

“INSURANCE: IT’S EVERYBODY’S BUSINESS”

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PREPARED AND SUPPORTED BY:

- The Tourism Industry Association of Nova Scotia
- Recreation Nova Scotia
- Sport Nova Scotia
- The Restaurant Association of Nova Scotia
- Canadian Volunteerism Initiative - Nova Scotia Network

INSURANCE – IT’S EVERYBODY’S BUSINESS!

In the summer of 2003 The Tourism Industry Association of Nova Scotia partnered with Recreation Nova Scotia, Sport Nova Scotia, the Office of Health Promotion, Sport and Recreation Division and the Nova Scotia Department of Tourism, Culture and Heritage to discuss common issues and examine solutions collectively with regards to insurance concerns. This small group was broadened to include the Restaurant Association of Nova Scotia, the Canadian Federation of Independent Business and the Manufacturers and Exporters Association, all of whom recently met with the Nova Scotia Government’s Superintendent of Insurance, and the Insurance Bureau of Canada to voice their comments and concerns.

Our conclusion is that an industry – all sector – and government interdepartmental task force is required immediately to analyse the situation, recommend solutions, and implement a strategy and/ or interventions.

INTRODUCTION

The Canadian and Nova Scotia small business community, the backbone of the economy, has stated in the recent Canadian Federation of Independent Business survey that availability and price of liability protection is a major constraint and barrier to sustainability.

The insurance industry itself has evolved into its present state through a series of compounded problems that created difficulties. The insurance sector decided there was too much risk (within certain sectors of the industry) and therefore cut its offering to insurers – that resulted in fewer funds to deal with for accepting insurance business. This limited the amount of dollars that could be used to write insurance policies and created the capacity issue – less money to write more insurance with fewer companies in the business.

Small businesses and the voluntary sector in the Atlantic Provinces, including Nova Scotia, are experiencing a higher-than-average increase in ALL insurance premiums – commercial and personal – including auto, property, liability, business interruption and small business premiums. Specifically, there appears to be a significant statistical relationship with the level of increase and the industrial sector of the small business – construction, transportation and retail sectors appear to have greater increases than other sectors in Nova Scotia.

In Nova Scotia, the insurance issue extends far beyond auto insurance. A recent survey, conducted by the Canadian Federation of Independent Business, in which 346 Nova Scotia businesses participated, indicated that small businesses have experienced the most significant increases in the Commercial Property and Small Business Package premiums (18.1% and 20%, of respondents, respectively, have experienced premium increases greater than 50%). Commercial auto insurance in Nova Scotia appears to be an even greater problem than personal auto insurance – with 53% of respondents indi-

cating their commercial auto insurance had increased between 20-99 % compared to 37.6% of Nova Scotia respondents who said their personal auto insurance increased by 20-49% and 10.6% said personal auto insurance increased by 50-99%. Further results from the survey indicated the main problems being encountered by Nova Scotia respondents are:

- high cost
- lack of competitively priced insurance plans for businesses
- insufficient notice of changes
- higher deductibles
- decreased coverage availability

In essence, it's costing Nova Scotia businesses and volunteer organizations more money for less coverage! And the stats don't support a rationale for it.

- Small businesses and voluntary sector in Nova Scotia have a small incidence of claims.
- 28% of small businesses have not submitted a claim during the past three year.
- 71% of small businesses have NOT submitted any type of insurance claim.
- Of those who have put in a claim, 67% has been for auto and 44% for property/liability.

The issue now facing companies, the recreation and sport field, and volunteer groups seeking insurance is how the insurance industry assesses the sector. The assessment brings into play two key items, (1) frequency of claims and (2) severity of claim. Both of these are now how judgements are made in determining the risk factor and the ultimate cost of the premium.

