance to gain access to a free Wi-Fi hotspot or play a pirated game.

Follow through. Audit the use of employees' devices to ensure they are adhering to the established policy.

Matthew Davies is a director for professional, media and cyber liability for the Chubb Group of Insurance Companies. He can be reached at mdavies@chubb.com.

Smart phones, tablets, laptops and other mobile business devices have become essential business tools—and attractive targets for cyber criminals seeking private information. Consider these scenarios:

An unencrypted secure digital (SD) card was stolen from a hospital employee. The SD card, taken from a bag in the employee's car, contained personal information on 15,000 program participants. Data included patients' names, addresses, dates of birth, and marital status, as well as assessment information.

Several unencrypted company laptops were stolen from a manufacturer's U.S. headquarters. A former employee took the laptops, which contained information such as credit card and driver's license data on roughly 102,000 employees in the United States, Canada and Europe.

Cyber threats are constantly evolving, and the rise of mobile technology adds one more wrinkle. The result? A 2013 survey by information technology and security firm Symantec found that the majority of respondents reported at least one mobile security incident within the last 12 months.

Many Companies Unprepared

It's no secret that investigating and responding to a breach is costly—but the indirect costs are just as disconcerting. High-profile cyber-attacks can damage a company's reputation and lead to customer defections. Breaches involving employees can damage employer-employee relations. And productivity can take a serious hit when staff members put aside their daily responsibilities for days to respond to an incident.

Despite the potential expenses, many companies say they are not fully prepared to ward off or respond to a breach. In a 2014 Ponemon study of Canadian companies, more than half of companies surveyed do not think their organization is protected from advanced cyber-attacks. Less than half said they have a good understanding of the threats facing their company.

Mobile technologies represent a substantial portion of that risk. In fact, respondents in the 2014 TELUS-Rotman IT Security Study ranked laptop or mobile device hardware theft as the second-highest threat, behind viruses, malware and spam. Yet only 37 percent of organizations surveyed have a comprehensive mobile security program in place.

The Best Defence: A Good Offence

Does your firm's network security and privacy policy specifically address threats to mobile devices? Are established procedures implemented? Reviewing policies and procedures now can help avoid or at least minimize a data breach.

When it comes to mobile devices, the following steps are key to mitigating cyber risk:

- ***Encrypt it.*** Take advantage of the data encoding software built into the operating system. If built-in software isn't available, use a trusted third-party application.
- ***Use a real password.*** As obvious as that seems, many people don't use a "strong" password to protect their mobile devices. According to SplashData, a password management application provider, the word "password" topped the list of worst Internet passwords. A string of consecutive numbers, such as 12345, is the second-weakest type of password. Use a combination of letters, numbers and other characters for password strength.
- ***Get it back or shut it down.*** Register devices with a GPS tracking service in case the device is stolen or lost. If the tracking doesn't succeed, the next step is to wipe the contents of the device clean. All major smart phone brands have some kind of remote erase capability.
- ***Set up cyber-attack alerts.*** Network intrusion software can help businesses identify unauthorized break-ins. It's also important to watch for large amounts of data leaving the organization. Check logs regularly for unusual activities.

Mobility and Security

While these security measures can help reduce your risks, they're not foolproof. Developing and implementing best practices for mitigating the risk of a data breach are crucial. Knowing what to do if an employee's mobile device is potentially or actually compromised can ensure security for thousands of customer records. Quickly recognizing that just losing a device could, in and of itself, constitute a breach, having the ability to shut it down, having a security team ready to investigate, and implementing post-breach protocols can help head off potential nightmares. The mere fact that it is missing may impose obligations on the organization. Ultimately, even if the device is never found nor accessed by someone who intends to do harm with the information it contains, the onus may fall on the organization to fully investigate the event and respond appropriately in order to comply with privacy laws and protect the organization's reputation.

