An update from Alberta’s home, auto and business insurers

Embracing Challenges and Opportunities

2017
For Albertans, 2016 brought many challenges. We struggled with the fallout from a sluggish economy, a weakened Canadian dollar and rising living expenses. Then wildfires tore through Fort McMurray and the surrounding area, prompting the evacuation of nearly 90,000 people and destroying 2,400 homes and properties, thousands of vehicles and dozens of businesses.

Canada’s home, car and business insurers mobilized immediately to provide on-site insurance support to evacuees in Calgary, Edmonton and Lac La Biche. As the property and casualty (P&C) insurance industry’s trade association, Insurance Bureau of Canada (IBC) was on the ground in the early days of the response to work closely with emergency responders as part of the Regional Emergency Operations Centre, serving as “one window” to and from the insurance industry to ensure that information flowed freely and consistently, with an exclusive focus on assisting residents affected by the disaster. There is still much work to be done but IBC and the P&C insurance industry will continue to be there until the rebuilding efforts are complete.

In the interim, there are valuable lessons to learn and share. The early and highly collaborative response in Fort McMurray is a shining example of how public and private sectors can best work together to help people and communities recover from natural disasters.

IBC is working hard to help communities prepare for a disaster before it happens. With the federal and provincial governments jointly committed to this urgent long-term issue, IBC is proud to be working alongside them in developing innovative solutions to adapt to severe weather, prepare for natural disasters and mitigate the effects of our changing climate.
IBC’s role includes:

- Advocating for a national strategy to address flood risk that includes improved building codes, infrastructure investments, risk assessment and flood mitigation
- Exploring possible solutions to the macroeconomic impacts and systemic financial risk that a major earthquake would cause
- Supporting the efforts of like-minded organizations to address the need for preparedness for severe weather and natural disasters
- Communicating extensively with provincial emergency organizations across the country.

In addition to climate change, IBC provides support on other public policy issues that affect Albertans, particularly during this economic downturn: building safe and strong communities, working to stabilize the cost of insurance, and supporting economic growth and business.

Despite recent challenges, Albertans continue to show the resiliency for which they’re known. The P&C insurance industry is honoured to serve them and committed to partnering with all levels of government on solutions that put Albertans first.

Bill Adams
Vice-President, Western & Pacific
Keeping Auto Insurance Affordable

Insurance companies provide coverage for more than 2.5 million* vehicles in Alberta. This coverage includes protecting drivers, passengers and pedestrians, and repairing damaged vehicles in the unfortunate event that a loss is suffered.

The auto insurance reforms introduced by the provincial government in 2004 laid the groundwork for what has been one of the most stable auto insurance systems in Canada over the last decade. However, escalating cost pressures in the province threaten the affordability of auto insurance.

What’s behind rising premiums

While the actual number of bodily injury claims hasn’t changed significantly, insurers have seen a sudden, significant increase in the average cost of claims. A 2012 court ruling allowed for the awarding of significant bodily injury general damages for minor injuries, contributing to a 61% increase in the cost of settling claims over the last five years – six times faster than inflation.

Possible solutions

To provide adequate care to people injured in collisions and keep auto insurance affordable for all drivers, minor changes to the system are needed.

► The definition of a minor injury (sprain or strain) needs to be updated. This will ensure that the system adequately compensates individuals who have suffered serious injuries and minimizes cost pressures from those who have suffered only minor injuries.

► People injured in collisions should be properly assessed and continue to receive the medical treatments they need in order to recover.

*Source: General Insurance Statistical Agency (GISA), 2015.
The prejudgment interest rate should align with the cost of money. While insurers agree that prejudgment interest should be awarded, it should not be at a rate high enough to act as an incentive for individuals to delay settling a claim. This practice ultimately creates higher costs for everyone.

These minor adjustments to the auto insurance system will address the problems associated with bodily injury claims costs. More specifically, if claims costs related to minor injury pain and suffering awards are held within reasonable limits, it will keep premiums affordable and maintain the proper levels of treatment for people injured in collisions. Albertans deserve a sustainable, affordable auto insurance product. IBC and insurers are committed to giving them one.