IMPACT TO THE TOURISM INDUSTRY

Since 1993, the Tourism Industry Association of Nova Scotia (TIANS) has constantly searched for Brokers and Insurers who would consider the Tourism Industry in Nova Scotia and Atlantic Canada as a lucrative market base in its own right. TIANS has examined various means such as blanket and self insurance to assist the tourism industry. TIANS is continually discussing the difficulties with brokers, several of whom have become partners and have developed packages for specific sectors of the tourism industry.

Industry Sector Insurance Broker

Campgrounds, B&B's, Adventure Tourism – **A.P. Reid Insurance**

B&B's – **Zive**

Auto and Home for TIANS Members and Employees – **Fraser & Hoyt**

Festivals, Events and Entertainers – **B.F. Lorenzetti**

In 2003, insurers culled their risk and in some cases pulled back from even traditional accounts. They were willing to insure one part of a business and not a companion part. They were requiring a change in the category of insurance and in all instances the coverage was less and the cost was more.

Liability Insurance for specific sectors of the tourism industry has always presented a challenge, and adventure, tourism and food and beverage sectors are the most affected. Under the current change of players and rules, the festivals, events and attractions sectors are experiencing a flat refusal from insurers through their brokers, with many of whom they have enjoyed years of good business relationships.

TIANS has initiated several projects in an effort to facilitate assistance to our industry operations. TIANS offers "It's Good Business" Programs, namely Responsible Beverage and Responsible Gaming at two levels – server and manager. (These programs are offered via the Tourism Human Resource Council). The programs have content that pertains to best business practices in risk management and liability. Many food and beverage operations are finding they are required by their insurer to take the program in order to qualify for insurance coverage. (Note: The Tourism Human Resource Council is presently negotiating with an Ontario insurer, who left the Nova Scotia insurance marketplace to return to Nova Scotia provided the Nova Scotia Beverage Operations would agree to undertake risk management programming.)

Working with B.F.Lorenzetti, TIANS recently made a proposal to an insurer for blanket coverage for TIANS members. TIANS has been heavily involved in assisting marine based tourism operators with the onerous understanding and interpretation of the Marine Liability Act and since early March 2003, has been immersed in industry difficulties with their respective insurance brokers. Through the partnerships developed with these brokers, TIANS has been successful in finding insurance for existing business albeit not exactly what they previously had or previously paid.

It has not been an easy road. Because of the escalating insurance concerns, and lack of insurers willing to participate in the tourism industry, new business ventures are unable to obtain adequate insurance coverage to launch their businesses. It is also alarming to consider how many businesses will not re-open in 2004 because they either do not have insurance coverage or they can no longer afford it.

In both the food and beverage and the adventure and tourism sectors, the profit margins are already minuscule and the increased cost will be the decision-maker in business continuance. Compounded with that is a recent development in the B&B sector where an insurer is now demanding commercial insurance rates instead of residential. Over 50% of the accommodations available in Nova Scotia are B&B operations (4 rooms or less). Their closure would drastically affect Nova Scotia's ability to meet the demand.

This presents a major constraint to our industry's growth and hinders our ability to reach our vision of 100% tourism economic growth in the next decade. Implementing this vision would enable the tourism industry to go from a \$1.2 billion industry in Nova Scotia to \$2.4 billion and would significantly impact federal, provincial and municipal taxes, not to mention employment opportunities. What must be understood is the domino effect of the present insurance situation affecting all businesses, not just those directly involved in tourism. In turn, this effects the economy and impact to employment will be significant.

Actual Impacts on Industry

Following is a small but mighty list of operators or activities who are experiencing difficulties:

- A new tour operator in Halifax is unable to secure auto insurance to start a motorized tour/transportation service for the Halifax waterfront.
- A small, home-based operation in Sheffield Mills offering kayak/canoe rentals and tours is unable to acquire reasonably priced CGL insurance (only quote received is from a BC broker).
- A motorcycle tour operator who conducts tours across the province is looking for assistance in dealing with 100% rise in insurance costs.
- A Cape Breton-based outdoor adventure tour operator's policy was not re-offered this year. The only available coverage was a premium of \$5,000. They are unable to operate with a drastic rising cost to visitors.
- An organization, representing a number of community groups organizing events around the Acadian celebrations the next several years is facing challenges in obtaining reasonably priced Directors' and Officer's liability insurance, volunteer insurance and third party liability coverage.
- A board of trade organization was unable to secure insurance coverage for its local trail, museum/visitor information centre and recreational ball field. This resulted in closing public access to certain areas of interest, thus decreasing the availability of attractions in their rural area.
- A popular festival on the South Shore experienced difficulties in obtaining insurance to cover their marine aspects, a key component of the festival.
- A campground operator in Berwick has seen his rates rise about 50% in last 2 years and it's cutting into already thin profit margins.
- A new outdoor tour operator based in Halifax wants to focus on providing niche outdoor experiences yet is experiencing difficulty in obtaining appropriate coverage.
- An outdoor tour operator in Truro will be forced to reorganize or close the business next year if rates continue to rise.
- A popular accommodation in Cheticamp has seen its rates rise 75% in the last year.

IMPACT TO THE FOOD SERVICE SECTOR

Insurance received from insurance brokers in the food services sector is voluntary. This creates problems because it is not mandatory, despite higher rates. The insurance industry (food-sector segment) has generally been underwritten in Canada by Royal/Sun Alliance, which at the end of 2002 cut its portfolio in the food service sector by 43%. This left a lot of insurance agents without a company to place their business, and therefore put a number of individual policies at risk of not being renewed.

Generally all new policies are seeing increases and these changes are according to the kind of license (eg. liquor) that an establishment operates under for their business. At the low end of the scale, policies under the \$20,000 threshold are no problem, yet still

experiencing increases in the range of 20%. Where the risk is perceived higher (bars, lounges, etc.) the new rates are increasing from 25– 300%. Doubling and tripling of premiums is the norm in this particular segment of the food service sector. In some cases, the rate is the secondary factor as certain operators are having difficulty just finding a company to place their insurance.

The prediction is that we are peaking on premiums and there is a change coming to the marketplace. Whether this will come in time for a lot of our operators is yet to be seen.

Actual Impact to Sector

The food service sector is very concerned about insurance and the latest indications are there will continue to be a sharp hike in new premium quotes. The Restaurant Association of Nova Scotia has done some polling of its members and non-members to capture a snapshot of the how the industry is reacting to the issue of insurance:

- ◆ Restaurants without a liquor license still have a relatively easy time obtaining commercial insurance, although rates have risen 20–40%
- ◆ Restaurants with liquor licenses are having a more difficult time, especially those with claims in the last three years. Rates have increased 20– 70%
- ◆ Lounges, bars and cabarets are having the most difficult time acquiring insurance, with several being rejected and others finding rates increasing up to 300%.
- ◆ An operation with several divisions had its insurance jump at the end of 2002 from \$30,000 to \$115,000.
- ◆ A Halifax operator with two claims saw his quote triple this year.

Other items that the insurance companies are watching carefully in relation to the restaurant sector are court settlements on any restaurant related issues such as liquor, accidents, staff settlements, etc. and government intervention (some companies will abandon markets where governments are exercising undo pressure or restrictions).

IMPACT TO RECREATION

Volunteer community groups are the foundation and backbone of the recreation delivery system in Nova Scotia. Hundreds of volunteer groups that are part of the recreation delivery system in Nova Scotia providing active living, sport and leisure opportunities for our citizens, have found general liability insurance difficult to obtain and in some cases non-existent. Essential community services such as volunteer fire departments, are sometimes supported by the funds generated through recreation community events and festivals.