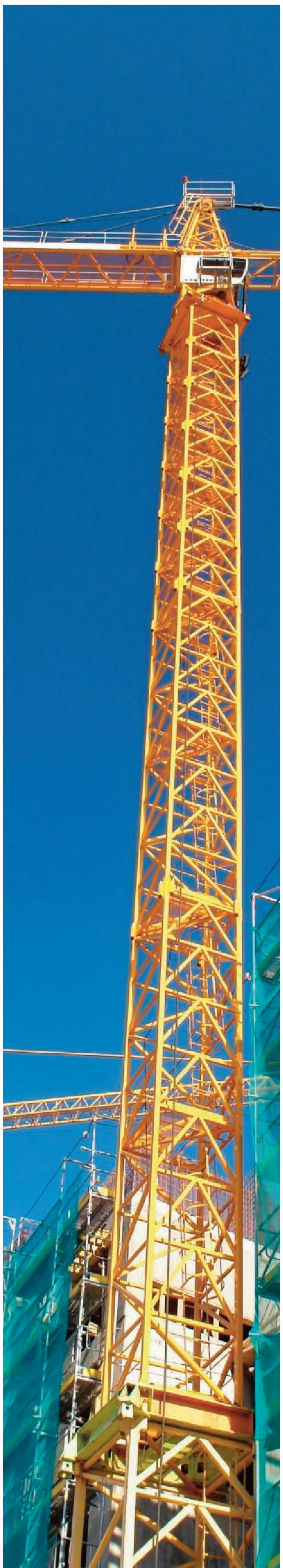
In addition, cyber insurance can be an important tool for managing the costs of a potential or an actual data breach. Insurance companies offer third-party liability coverage for lawsuits filed in the wake of a data breach or network intrusion. Insurance protection also is available for an organization's direct expenses, such as the cost to notify affected individuals; the cost to change account numbers; forensics, crisis management, and public relations expenses, as well as losses from business interruption.

When evaluating your cyber insurance options, look for an insurer that has expertise in this specialized area. Ask about the services the insurer offers to help manage cyber risks. Some insurers, for instance, have panels of various vendors (from legal counsel to forensics experts) that can offer guidance in case of a data breach. They may even offer premium credits for some loss prevention measures.

Our increasingly mobile business culture can make the challenging issue of cyber risk management even more so. But taking a few key steps today can help you avoid or at least minimize a cyber-breach tomorrow.

What are Surety Bonds and Who do they Benefit?

By: **Andrew Chan,** B.A., ACSB, CRM, Assistant Vice President, Account Executive
Willis Construction North America - Surety Solutions



Surety Bonds, such as Bid Bonds, Performance Bonds and Labour and Material Payment Bonds are being requested more often than the traditional Letter of Credit in the Canadian Construction Industry. This is particularly true given the current economic climate and the on-going concerns that owners have, in general, with respect to assurance that a contractor is financially stable.

The purpose of this article is to explain the basic concept of how Surety Bonds work and their benefits to contractors, trades, suppliers, owners, lenders and the public.

A surety bond is simply an agreement between three individual parties. It is a financial guarantee by the first party, known as the Surety, to a second party, known as an Obligee, that a third party, known as the Principal, will fulfill his obligations to the Obligee.

Main Purchasers of Bonds:

There are different Federal, Provincial and Municipal regulations that require contractors to obtain a bond if they want to bid and work on public projects. Federal, Provincial and Municipal regulations require the Principal to provide a Bond for public projects such as the construction of a new hospital or school. By doing this, Federal, Provincial and Municipal governments are able to protect the use of public funds should the Principal not be able to complete a project. These Federal, Provincial and Municipal regulations however, do not necessarily apply to non-government or private owner projects. For those projects, obtaining a bond is the private owner's decision. There are also occasions, where a financial institution may require the Obligee to obtain a bond from the contractors who are working on a particular project where the bank is financing the project. The financial institution wants to protect the course of construction funding.

Qualifying for a Surety Facility:

Before obtaining a Bond from an insurance company, the Principal must be evaluated and underwritten to make sure that they qualify for a surety facility. The Surety evaluates the contractor based on its financial strength, references, related work experiences and credit score rating. The Surety will also review the contractor's business operations, shareholders and company history. If the Surety is satisfied that the contractor can meet their requirements, the contractor is offered a Surety Facility and can apply for Bonds.

Cost of a Bond:

While the cost of a bond may seem expensive to an Obligee, it is often worth the price for the protection that the Bond offers. The cost of the bond depends on the price of the job, the type of work, duration and the type of contract. In general more complex higher risk factors increase the rate of the contract price. The cost of both a combined Performance & Payment bond is generally about 30 % to 40% higher than just a Performance bond. The cost also increases as the percentage of the bond to contract price increases (100% bonds are about 30% to 40% higher than 50% bonds).

