Disaster Proofing Canada

The latest from Canada’s home, auto and business insurers
2016 marked a challenging year for Canadians. Across the country, residents struggled against a sluggish economy, a weakened dollar and rising living costs. Wildfires tore through Fort McMurray, Alta., and the surrounding area, prompting the evacuation of nearly 90,000 people, and destroying 2,400 homes and properties, thousands of vehicles and countless businesses. The disaster was an unprecedented test of our country’s ability to ramp up and respond to those in need.

Canada’s home, car and business insurers mobilized quickly 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) worked closely with the central emergency operations team, serving as the key insurance contact and an information clearinghouse for insurers assisting residents affected by the disaster. IBC continued to work with emergency officials to ready the city for the return of residents, and coordinated the cleanup of nearly 12,000 contaminated refrigerators and freezers through local contractors. There is still much work to be done, but IBC and the P&C insurance industry will be there every step of the way.

In the interim, there are valuable lessons to share. The early and collaborative response in Fort McMurray demonstrated how public and private sectors can work together to help communities recover from natural disasters. An equally important lesson is the need to include prompt, precise and empathetic communication with affected residents, both during and after a disaster, as a component of response and recovery efforts.

As governments focus largely on mitigation, IBC is working to help communities adapt to weather extremes and prepare for a disaster before it happens. With the federal government jointly committed to this urgent long-term issue, IBC is proud to work alongside it in developing...
innovative solutions to adapt to severe weather, prepare for natural disasters and mitigate the effects of climate change. IBC’s role includes:

- Advocating for a national strategy to address flood risk that includes improved building codes, and infrastructure investments, land use planning restrictions and risk assessment
- 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 severe weather and natural disaster preparedness
- Communicating extensively with provincial emergency organizations across the country.

In addition to climate change, and on behalf of the P&C insurance industry, IBC provides support on other public policy issues that affect Canadians, particularly during this economic downturn. These issues include:

- Keeping insurance affordable, with a focus on cost pressures that threaten the sustainability of auto insurance in Ontario, Alberta, and Newfoundland and Labrador
- Fostering safe and strong communities by tackling insurance crime, advocating for road safety legislation and encouraging severe weather resiliency
- Innovating insurance options for consumers to protect their property
- Supporting economic development and business across the country.

The P&C insurance industry is honoured to play a role in improving the lives of Canadians and committed to partnering with stakeholders and governments at all levels on solutions that put Canadians first.

Craig Stewart
Vice-President, Federal Affairs, IBC
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.
Investing Wisely

As of December 31, 2015, the P&C insurance industry’s total invested assets amounted to approximately **$115 billion**.* With the bulk of its portfolio invested in Canadian federal, provincial and municipal bonds, the insurance industry strongly supports the Canadian economy and is far less vulnerable to stock market fluctuations than other industries.

*Source: IBC, with data from MSA, SCOR, AMF

How the insurance dollar is spent
7-year average, 2009–2015, as % of revenue

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%
Financial Implications of Natural Disasters

From the wildfires that swept through Fort McMurray in May, to the floods that deluged parts of southern Ontario in September, to the remnants of Hurricane Matthew that pummelled Nova Scotia and Newfoundland in October, natural disasters took a disturbing and historical toll on Canadians in 2016.

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

The 2007–08 economic downturn prompted policymakers to focus their attention on systemic risk to financial and economic systems, particularly banking, with the goal of building resiliency to economic disruptions.

As it stands, an event such as a major earthquake would trigger a significant domino effect in the financial sector far beyond the P&C insurance industry. Last year, the C.D. Howe Institute and the Conference Board of Canada released research papers affirming that a catastrophic earthquake in Western Canada is one of the biggest threats to the Canadian financial system and overall economy.

IBC continues to focus its efforts on addressing this threat and the current lack of a national financial recovery plan. In fact, one of IBC’s foremost strategic priorities is “disaster proofing” Canada.

Whether through risk-sharing with governments and other stakeholders, or educating consumers on risk mitigation, IBC is committed to building national resiliency to the inevitability of natural disasters.
Focus on Climate Change

Adapting to climate change is not only a future endeavour – the impact of increasingly warming temperatures is being felt now.

A surge in insured losses related to severe weather over the past decade, primarily due to flooding, has given the P&C insurance industry a front row seat to the effects of climate change. IBC has been calling on governments for some time now to adjust to an era of more frequent and more severe natural disasters.

Along with assisting in rebuilding in the wake of disaster, the industry plays an active role in helping Canadians protect themselves, their families and their property in the face of worsening severe weather. IBC believes that an informed consumer is a protected one and takes every opportunity to educate Canadians about simple measures they can take to prevent damage to their homes and businesses.

As severe weather events intensify, so will their fiscal impact on governments across the country. The time to adapt is already upon us, particularly following the dubious record set last year for the costliest catastrophe-related insured loss in Canada’s history. The federal government has demonstrated its dedication to this initiative with its efforts to reduce carbon emissions in Canada and contribute to a global plan to fight climate change. And the P&C insurance industry, cautious by nature and meticulous by habit, is eager to work with the government to do more to prevent floods and fires, and better manage risk.

Unfortunately, there is no one-size-fits-all solution to this pressing issue, which only serves to emphasize the importance of sharing of information and best practices among stakeholders.

In 2016, IBC supported research and awareness-raising projects toward adopting a more disciplined and sustained approach to how we can help Canadians prepare for this new weather reality. These projects included initiatives with:

- The Pembina institute unGALA event, to support clean energy solutions
- The Conference Board of Canada, to sponsor climate change related events
- The federal-provincial-territorial Working Group on Adaptation and Climate Resilience to contribute to a pan-Canadian climate strategy.
Responding to Fort McMurray

The disturbing trend of catastrophic natural events continued in 2016. The country watched in disbelief as the largest evacuation due to wildfire in Canadian history was streamed live on the Internet.