In the late 1980's the recreation sector underwent an insurance crisis not unlike the one being experienced today. As a result, some programs and facilities were closed – never to be re-opened. Some groups developed risk management practices to help limit their liability. Others raised more and more funds to cover the costs of the increased premiums and strategies such as group plans were initiated. Fifteen years later the sector

finds itself once again faced with a similar crisis. There are hidden costs associated with the current insurance situation that relate to the human costs, such as the number of volunteers who are no longer willing to donate their time to raising money for insurance rather than for direct program costs. A recent study of community festivals in Cape Breton found that the proceeds from special events coordinated by volunteer groups are used to fund community sport and recreation programs and facilities. So cancellation of one festival may in fact mean that several other programs are downsized or eliminated. Another cost relates to the economic impact of certain types of sport and recreation initiatives, such as festivals and sport tournaments, which infuse money into the local economy. Yet another hidden cost relates to the health and well-being of sport and recreation participants.

Community recreation programs serving as an alternative to crime for certain youth, and the health benefits associated with regular daily physical activity for all ages are well documented. Increased costs in sectors such as justice and health can result from a decrease in sport and recreation opportunities, especially in rural communities.

Over the past year, volunteer recreation groups have been experiencing the impact of increasing insurance premiums and lack of access to underwriters through insurance brokers. The biggest issue lies in how the insurance industry defines high risk and low risk recreation. Some underwriters have de-listed recreation as a customer focus. This sector, which is a key component of a community's quality of life, will be eventually paralysed if a solution is not found.

The current insurance situation strikes hard at the root of volunteer services and most hard hit are rural areas where the private or commercial sector presence as a recreation service provider is not feasible.

Recreation Nova Scotia (RNS) currently manages an umbrella program that offers recreation groups third party general liability insurance. One hundred sixty groups that offer low risk activities take advantage of this program on an annual basis. After a long and gruelling process, MacDonald Chisholm Insurance agreed to carry the policy for the upcoming year. However, prior to their acceptance, eight underwriters rejected the RNS General Liability Insurance program. The organization was put in a position of seeking a new insurance broker when Royal Sun Alliance discontinued supporting the program in April 2003. It is important to note the premium value on this program is approximately \$21,000 and there had been no claim in over seven years.

Actual Impact to Communities

There are hundreds of recreation groups that are offering valuable and enriching programs that cannot be served with RNS's General Liability Insurance program because they are considered high risk or too complex. Stories are told on a daily basis of notifications of cancelled policies or premium increases by 100 – 300%. A few examples being reported across the province include:

- ◆ Education associations that include field trips as part of their activities were considered high risk by insurers.

- ❖ Insurers defined Red Cross swimming lessons as a high-risk activity.
- ❖ Community-based, no contact, martial arts programs wanting to use school facilities to conduct classes cannot get insurance from Sport Nova Scotia because they are not a member of the provincial association for karate and cannot get insurance through RNS because it is considered high risk by insurers. To get insurance on their own they are being quoted a \$1,500 premium per year.
- ❖ A BMX bike park being developed by a community group in Lunenburg was quoted \$22,000 for basic insurance coverage because the group was not eligible under Municipal coverage.
- ❖ A community centre that was able to qualify under RNS's program for a \$624 premium was quoted \$9,000 from other sources.
- ❖ Yachting, being a water craft sport, saw its policy increase from \$682 to \$5,000. After shopping around in Nova Scotia, the lowest price they could get was \$2,500. The Yachting Association finally went with a broker in Ontario paying \$1,541. In their search, there were insurers that did not want to provide a quote.

IMPACT TO THE VOLUNTEER SECTOR

Governments have increasingly recognized the volunteer sector as key to the planning and delivery of many critical services. Community leaders, through a wide variety of organizations, are an essential element in the delivery of health care, economic development, education, youth, social, safety and emergency services, etc. As a result of the insurance crisis, government and communities can no longer assume that the services and programs long provided by volunteers will continue to exist.

INSURANCE ... the gatekeeper

Traditionally, citizens chose to contribute their time and expertise to activities consistent with their values, interests or personal priorities. Today, insurance considerations influence who's invited to a board of directors and who's willing to serve in a leadership capacity.

Actual Experiences

A non-profit organization, which provides family and employment support services to low income residents, was recently quoted Director's Liability Insurance ranging from \$2,000 – \$10,000. The final price was to be determined after a review of the board members' resumes – the more capable the insurance firm determined the individuals to be, the lower the bill. No longer can volunteer organizations recruit and attract board members who best reflect the objectives of the organization – they must now meet a standard determined by the insurance industry.