Stages of Bonding:

- Prequalification, Tender, Construction & Warranty

Tender Bonds

There are two contract surety bonds which could potentially be required at this stage:

An agreement to bond commits the surety to providing performance and payment bonds if the contractor is awarded the contract. This is provided at the formal tender stage and the Surety will require the full tender details and a current file in satisfactory order to approve the Agreement to Bond.

A bid bond is obtained by the principal during the bidding process as a Security deposit to cover damages should the contractor fail to sign the contract when the Obligee accepts his bid after awarding the job to the contractor. This includes taking the next steps, arranging further bonding that is required to fulfill the contract such as performance and payment bonds.

Construction

When the contractor is awarded a contract, the owners require the contractor to provide the **"final bonds"** which may be either a performance bond or both performance bond and labour & material payment bond. The most common bonds required during the construction phase are:

Performance Bond: The Performance Bond is a written legal agreement, in which the surety guarantees that the contractor or principal will perform the obligation stated in the bond. The bond provides security to the Project Owner or Obligee if the Contractor or Principal fails to perform the contract. The surety company will take the responsibilities of the contractor as per the terms of the contract subject to the conditions of the bond. This Bond unlike a letter of credit may provide the Obligee with support including retendering, additional funding of the contractor, coverage for direct loss due to contractor failure and technical assistance in order to assist in completing the contract. In the event of project disputes between owner and contractor, the surety may prove to be a valuable mediator to keep both parties in compliance with their contract, thus enabling the project to get back on track. If the Principal is unable to fulfill their obligations (and thus are found to be in default) as stated in the contract and bond, the Obligee may ask the Surety to rectify the situation under the terms outlined in the Bond.

Labour & Material Payment Bond: Often referred to as an L & M or just Payment bond, is intended to protect an Obligee, direct suppliers and trades from the exposure of liens and trades leaving the site when a contractor fails to pay its subcontractors or suppliers for work and materials . A bond would help the Obligee pay subtrades who continue to work on the project if the General Contractors is unable to do so. By having a bond in place, the Obligee would be able to complete a job with minimum disruption. This is an example of the many benefits of Performance Bonds and Labour and Material Payment Bonds.

Occasionally contracts require extended Bonded Warranties. The manufacturers' warranties should be limited by the installer to one year of General Bonded Maintenance which covers not just inherent defects but gives the owner a guarantee from the installer of proper installation. Performance bonds cover this initial full warranty under a contract clause called bonded maintenance that includes one year from date of substantial completion. If extensions to this bonded period are required they are considered for an addition year for an additional fee – but are much more difficult to obtain beyond three years.

Continued on page 4 …

What are Surety Bonds....

... from page 3

Why is surety not insurance?

Most surety companies also are the insurance companies. That is one of the reasons why many people think that surety is similar to insurance but this is the only thing they have in common.

"Let s talk about the differences."

- In insurance there are two parties: the insurer and the insured. Insurance is intended to protect the applicant (insured). In exchange for payment of a premium, the Insurance Company assumes the insured's risk against accidental loss. This is a risk transfer.

In surety there are three parties: Obligee, Principle and the Surety:

- The Obligee is the party who requires the bond and is the party to which the others are obligated. The Obligee or those named as beneficiaries on the bond receive the protection.
- The Principal has to apply, qualify and pay for the bond. The contractor as the applicants must Assume the Risk to fulfill the obligation. An Indemnity Agreement similar to a loan guarantee is signed by the applicants as their promise to make sure the Surety has no losses
- In the event that the principal can´t fulfill its obligation, the surety must do so and will expect repayment from all who signed the Indemnity Agreement.
- The surety, similar to all lenders, underwrites for zero losses. If the surety believes that the principal may not stay in business long enough to fulfill its obligation, it will not approve the bond. Unlike insurance that may be obtained even if you have had prior losses, Bonding Companies will generally not issue bonds to applicants with prior financial failures personally or in business. The use of higher rates will seldom, if ever, influence the decision to bond.
- In surety, rates are not based on statistical data which estimates the cost of possible claims as they are in insurance. Surety rates are similar to a banking fee where a loan is extended with the expectation of no losses and full payment is secured. Rates are subject to numerous factors including type of bonds, class of business, volume of business and like all lenders are affected by the financial strength and performance record of the contractor. As previously noted and of utmost importance is the last difference: The General Indemnity Agreement.

