By Ingrid Sapona | 17-minute read

In this issue we are looking at how the pandemic has changed and challenged individuals and organizations in the insurance industry. In our first article, we investigate how recent global supply chain disruptions have impacted the insurance sector. In our second article, we talk to organizations that continued with merger plans while organizations were still working remotely and how caring about employees is the first step in building a strong corporate culture.

Impact

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Part I: The impact of supply chain disruptions on the insurance sector

Introduction

Global supply chain disruptions have been in the news a lot the past two years. Obviously, the pandemic played a big part in all sorts of supply chain disruptions. On the supply side, manufacturing ground to a halt for some goods as periodic forced closures aimed at stemming the spread of Covid-19 rotated through different jurisdictions around the world at different times. Significant shifts in demand for things like personal protective gear resulted in some manufacturers shifting their production focus, which limited the availability of inputs in other sectors, creating other manufacturing bottlenecks and backlogs. At the same time, consumer demand shifted dramatically in North America. For example, unable to travel or spend much on entertainment, consumers driven demand shifted to home renovations, which contributed to increased demand for things like lumber.

But the pandemic is certainly not the only supply chain disruptor of note. In March 2021 the Ever Given, one of the largest container ships ever built, got stuck in the Suez Canal for six days. That mishap halted nearly U.S.$ 10 billion in trade a day. Closer to home, the six-day blockade at the Ambassador Bridge caused by trucker protests in February is estimated to have cost the auto industry alone more than U.S.$ 250 million. And of

course, weather had a big impact on particular supply chains here in Canada, for example, record-breaking rain and flooding closed B.C. highways and cut off rail access to Vancouver's port in November.
In Part I we look at some of the ways supply chain disruptions have impacted the insurance sector over the past few years.

Supply Chain Resilience

Paul A. Croft, Chief Operating Officer at Aon Canada, says supply chain management is top of mind for many of their clients. "When doing business on a global basis there's just lots that can go wrong," says Croft. "From natural disasters, Covid lock-downs, large scale product recall – all those kinds of things effect people getting their supplies," he says.

Croft says concerns about supply chain are tied to business continuity and so resilience of their supply chain is uppermost in clients' minds. "Everyone's business has been impacted by supply chain disruption. If you think about it, everyone is used to things happening faster than five, ten, or 15 years ago. People look for things to go very quickly. Most companies are trying to consolidate their supply bases and reduce costs and at the same time they want reliability of supplies and no interruption," he says.

According to Aon's 2021 Global Risk Management Survey , a biennial web-based survey with responses of 2,344 risk decisionmakers from 16 industry clusters, supply chain and distribution failure surged "back into the top 10 risk list for the first time since 2009". Survey participants ranked it number eight (of 60 risks) in the most recent survey. By comparison, in the 2017 survey, supply chain or distribution failure was ranked 19th.

Though supply disruptions have dominated the news over the past two years, Croft says supply chain resilience is something his clients have always been interested in. "Every client is very interested in looking at supply chain. They're all well aware of their supply chain issues but they want to look at the impact down the road. They're concerned with how they maintain the continuity of their business."

One change Croft has noticed the past few years, however, is the increased concern his clients have for how cyber attacks might disrupt their supply chain. "We're seeing a lot of interest among clients with regard to cyber risk as it relates to supply chains. With everything being digital, if you have a cyber attack, how do you know where your product is? And of course, it's not just risks related to a cyber attack on your company – what happens if your supplier's digital systems go down? Will they be able to ship goods? Those kinds of concerns," he says. In fact, Croft thinks clients are now just as concerned about how cyber risks might disrupt their suppliers as they are about potential supply chain disruptions caused by natural disasters.

A B.C.-based restoration contractor that works on insurance claims and they provided an example of how cyber attacks at suppliers can play out. They recently learned about a carpet company in the States that suffered a cyber attack. As a result, the hacker was holding their system ransom. As you might imagine, this resulted in a significant delay.

Managing supply chain risk is complicated and there isn't any single insurance product that can mitigate all the risks. "When you're talking about supply chain risk, there is no supply risk product per se," says Aon's Croft. "So, as a broker, when we talk with a client about their supply chain risk, we have to talk about a variety of potential types of risks and types of cover that may respond to certain risks. For example, insuring a supply warehouse, coverage for air, rail, and ocean transportation, sabotage, credit risk, payment default risk, political risk, cyber risks, and so on. To be able to help them, we have to understand their operation as well as – or better than – they do," he says.