Average bodily injury claims costs

<table>
<thead>
<tr>
<th>Year</th>
<th>Claims Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$47,158</td>
</tr>
<tr>
<td>2013</td>
<td>$54,578</td>
</tr>
<tr>
<td>2015</td>
<td>$68,245</td>
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Source: IBC Economic Trends, with data from GISA, 2015.
Rebuilding Fort McMurray

Inspectors, specifically insurance adjusters, serve as “second responders” in the recovery period after catastrophe strikes. Within hours of the largest wildfire evacuation in Canadian history, insurers set up booths and tables in evacuation centres to answer questions, begin the claims process and provide evacuees with funds to get through the first few weeks.

Here are some of the efforts that IBC made, on behalf of the P&C insurance industry, to help residents:

- Dispatched IBC’s Community Assistance Mobile Pavilion to provide on-site insurance support at evacuation centres across the province
- Helped residents connect with their insurers in the early days of evacuation
- Embedded IBC staff in the Regional Emergency Operations Centre to ensure accurate and timely communication to residents and insurers
- Facilitated early entry of insurance personnel to assist returning residents
- Provided on-site insurance assistance to small business owners at the Back to Business Resource Centre
- Interacted and communicated on insurance basics with a variety of stakeholders, including the Wood Buffalo Recovery Committee, Golden Years Society Seniors Group, Chamber of Commerce and Canadian Red Cross
- Engaged residents in over 20 public sessions throughout the Regional Municipality of Wood Buffalo and participated in all provincial and municipal town halls
- Coordinated the cleanup, through local contractors, of nearly 12,000 contaminated refrigerators and freezers as the first priority in the overall debris removal process
- Facilitated a coordinated mass demolition and debris removal program for destroyed homes, using a local contractor
- Provided ongoing support to thousands of residents through IBC’s Consumer Information Centre
- Communicated with residents via 28,000 personal interactions including emails, phone calls, face-to-face conversations and public engagement sessions.

IBC also sought to immediately engage evacuees via Twitter, YouTube and Facebook to connect them with their insurers, dispel insurance myths by providing accurate information and guidance in managing their insurance claims and addressing complaints.

In 2017 and beyond, IBC will continue to support residents and insurers through its Consumer Information Centre and to work with provincial and municipal officials to navigate the rebuilding process together.
The coming years hold many challenges for the community and the P&C insurance industry alike:

- The P&C insurance industry and homeowners are tasked with repairing and rebuilding damaged homes and, on a larger and more complex scale, an entire community. With thousands of homes destroyed, stakeholders and resources such as builders, service providers, suppliers and vendors will be stretched to their limits to complete the task. This may mean that rebuilding takes longer than expected.

- Managing residents’ expectations for the rebuilding process will involve difficult conversations. While there will likely be delays, the P&C insurance industry is committed to working through the issues together with residents and other stakeholders.

- Some residents remain concerned about long-term effects of smoke damage in their homes. Insurers are taking action to clean and remediate homes for the safety and well-being of residents.

- While the fire prompted many Albertans to review their insurance policies to better inform their risk management decisions, more work to promote financial and, more specifically, insurance literacy needs to be done.

- The pre-fire economic conditions and post-fire environment may impede the reopening of some businesses. Even with insurance recoveries, some businesses may not survive.

- Flood mitigation discussions for neighbourhoods in flood hazard areas are in the works. However, the availability of coverage may still be a challenge for those who choose to rebuild in these areas. IBC continues to work on a national flood strategy with all levels of government, for a long-term and sustainable approach to this risk.

IBC, on behalf of the P&C insurance industry, will continue to work with governments at all levels on the recovery and rebuilding of Fort McMurray and the surrounding areas. The process will be a long one, but we’re committed to being there every step of the way.
Building Strong, Resilient Communities

The disturbing trend of catastrophic natural disasters in Canada reached historical levels in 2016.

According to Catastrophe Indices and Quantification Inc., last year’s annual tally for insured damage, fuelled in part by the Fort McMurray wildfire, surpassed $4.9 billion – shattering the 2013 record of $3.2 billion.

Alberta has become ground zero for natural catastrophes and severe weather events in Canada. In addition to the Fort McMurray wildfire, the province sustained damage from heavy rain, large hail and high winds from severe storms last summer. In 2015, Alberta incurred the majority of losses from natural catastrophes. Clearly, mitigation efforts must be focused largely on Alberta.