Every principal may sign a corporate indemnity agreement which states that if a surety pays a claim, they have the right to

go after the principal assets and the assets of those who have signed the indemnity agreement to recoup losses. Just as a bank may do, the Surety may take steps to evaluate and register their security.

How Bonds Benefit The Contractor?

- Does not interfere with bank operating lines
- Does not tie up valuable working capital or cash flow position of the company and the contractor could tender other projects.
- Surety expertise allows much greater "guarantee leverage" as letters of credit require 100% security versus bonds that may require as little as 10% security in the form of corporate assets.
- Sureties relying more heavily on alternate risk control measures option such as larger holdback, bonding the major sub trades, contractor expertise on specific projects.
- Sureties tend to underwrite each project in addition to just reviewing the financial ratios and credit/collateral security posted by the contractor due to their higher levels of experience and focus on construction " which unlike banks is their main line of business"
- Sureties under bond programs "allow support based on uncompleted cost of construction" and the analysis of profit left in the job versus banks rely on the face value of the letter of credit (until the beneficiary releases it – banks regard it as 100% exposure.
- Sureties protect contractors from an unfair default call versus a letter of credit, which is an on demand collateral. This unfairly exposes a contractor during a legitimate business dispute.

2014 RIMS Canada Conference Student Involvement

By: Alyssa Newton, Vanessa Armstrong & Kiley McCusker, Mohawk College

This year, four of us from Mohawk College in Hamilton Ontario were fortunate enough, along with three other students, to be given the opportunity to attend the 40th annual RIMS Canada (Risk and Insurance Management Society of Canada) conference, held in winsome Winnipeg, Manitoba. Representing Mohawk College from the McKeil School of Business were Alyssa Newton, Vanessa Armstrong, Daniel Flanagan and Kiley McCusker, who were chosen from the Insurance program.

We were all looking forward to the conference, and the prospect of seeing behind the public curtain of the risk management world, but we never expected the sights we would come across over the jam-packed four-day experience.

Sponsor and exhibitor stations, filled with some of the best companies in the risk management industry, covered the RBC Convention Centre, from the top local restoration firms to large, globally established insurance companies. All were excited to speak about their business and to ask and answer questions. In asking questions we learned what each company did and how they contributed to the insurance and risk management industry.

The RIMS Canada conference was also full of interesting and informative seminars with a wide variety of experts lecturing on their specialties, from captives in insurance to cyber liability; all topics that are affecting our world and the world of risk management.

There were also helpful lectures that were not specifically related to risk management, like the charming and entertaining memory expert, Bob Gray, who taught visualization techniques to improve anyone's recall, which always helps, especially during a conference when you are meeting so many new faces. There was also a presentation from Amanda Lang, Canadian anchor and journalist, who spoke about our natural curiosity, that is usually discouraged at a certain point in our childhood, but if implemented, can lead to breakthroughs in every field, not just in risk management and insurance. Chris Mather's 'Crime in the Business and the Business of Crime' session outlined how to spot and avoid the risk of white-collar crime and his experiences working undercover in money laundering schemes. Finally we had a presentation with Eric Noel called 'Canada 2030' which looked at what the possible major risk issues would be in the next sixteen years.

One of the most influential meetings we attended was the William H. McGannon Foundation's annual general board meeting. We had the opportunity to meet generous benefactors who all graciously donated their time and energy to promoting insurance to students in the insurance and risk management industry.
A big thank you to the McGannon Foundation, Joe Restoule, President, Wayne Hickey, Director, Ashley Becker, Officer and Treasurer, Marley Drainville, Director, Mark Roberton, Director, April Savchuk, Director and Secretary, Denis Schaeffer, Director and all the chapter representatives for being so wonderful, and inspiring us all. Without the foundation and its goals of student involvement, we would not have been able to attend this stimulating opportunity.

We heard a jolting statistic at the conference: while five people of the industry are retiring, there is only one person entering the field. It feels like this industry is a hidden gem; one with ample prospects and friendly, helpful professionals who are just waiting to welcome students into the field. We feel blessed to have found this group of people and to have been given this enormous opportunity to view behind the scenes of the risk management industry. It is tremendously motivating to see how diligently these people work to promote and employ safety that affects all of us, both locally and internationally.