Aon has developed a global supply chain diagnostic tool to help clients assess their supply chain risks. Croft says the tool is basically a framework for analyzing their risks. "We can't really stop a supply chain problem, but we can flag the vulnerabilities and help clients consider how resilient they are to the problems. Really, what you're helping the client do is focus on resiliency," he says. "We find that clients need to be led through these conversations so that they can see what roadblocks may exist. As brokers, we focus on their risks and what's not covered as well as what might be. And of course, it's important to explain that there isn't always an insurance solution at all."

"But even the best prepared business can't necessarily foresee what forces might impact their supply chain," says Croft. "Given the recent geopolitical uncertainty created by the war in Ukraine and subsequent trade sanctions, for example, some recent client interactions have included conversations around Russia and analysis of where products are originating. A client's Chinese supplier might obtain its product directly from Russian producers. In such a scenario, our client's concern, of course, is whether they might be in violation of sanctions that are being put in place in response to the war in Ukraine. This type of interconnection will lead them to try and find other sources for products. So, clients are reviewing what other suppliers they may have relationships with, and they are trying to determine whether there are other contracts they can put in place. In situations like that, it's not a specific insurance solution we're looking at," he says, "but rather an overall risk management plan to address such concerns."

The Impact of Disrupted Supplies on Personal Lines Claims and Underwriting

Supply chain disruptions over the past few years have begun to be felt by insurers on the personal lines side, says Stefan Tirschler, Product + Underwriting Manager, Square One Insurance Services. “Costs for certain things really started to increase at the end of 2021. The cost of fundamental building materials – like lumber – got the most attention. The delays related to supply chain issues weren’t as obvious for awhile. But, of course, extreme delays ultimately result in increased costs for insurers,” he says. “For example, if an insured is expected to be out of their home for four months under normal circumstances but there are delays in getting materials, they might end up having to be out of their home for six months. That’s a substantial added cost.”

In terms of keeping up with swings in the cost of building materials when settling a claim, Tirschler says Square One works with its restoration contractors. “Our relationship with restoration firms is strong, and we have a great deal of trust in them. And don’t forget, restoration firms are not new to these cycles. They’ve seen cyclical cost increases before and they are adept at factoring in such costs.”

Nonetheless, Square One is also proactive in keeping up with cost fluctuations. “There is a great deal of industry information available, and we can generate an estimate for the costs of reconstruction on a claim. This way, we already have a baseline when appraisers provide an actual bid on a reconstruction or repair,” he says.

Labour shortages are another type of supply chain disruption that is impacting the costs of rebuilding and restoring properties. “There have been lots of stories about labour shortages, but the problem is especially hard on any industry that requires hands-on work,” says Tirschler. “I think a number of contractors and restoration firms are really facing these challenges. The effect we’re seeing isn’t necessarily extreme demand surge, like we had after the Kelowna fires, for example, when everyone in the region needs to rebuild at once. Those are different, isolated pockets, but supply chain disruptions like those we’re feeling now impact a broad area. So, the situation might not be as dramatic in onset – it’s subtler – but it may last longer,” he says.

According to Tirschler, another thing Square One is paying particular attention to is renovation and construction timelines. “To ensure they have enough coverage, we ask our clients to notify us if they’re planning a sizeable renovation. And, when a client advises us of the expected renovation cost, we do our best to take into account the current state of the supply chain,” he says. “Though the client’s costs of renovation might not go up from the amount the contractor quoted, we have found over the past few years that the timelines often do, especially in certain regions of the country. And, of course, a delay in a renovation means there’s an increased risk for everyone involved – the homeowner and the insurer who carries the risk. For example, the risk of water damage and vandalism increases when a home is vacant and under renovation, and that increased risk persists for the duration of the project – regardless of the cause of any unexpected delays.”

Square One has also made adjustments to factor in increased costs for rebuilding in its pricing of new policies. “We monitor market conditions and periodically fine-tune our reconstruction cost evaluations, so that our recommendations are based upon current information. And, existing customers of Square One can rest assured that they have sufficient coverage because all of our policies provide guaranteed rebuilding cost coverage,” Tirschler says.

Part II: Covid and the Challenge of Merging Corporate Cultures Introduction

Every business has its own ways of doing things. Businesses also have their own corporate culture, whether express or implied. When companies merge or are acquired, successful assimilation of corporate cultures is key to avoiding employee turnover and to the overall success of the transaction.
Because corporate culture is comprised of many facets, learning about a firm’s corporate culture can be challenging in normal times. Now, imagine trying to do so during the pandemic. Sounds even trickier, doesn’t it? And yet, during the pandemic, merger and acquisition activity in the Canadian insurance sector – particularly on the brokerage side – did not stop, or even seem to slow.
In this Part we talk with executives from BrokerLink and Westland Insurance Group, Ltd. about how they navigated the acquisition process during the pandemic.