The P&C insurance industry believes in working with like-minded partners to contribute to a resilient and thriving Alberta. In 2016, the industry, through IBC, supported a number of initiatives and events, including:

- Travelling to over 20 communities across the province to offer practical tips and tools on insurance, road safety and emergency preparedness
- Contributing to local food banks, shelters and outreach groups.

Representatives present IBC’s donation to the Opokaa’sin Early Intervention Society at the Whoop Up Days event during IBC’s Consumer Tour.
In addition, IBC makes every effort to keep consumers informed on insurance-related matters. Last year, IBC connected with Canadians by:

- Responding to nearly 5,000 inquiries through our Alberta Consumer Information Centre
- Issuing 110 media releases, generating 8,800 articles
- Hosting more than 618,000 visits to www.ibc.ca – a 32% increase from 2015
- Receiving 115 million Twitter impressions, with over 15,000 Twitter followers

- Responding to 730 media calls
- Participating in 326 events, speaking engagements and sponsorships
- Sharing statistics and other information on Twitter, helping consumers to make informed choices
- Releasing IBC’s Top 10 Most Frequently Stolen Vehicles, recommending to consumers how best to prevent auto theft and avoid buying a stolen vehicle.

Consumers visit IBC’s booth at the River City Classics event in the Town of High River.
Fighting Insurance Crime

Insurance crime comes in many forms – from staged collisions to auto and cargo theft.

The perception of insurance crime as victimless simply isn’t the case. When someone steals a vehicle, burglarizes a home, vandalizes property or makes a false or exaggerated claim, everyone has to pay more than they should for insurance.

Working with law enforcement agencies, IBC’s Investigative Services team effectively fights these crimes and their costly impact on Canadians. Using data analytics and years of expertise, the team is adept at identifying patterns and emerging trends in insurance crime. In addition, IBC supplies and shares intelligence and analysis with its members, trains law enforcement and industry colleagues, works to increase consumer awareness, and leverages strategic and long-term partnerships as part of its collective efforts.

In further efforts to crack down on insurance crime regionally, IBC launched the Provincial Auto Theft Network (PATNET) program last year in Alberta to fight auto and cargo theft. The program provides training and workshops to law enforcement officers, linking them with IBC’s Investigative Services team through ongoing training programs, seminars, regular communications and other forms of information-sharing.

The increase in information-sharing among stakeholders has resulted in several large gains against insurance crime including. In 2016 alone, we made the following strides:

- Ongoing and new partnerships with groups and organizations including Criminal Intelligence Service Alberta, Service Alberta, Alberta Transportation, the Alberta Trucking Association and the Association of Chiefs of Police in Western Canada
- Nation-wide recovery of stolen vehicles and stolen cargo valued at $53 million
- Nation-wide investigations into injury fraud, auto and cargo theft rings resulting in 208 charges

Together with its partners, IBC is committed to making a significant dent in insurance crime.

The use of Twitter flags is particularly effective in IBC’s efforts to raise awareness of the impact of insurance crime.
Keeping Property Insurance Affordable

Insurers have been facing higher costs for property insurance claims.

**Why are claims costs higher?**
- The increase in severe weather events brings more extreme rain, snow and high winds.
- Inadequate and aging infrastructure can’t handle the amount of water
- More finished basements, with expensive contents, cost more to replace

**Will my premium go up even if I haven’t made a claim?**
It depends. When people buy insurance policies, their insurer places the money into a pool to help the few individuals who will suffer a financial hardship – as a result of an insured loss – during that year. A premium is based on how likely it is that the individual buying the insurance will make a claim and collect from the pool.

When total claims costs are expected to rise, insurers must collect enough premiums for the pool to cover the expected increase in payouts. Some insurers may increase premiums as a result.

**Could government regulation help to lower premiums?**
No. More regulation only adds more costs to the system. In a market where companies compete for business every year, history has shown that premium costs drop when claims costs drop.

**What’s the solution?**
By adapting to severe weather, insurers, governments and homeowners can all do their part to help reduce claims – and premiums.

**Insurers are:**
- Encouraging governments to invest in infrastructure
- Working on a national plan to address residential flooding
- Showing consumers how to protect their property.

**Communities can:**
- Upgrade municipal sewer and stormwater infrastructure
- Invest in flood defence infrastructure and restrict development in flood-prone areas
- Encourage innovative land-use planning (for example, using more green spaces to absorb rainfall).