RIMS Canada's welcome reception was held in Winnipeg's newly constructed Canadian Museum of Human Rights; an awe-inspiring, unique piece of architecture, with a tall spire rising from the very top, called the Tower of Hope. During the reception, as we looked out over the city's skyline, standing at the highest point, that is exactly what we felt: hope. Hope for future opportunities in risk management. Hope for the friendships yet to be made in the industry. And hope for a fulfilling career that is just beginning.

We look forward to attending Quebec City in 2015 after we graduate and embark on our careers in the insurance and risk management field.

Please visit the RIMS Canada (http://rimscanada.ca), the William H. McGannon Foundation (www.mcgannonfoundation.ca), and Mohawk College Insurance program websites (www.mohawkcollege.ca).

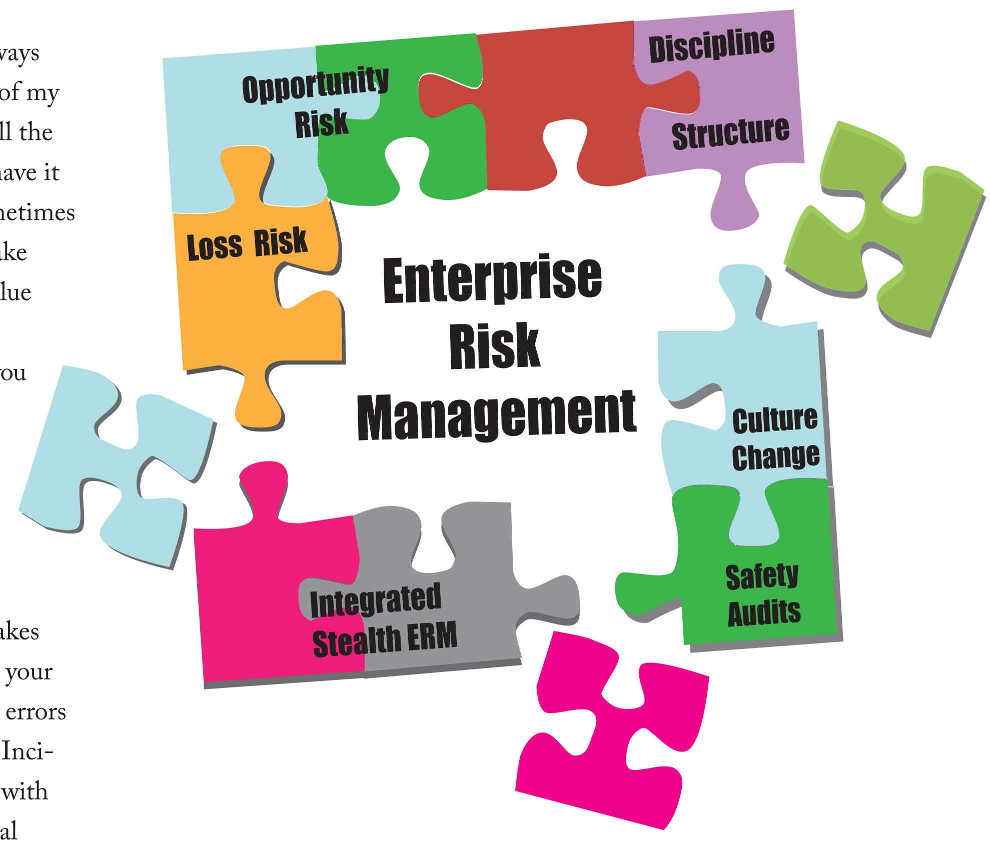
Implementing Strategy Into Risk Management

By: **Darius Delon**, CCIB FCIP CRM, Associate Vice President, Mount Royal University

There is a lot of talk about risk management, enterprise risk management and strategic risk management. There is a lot of advice on how you should develop the risk framework in your organization but not much is said on what strategy you should consider when you implement risk, enterprise risk or strategic risk.

To be the most efficient and effective in implementing your strategy (change management) you need be open to changing that strategy when you are not getting enough traction (most impact in the shortest amount of time). Don't be fooled into thinking that just because you have buy-in that your advocates/management/board don't want immediate measurable results.

The first thing everyone will tell you is that the senior executive needs to be bought in - ideally they need to be bought in but if they are not you could always manage ERM with what a friend of my mine likes to call Stealth ERM. All the same work goes on but you don't have it as a strategic directive because sometimes executives have other issues that take priority - or - they don't see the value in ERM, yet! You need to prove to them, and everyone else, that what you are doing helps each department operate better - whether it is 1% or 100% better.