A Brief Pandemic Pause

“When the pandemic was announced, we didn’t stop our acquisition process – there were lots of deals in the pipeline,” says Tracy Krunic, BrokerLink’s Chief Operating Officer and Vice President, Human Resources. “But we did put a bit of a pause on closing some deals – I’d say from March 2020 to summer 2020 – so we could take time to adapt our processes to accommodate the disruptions being caused by the pandemic, for example, reconfiguring logistics for introductory meetings with newly acquired brokerages,” she says. “Overall, I’d say that the pandemic didn’t have too big of an impact on what we did when we had an acquisition. We trusted our process and we didn’t try to do anything drastically different, other than those months when we couldn’t get out and meet with people in person.” Indeed, over the past two years BrokerLink closed more than 40 deals involving more than 700 new employees.

The pandemic had a similar impact on Westland’s acquisition process. “During the first two-to-four months of the pandemic we did temporarily pause acquisitions activities because we were in uncharted territory, with a lot of uncertainty about the duration of lockdowns and so on. We had active acquisition targets, but we paused to assess the internal and external impact of the pandemic. We felt we had to focus internally on our business, our clients, and our employees. But, once we felt comfortable that we could demonstrate resiliency, we didn’t shy away. We pretty quickly re-established our acquisition focus,” says Tim Mackie, Executive Vice President Western Canada Operations at Westland.

Building Trust and Relationships

In terms of BrokerLink's relationship-building efforts in an acquisition, the introductory meeting that happens just after a seller announces the sale to its staff is a key event, according to Krunic. "What happens on the day the deal is announced is important. On that day, the owner of the brokerage calls a meeting to make the announcement. We literally have a team of two or three BrokerLink people waiting outside until the owner tells the employees," she explains. "The BrokerLink folks then join the employee meeting and are introduced. That face-to-face is really important for a few reasons. At that first meeting we do a short presentation about who BrokerLink is and about the things they'll gain as part of a large organization. We also talk about our values: who we are, what we're about – and our purpose. It's also a chance for us to get feedback from them – both verbally and through body language – that, to some extent, informs the next steps," she says.

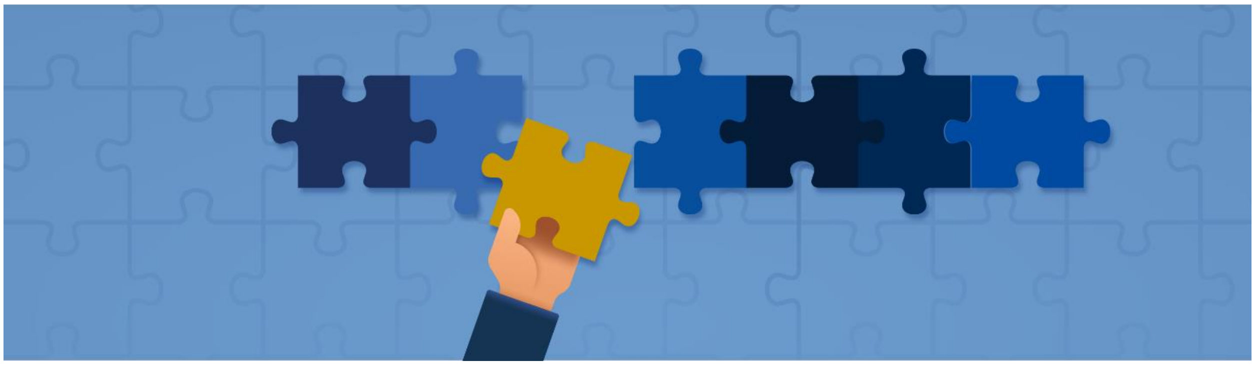
BrokerLink's relationship building with employees of a newly acquired brokerage doesn't end with the introductory meeting. It provides ongoing help and support to new employees. "In early 2021, we introduced integration managers – two in Ontario and one in Alberta. These folks look after managing the relationship. They aren't necessarily on-site at the newly acquired brokerage, but they are available to help with general administrative questions, marketing and more. So, for example, if a newly acquired broker doesn't know what to do in a certain situation, such as where to find the new HR form to fill out or how to get IT assistance, they can ask their integration manager," she says.

As well, BrokerLink reaches out to newly acquired employees in a variety of ways. "A townhall – in-person or virtually – is a perfect example we use for reaching out. It so happens our president – Joe D'Annunzio – loves to get out and meet with people in person. You know, when the president of a 3,000-person organization takes the time to get out and meet with employees, it goes a long way in terms of providing valuable, two-way communication and building relationships," she says.