At its worst, the fire spanned about 590,000 hectares (1.5 million acres), an area larger than Prince Edward Island. The unseasonably warm temperatures coupled with a drier than usual winter created near-perfect conditions for the fire to grow.

Insurers, specifically insurance adjusters, served as “second responders,” as they often do in the recovery period after catastrophe strikes. Within hours of the evacuation, 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 in Edmonton, Calgary and Lac La Biche
- Helped residents connect with their insurers in the early days of evacuation
- Embedded IBC staff in the Regional Emergency Operations Centre to ensure the distribution of accurate and timely insurance information
- Facilitated early entry of insurance personnel to assist returning residents
- Addressed insurance inquiries at eight information centres
- Provided on-site insurance assistance at the Back to Business Resource Centre for more than five months
- Educated stakeholders, including the Wood Buffalo Recovery Committee, Chamber of Commerce and Canadian Red Cross, on insurance basics
- Engaged residents in more than 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 removal program using a local contractor to support the region’s struggling economy.

Continuing to assist with the rebuilding process.

For residents fleeing Fort McMurray, social media was their lifeline to the outside world. IBC quickly engaged evacuees through Twitter, YouTube and Facebook to help them connect with their insurers, dispel insurance myths by providing accurate information, address complaints and offer insights. It even offered a virtual shoulder to cry on. IBC also created a Fort McMurray web page to provide pertinent information.

Moving forward, the P&C insurance industry is committed to sharing the lessons it learned from Fort McMurray to inform future disaster and emergency responses. IBC is committed to working with governments at all levels on this shared priority.
Building Strong, Resilient Communities

The P&C insurance industry believes in building strong communities and working with like-minded partners to contribute to a resilient and thriving Canada. Some examples of IBC's support include:

- **C3 Initiative**, a circumnavigation of Canada led by Students on Ice to raise awareness of climate change
- **Red Cross Disaster Management Forum**, an annual conference where participants discussed natural disaster response and preparedness planning
- **Atlantic Infrastructure Conference**, a forum hosted by the Atlantic Climate Adaptation Solutions Association where participants identified the impact of severe weather risk on public infrastructure and solutions to improve resiliency
- **The Woodrow Wilson International Center for Scholars’ Canada Institute**, a non-partisan think tank that focuses exclusively on the relationship between Canada and the United States
- **Gold Metal Plates**, a fundraising event for Canada’s Olympic foundation.

To raise earthquake awareness, IBC’s ShakeZone made an appearance at the Sparks Street Mall in October.
In addition, IBC makes every effort to keep consumers informed on insurance-related matters. In 2016, IBC connected with millions of Canadians by:

- Responding to over 45,000 inquiries through its Consumer Information Centres across the country
- Issuing 110 media releases, which generated 8,800 articles
- Hosting more than 618,000 visits to www.ibc.ca – a 32% increase from 2015
- Making 115 million Twitter impressions, with more than 15,000 Twitter followers

- Responding to 730 media calls
- Participating in 326 events, speaking engagements and sponsorships
- Sharing statistics and other information on Twitter to help consumers make informed choices.
Addressing Property Insurance

Insurers have been facing higher costs for property insurance claims.

**Why are claims costs higher?**
- The increase in severe weather events brings more frequent and intense rain, snow and high winds
- Inadequate and aging infrastructure can’t handle the amount of water
- More finished basements, with more 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 a fire, collision or business interruption, for example – 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 competitive market where companies compete for business every year, premium costs will 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 strategy 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.
Understanding Insurance

Insurers use extensive data and historical trends to produce fair and accurate rates. 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 about available discounts.
Promoting Financial Literacy

Home insurance protects homeowners from having to absorb 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.

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**Basic Elements of Home Insurance**

**Dwelling**
- Foundation
- Flooring
- Windows
- Doors

**Coverage A**

**Coverage B**
- Detached Structures

**Coverage C**
- Home Contents
  - For example:
    - Televisions
    - Computers
    - Fridges
    - Freezers
    - Furniture
    - Clothing
    - Bicycles
    - Sports equipment
  - Special limits may apply to items such as jewelry or fine art

**Coverage D**
- Additional Living Expenses
  - Additional living expenses (Home/Condo owners and Tenants)
  - Lost rent (Landlords)

**OVERALL PROPERTY COVERAGE LIMITS**
- Actual Cash Value (ACV)
- OR Replacement Cost

**Optional Endorsements**
- Bylaw endorsement
- Guaranteed Replacement Cost on Dwelling
- Single or Combined Limit
- Replacement Cost on Personal Property

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A typical home insurance policy DOES NOT cover:
- maintenance
- property taxes
- condo fees
- mortgage payments
- the land
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.

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

- The seizure of 466 vehicles, with an estimated value of $16.5 million, at the ports of Montreal and Halifax before being exported.
- Nearly $22 million in stolen goods and vehicles were recovered through IBC’s cargo theft reporting program.
- 208 charges were laid following investigations into injury fraud and auto and cargo theft.
- IBC, in close partnership with one of its members, investigated a large-scale scheme involving fraudulent flood claims that showed signs of organized criminal activity. A criminal investigation is now underway.

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.
If you have questions, we can help.

IBC’s Consumer Information Centre
Tel: 1-800-377-6378
Toll-free: 1-844-2ask-IBC (1-844-227-5422)
Hours: M–F 9 a.m.–5 p.m.

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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.