**Homeowners can:**
- Install sewer backwater valves and sump pumps
- Fix cracks and waterproof foundations
- Disconnect downspouts from sewer systems and ensure water drains away from their homes
- Shop around for quotes from different insurers.
- Check policies to ensure sufficient coverage.
Promoting Financial Literacy

Home insurance protects homeowners from having to pay out a huge loss at once, often at a very difficult and emotional time.

With severe weather events on the rise across the country, it’s more critical than ever for homeowners to ensure their property and contents are adequately insured. If an individual’s home is damaged or destroyed, an updated inventory of its contents and their value will help the insurer determine the proper compensation.

IBC is committed to its role in educating consumers about the basics of home insurance and empowering them to make informed decisions. When consumers know how their insurance works and purchase the right coverage, they can better protect themselves, their families and their property.

The graphic below explains the basic elements of home insurance.
Understanding Insurance

Insurers use extensive data and historical trends to produce fair and accurate rates. In the case of auto insurance, premiums must be approved by the Alberta Automobile Insurance Rate Board. Here are some of the factors that insurers use to set premiums.

Auto insurance

- Claims history of the policyholder
- Driving record of the policyholder and other household drivers (at-fault collisions, moving violations, etc.)
- Vehicle type (make, model, year, etc.)
- Vehicle repair cost and/or replacement value
- Collision and crime rates where vehicle is usually parked
- Driving distance
- Additional coverage, deductible and discounts

Home insurance

- Age, size and location of residence
- Types and quality of finishes and materials
- Residence replacement cost
- Residence type (single-family dwelling, apartment, etc.)
- Residence construction material used (brick, cement, etc.)
- Distance from fire hydrant and fire station
- Claims history of the policyholder
- Crime rates of residence location
- Additional coverage, deductible and discounts

IBC encourages consumers to speak to their insurance representatives or brokers on available discounts.

For more information, visit ibr.ca.
Contributing to Canada’s Economy

Insurers are key contributors to Canada’s economy, mitigating the economic and fiscal effects of a disaster. Insurance enables Canadians who own properties and businesses to recover from losses by absorbing financial risk. By investing in bonds and securities, the P&C insurance industry helps create employment and support growth. More importantly, insurance provides incentives for consumers to reduce their risks.

Industry at a Glance – 2015*

The P&C insurance industry employed 122,500 people across Canada

Insurers paid out a total of $31.7 billion in claims to victims of collisions, disasters and other losses in Canada

Of the $31.7 billion in claims, insurers paid $9.8 billion in property losses (includes residential and commercial properties)

Property loss claims as a percentage of total claims have risen – from 24.4% in 2004 to 30.9% in 2015

Canadian insurers paid $9 billion in taxes and levies to the federal and provincial governments

* Most recent data available.
Contributing to Alberta’s Economy

Highlights from 2015*

There are 126 home, car and business insurance companies serving the province of Alberta

Direct claims incurred: $5.4 billion

Including:
- Auto claims: $3.2 billion
- Personal property claims: $836 million
- Commercial property claims: $565 million
- Liability and other claims: $792 million

Taxes and levies: $464 million

How the insurance dollar is spent

7-year average, 2009–2015, as % of revenue

- Claims 55.0%
- Operating expenses 20.7%
- Taxes 16.1%
- Profit 8.2%

Breakdown of industry investments, 2015

- Bonds 75.4%
- Shares 11.7%
- Other investments 8.2%
- Term deposits 3.5%
- Mortgages 1.0%
- Real estate 0.1%

* Most recent data available.
If you have questions, we can help.

IBC’s Consumer Information Centre
Tel: 780-423-2212
Toll-free: 1-844-2ask-IBC (1-844-227-5422)
Hours: M-F 8:00 a.m. – 4:00 p.m.
Email: askibcwest@ibc.ca

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IBC Member Services
memberservices@ibc.ca

IBC is the national industry association representing Canada’s private home, auto and business insurers. Its member companies represent 90% of the property and casualty insurance market in Canada.

Data in this brochure are from 2014, 2015 or 2016 depending on when sources release their information, and have been gathered from several national and international sources, including IBC. In some instances, figures may not add up to 100% as a result of rounding. Because sources collect data in different ways, there may be small differences among similar data.