A volunteer was recently renewing her personal house insurance. In order to determine the risk she was asked if she served as a board member for any non-profit organizations. Her participation on a board of directors would influence the rate of house insurance. Her home could be considered an asset should she be held liable as a board member.

INSURANCE the new regulatory agency

Non-profit organizations responsible for services, facilities or programs comply with standards established by government regulatory bodies and other designated agencies. Financial, development and operational plans are developed around the criteria and standards provided by the appropriate agency. This is no longer adequate. Insurance approvals are based on standards that exceed those established by the regulatory agencies (i.e. environment). Years of community planning and fundraising to provide facilities and programs can be undermined as insurance agencies determine that government approved standards are no longer adequate and groups must answer to a new regulator – the insurance industry.

Actual Experience

An established community facility recently had a new oil tank installed meeting all environmental standards. The organization had raised funds and followed required processes during installation. Upon renewing their insurance they were advised the installation did not meet the standards of the insurance agency and they could no longer be covered. The facility has locked its doors.

INSURANCE ... affecting program quality and volunteer recruitment

Securing adequate resources, both financial and human, is a major challenge for all non-profit organizations. As an increasing percentage of annual budgets are devoted to paying for adequate insurance, resources available for service delivery are depleted. Individuals are reluctant to dedicate their time and expertise to debating insurance requirements and volunteer recruitment becomes an even more difficult task. Although Nova Scotians are among the most generous and caring of Canadians, an increasing number are turning away from organized agencies and making their contributions through informal volunteering or 'good Samaritan' acts. Unfortunately, many of the services and programs that government and communities have come to rely upon are delivered through formal volunteer organizations.

Actual Experience

A transportation service, coordinated by the Victorian Order of Nurses, was recently faced with a van rental increase of more than 150% as a result of insurance costs. This increase could not be absorbed by the organization and the result has been a reduction

in service and hardship to clients.

Organizations across the province are reporting difficulties in recruiting and maintaining volunteers as a result of insurance issues. Volunteers no longer want to participate in fundraising activities of which 50-90% of the funds go to insurance. Volunteers are concerned regarding their own liability and are tiring of the insurance related challenges.

INSURANCE volunteers and the economy

The federal government now refers to the volunteer sector as the *Third Sector*. Nation wide, the volunteer sector employs over 900,000 people and salaries are dependent upon finely balanced budgets. An increase in insurance costs cannot easily be absorbed and often results in cuts to payroll and ultimately services. Community economic development, small business development and tourism strategies are significantly dependent on the activities of volunteer leaders. The loss of volunteer sector jobs will have a serious impact on our employment levels as well as a compounding effect on the industries they support.

CONCLUSION

Volunteer community groups a key ingredient to the quality of life we value and strive for in Nova Scotia. Baseball leagues, community suppers, drama productions, day camps, senior fitness classes, trail development, skating lessons and community festivals and celebrations are but a few of the hundreds of activities made possible through volunteer initiatives in rural communities.

Recreation Nova Scotia and the Tourism Industry Associations of Nova Scotia are working in cooperation with the Department of Tourism, Culture and Heritage, Sport Nova Scotia, and The Office of Health Promotion, Sport and Recreation Division and The Canadian Volunteerism Initiative – Nova Scotia Network, to examine all possible avenues toward solutions. However, additional help is needed.

It has become obvious that the insurance industry does not have a good understanding of the tourism and recreation industries or the volunteer sector, and have a general perception that there is a higher risk than there actually is – thus the higher premiums.

The tourism and recreation industries face an insurance crisis that will have a devastating effect on visitation and community life, if not addressed quickly. Within these sectors, operators and community groups are experiencing increased rates of enormous proportions or complete loss of any coverage, threatening the ability to operate viable businesses and offer valuable programs and services.