At Westland, Mackie says the trust building starts with the initial meeting with the acquisition target. "Mergers and acquisitions are in our DNA as an organization. We're very entrepreneurial. The history of our organization is that we started in 1980 with one office and now have more than 190 locations and 2,300 employees. We're the largest independent Canadian-owned broker and we're very proud of the fact that we are family owned. Our tag line: "welcome to the family" says a lot about our cherished humble beginnings," he says. "As a result, from the onset Westland pays a lot of attention to whether there will be a good cultural fit with the brokerage that we're acquiring," he adds.

"Pre-pandemic our focus was for more of an in-person process to build trust – from initial meetings to the signing of the deal through the integration of the acquired firm. As a result of Covid, our entire deal flow process – from the moment we meet with a potential acquisition –including at times the initial first meeting with a potential acquisition - is more virtual. This has allowed us to be more efficient and to include virtual face to face introductions and sessions with the head office teams that provide ongoing support to the acquired brokerage. This has been quite effective – although our preference is to leverage virtual combined with in-person," says Mackie.

Similar to BrokerLink, the day after the seller announces the sale to staff, there's a staff meeting with the CEO and other Westland executives. "As a result of the pandemic, this meeting is now often held by Zoom, but it's complemented by in person support from a leader in that region," says Mackie. "We've found this allows the new brokerage to meet more of our leadership team, and there's less of a carbon footprint, which is important to us."



What Makes for a Successful Merger

Krunic thinks BrokerLink's success in attracting brokerages is attributable to its acquisition strategy. "The acquisitions we've done start with some degree of commonality in terms of values, especially when it comes to people. We have found owners who are selling often really want to ensure that their customers and employees will be well cared for," says Krunic.

Westland also focuses on finding acquisitions that are a good fit. "During our due diligence we talk to brokers to assess whether they are culturally aligned with Westland's values. By this we mean that the brokerage is well established, it has strong relationships with insurers, and a strong presence in the community. We tend to have more of a rural focus in our business and have a vison to be an authentic and invested community partner. We find this vision is well aligned with many community based brokerages. We consider these elements as well as financial metrics," says Mackie

As for how BrokerLink gauges the success of an acquisition from a people perspective, Krunic says the key is employee engagement and retention. They seek employee feedback in a variety of ways. "Our local team and integration managers interact regularly from the date of the acquisition, to provide ongoing support and provide updates and address questions to the new employees. Throughout the first year of the acquisition, we review how employees are feeling through touchpoints with managers and directors and the regional VP. After being on board for a full year, all employees are included in our annual employee survey, which is used throughout IFC (Intact Financial

Corporation). The survey asks all employees what they think about work processes, how collaborative they feel their team is, how effective their manager is, and so on. It's a great way to get formal feedback from the newly acquired employees," she says. In terms of employee retention, BrokerLink has done quite well: their employee retention rate three years after an acquisition is over 90%.

Westland measures the success of acquisitions based on a number of metrics, including employee retention, growth of the book of business, retention rates, and a number of financial metrics. They assess the success of cultural integration by collecting feedback from the leaders and teams of the acquired brokerage during and after integration to the Westland family. Like BrokerLink, Westland also includes new employees in their annual employee survey to provide feedback on their feelings of engagement and being supported by Westland. "Our approach is to look after the investment we are making in the people and if we do this well, the business results will come," says Mackie.

Changes

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Pandemics Impact on the Pace of Acquisitions

Both Krunic and Mackie agree that in a way, the pandemic may have accelerated the pace of acquisitions. "If anything, Covid was one of the factors that resulted in an acceleration of the pace of acquisitions for our organization," Mackie says. "It wasn't the only thing that had an impact – valuations have been really high, and the hard market has made it difficult for some brokerages. The operational issues some faced due to Covid also brought succession planning into focus. Owners who thought they could put off thinking about succession planning for three to five years became more focused on it as a result of the pandemic."

Krunic agrees, noting that for some independent brokers who may not have been interested in pursuing a merger a few years ago, the pandemic might have caused them to focus more closely on their succession plans. "Interestingly, the pandemic seems to have really been a defining moment for some brokerages who may have been sitting on the fence in terms of deciding whether to go through with a sale. The pandemic might have tipped the scale for brokerages who may have had been struggling with instituting technology, for example, or if they were having HR challenges. Also, the pandemic required a certain flexibility that some may have realized was just too much for them to handle on their own," she says.