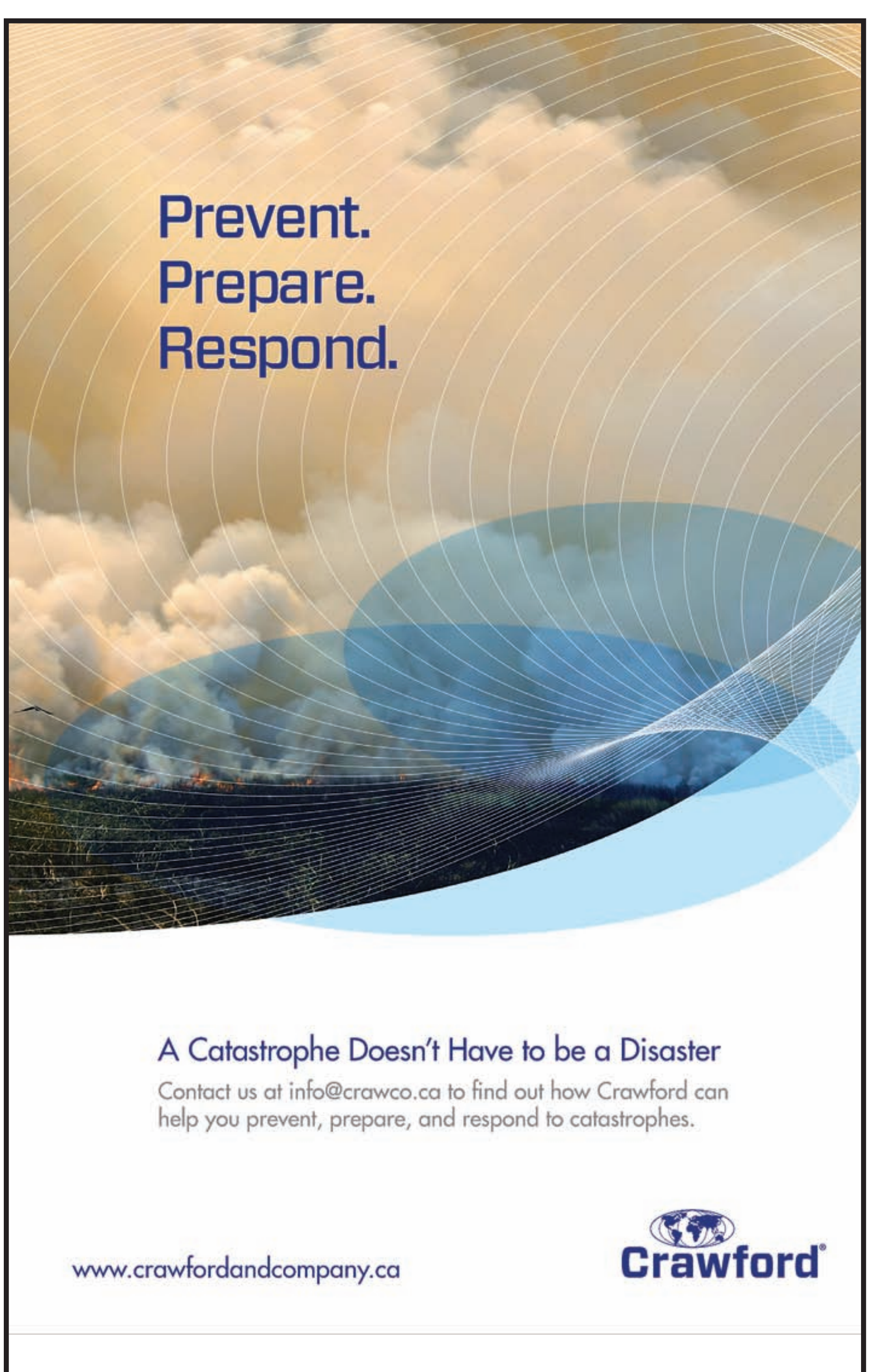


Stealth ERM requires you to engage front line staff with the logic embedded in risk - what we do makes sense - use relevant examples with your front line staff that shows the past errors and the future potential successes. Incident examples have a lot of weight with people, especially if they are internal examples, gather these examples and be prepared to mention them often to prove to people that these incidents have happened in the past and can happen again.

