

UNDERSTANDING INSURANCE

LIFE IS A RISKY BUSINESS. Sometimes those risks hit home – a car collision... your basement suffering water damage... your business interrupted by vandalism.

At times like these, insurance is there to help us recover, get us back on our feet and provide peace of mind.

Questions about insurance?
Call us.

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Insurance Bureau of Canada is the national trade association for Canada's private home, car and business insurers.

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How Does Insurance Work?

When people buy insurance, they put money into a pool with many others. The money they put in is called a **premium**. Some of that pool of money helps the policyholders who suffer a hardship (e.g., a home fire, a car collision or business interruption) in that year. Payouts for these hardships are called **claims**.

Because there are usually more people contributing to the pool than there are people making claims at any given time, there is enough to pay the claims. There is, and needs to be, enough money for large single claims (e.g., when someone is permanently disabled as a result of a car collision) or for a large number of smaller claims such as those resulting from a windstorm.

Why Do I Pay Annually?

Your insurance policy is an annual contract (with some exceptions), so the pool operates for only one year at a time. Your premiums and the premiums of others are based on a number of factors that all relate to how much risk is involved in the activity being insured. The insurance companies have to predict how much money they will need to pay the coming year's claims. It's important to understand that your premiums do not build up over time.



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How Is My Premium Calculated?

Calculating insurance costs is complicated. Insurers don't know what the claims costs will be in any given year. That is why premiums have to be based on informed predictions about how much money may be needed to pay future claims. To make those predictions, insurers gather information that they know from experience will help them set fair but accurate premium prices.



Here are some things insurers use to determine car insurance premiums:

- Claims history (number of claims in the recent past and their cost)
- Driving record (history that could include collisions, convictions, tickets, etc.)
- Type of car driven
- Repair costs
- Collision and crime rate where car is garaged
- Driving frequency and distance
- Additional coverage, deductibles and discounts
- Government regulations, taxes (including reimbursing provincial health plans for treatment of victims of car collisions)



Here are some things insurers use to determine home insurance premiums:

- Location of dwelling (e.g., crime and fire rates of residence location)
- Replacement cost of building and its contents
- Type of residence (single family home, apartment, etc.)
- Construction material used (brick, concrete, wood frame, etc.)
- Distance from fire hydrant, fire station, etc.
- Claims history (number of claims in the recent past and their cost)
- Additional coverage, deductibles and discounts
- Government regulations, taxes

DID YOU KNOW...?

- Over the last decade, insurance claims for Canadians who suffer loss as a result of severe weather or natural disasters have averaged well in excess of **\$1 billion annually**.
- The Fort McMurray fire in 2016 is the costliest insured disaster in Canadian history, with **more than \$3.7 billion in insured losses**.
- Residential flood insurance has become available in Canada, yet roughly only a third of homeowners have added this coverage to their policies.
- You can lower your home insurance by taking preventive measures against fire, theft, water damage and severe weather. **This may include installing a theft alarm system, reinforced roofing, a backwater valve, sump pumps and a sprinkler system. Let your insurer know when you make an update.**



Insurance crimes such as fake accidents and falsifying insurance claims not only affect the unsuspecting victims of the collision, but also affect the general public by needlessly using up valuable law enforcement, court and health care resources that could be better used elsewhere. This translates into all Canadians paying a price in the forms of higher taxes and significantly higher insurance costs.



Insurance is like an umbrella. You don't need it unless it starts to rain, but if you don't have it with you when it's already raining, then it's too late to go home and get it. **Better to have it and not need it, rather than need it and not have it, yes?**