Even when you have senior executive buy-in or even the board - you may still have problems getting traction from various middle managers. We have all heard about the Director that is against a project but their assistant gives your valuable insight into the department because they think risk management is awesome. Sometimes you need to go to the front line staff to get buy-in and more importantly operational changes. It takes more time to talk to all of the front line groups, but in the end it is worth it.

One of the biggest buy- in methods for a successful strategy is talk. One person at a time, one hour at a time, one advocate at a time. People will not buy-in to ERM just because they read something you put in front of them or heard at a large forum. Talk to them, work with them, get small wins, change how they perceive managing risk, and help them make positive changes in how they manage their activities without the quintessential NO that is associated with risk management.

ERM is just a tool for making better sustainable decision for the organization.



CHRISTMAS LUNCHEON
Thurs Dec.11, 2014

It's the most wonderful time of the year! The holiday season brings many reasons to gather and celebrate… and you'll not want to miss the opportunity to do so with friends and colleagues at the annual ORIMS Christmas lunch. Please come out to wine, dine and show your support. A portion of the event proceeds go to the Daily Bread Food Bank. Please save the date and join us at the Westin Harbour Castle Hotel in Downtown Toronto.

Last year the ORIMS Christmas luncheon was attended by about 660 people, and raised over $10,000 as well as 2 bins of non-perishable food items for the Daily Bread Food Bank.

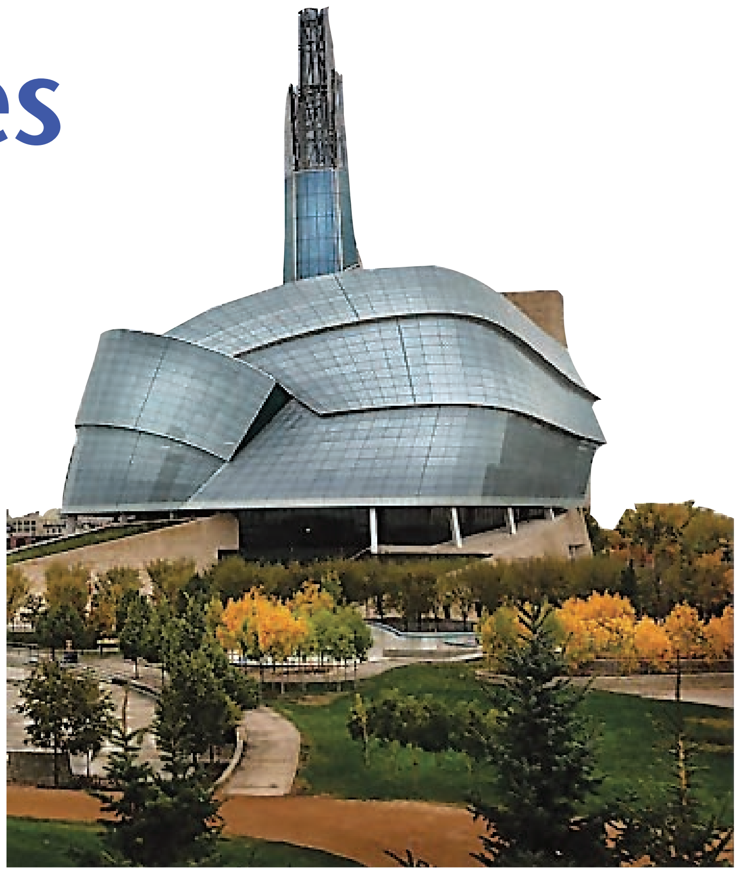
If you would like information on being a sponsor for our wonderful holiday gathering, please contact James Eka, Director, Social Programs at jeka@curie.org or Paul Provis, Vice President, ORIMS at Paulprovis.ORIMS@gmail.com.

Chapter Events

2014 RIMS Canada Conference CROSSROADS: Changing Landscapes

Risk managers and insurance industry professionals from across the country gathered in Winnipeg, MB from September 14-17 for the RIMS Canada Conference. The days were jam packed with educational sessions, and networking opportunities. The opening reception was at the brand new and historic Canadian Museum for Human Rights.

Photos courtesy of Canadian Underwriter Magazine.



Chapter Events Contd.

Photos: Courtesy of Canadian Underwriter Magazine.

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