



**Keynote Address by
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Business Resilience Forum**

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Good morning. Thank you all for making the time to be here today – and for inviting a Cape Breton native to travel to what we in the Maritimes affectionately refer to as “Canada’s No. 2 coast.”

I’m kidding, of course. Growing up out east, we always felt a kinship with the people of British Columbia. The way I saw it, we shared two things:

One – a formidable geographical distance from the Toronto-Ottawa axis.

And two – no desire to reduce it.

So I’m truly thankful to be here in like-minded company to discuss an issue of great importance on this coast.

When we talk of major earthquakes, we speak in geological timeframes: hundreds of years or more between events.

But there is a general consensus in the scientific community: over the course of the next half-century, there’s a 30% chance of a major quake happening here.

Almost one in three.

It’s natural to not want to think about it. It’s a very human impulse. Why think about the worst when you can think about literally anything else?

But the lessons of history are clear: It pays to prepare.

Contingency plans, emergency systems, public education – we have learned from other places in the world the imperative of putting in the advance effort.

We have learned the importance of taking preparedness seriously.

Recent quakes in Japan and New Zealand serve as a stark reminder of the power of nature, the potential scope of devastation and especially the short-term challenges inherent in recovery – challenges related to everything from logistics to communications.

Our governments have been doing a better job of pursuing preparedness in recent years. It’s now a higher priority – as it should be.

The government here in BC said that it will invest more than \$80 million to better prepare for floods, earthquakes and other emergencies. That's more than a gesture – that's a meaningful move in the right direction.

In February, the National Research Council announced a five-year review of the National Building Code – so that we all build smarter in an era of climate change and increased risk.

And last month, the federal government announced in its budget the most significant investment ever in disaster preparedness and mitigation. It will allocate \$2 billion to support infrastructure that will reduce the risks posed by our changing climate; and another \$87 million over the next five years to implement new building codes focused on climate resilience.

This sense of cooperation and determination extends beyond our border. As you know, Canadians along the west coast share many of the same risks as our American counterparts.

In a time of border walls and increased protectionism, it is heartening to see the extent of the ongoing cross-border collaboration – and our collective commitment to helping each other out, depending on where a potential quake hits the hardest.

Planning exercises. Early warning systems. These are crucial tools in reducing risk. Here in Canada, we must strive to work even more closely with the United States in a spirit of partnership and cooperation.

We have to accept and respond to the fact that the risk is real.

In the U.S., FEMA projects that – in the aftermath of a large-scale earthquake along or off the western coast – it would need to provide shelter for about a million people, and water and food for another 2.5 million on top of that. Here in Canada, the numbers would be lower – but the scope of the challenge will be no less significant.

I offer these numbers as a demonstration of sheer scale. The depth and breadth of such a recovery effort is beyond anything we've ever dealt with.

So preparedness is essential to our ability to react quickly and effectively in the immediate aftermath of a seismic event.

But today, let's look beyond those first few hours and days.

Let's explore what we can do better to confront the challenges that will follow over the longer term – challenges that hold the potential to affect our homes, our businesses and our way of life. Not just here in BC, but across our country.

No clear plan exists to protect our economy and ensure consumer confidence in the event of a major earthquake. We need one. Because, as we've all seen, the impact of a natural disaster typically extends well beyond the immediate devastation.

In Japan, it took two full years simply to remove the debris caused by the tsunami. In Christchurch, there are still areas that are uninhabitable six years after the quake.

The reverberations can extend through every corner of the economy. Up to 40% of businesses affected by disaster never reopen. Another 29% fail within a year.

And that affects us all.

The 2011 tsunami in Thailand showed that the financial impact of a disaster can spread across a country and around the world. Supply chain disruptions and lost shipments from that disaster alone resulted in a 2.5% reduction in global industrial production.

A separate study done at Columbia University found a common thread in the aftermath of natural disasters – the less prepared a business is, the greater the challenge to recover.

That's why governments and business leaders alike need to consider the months and years that would follow the moment of devastation.

Together, we need to be ready for what comes next – ready to confront any potential ripple effect that starts in one area of the economy and begins to spread.

If an earthquake of the magnitude I described were to occur tomorrow in the Lower Mainland, or off the coast of Vancouver Island, here are some of the things that would likely happen. You may have heard some of these before. What's important is to consider not merely the damage – but the longer-term ramifications as well.

The runways at Vancouver International Airport would buckle. No planes in or out. Highways and roads would be damaged – severely, in some places. Rail lines would shift and twist. Bridges would be impassable. Vancouver's ports would be damaged, potentially beyond use.

Key infrastructure would fail – almost across the board. Over weeks and months, economic activity in Western Canada and beyond would be significantly disrupted. Everything from telecommunications and manufacturing to retail, food distribution and shipping would suffer.

Roads, ports, train tracks, supply chains – these are all hugely important to our ability to recover.

There will be serious interruptions to the normal functions of our economy. Significant challenges will emerge.

How quickly we are able to respond – and how well we have prepared – will go a long way to determining how far the economic impact spreads, how many it touches and how long it takes to recover.

IBC is the national industry association representing Canada's private home, auto and business insurers. Our member companies make up 90% of the property and casualty insurance market in Canada. We have a collective responsibility to be there in tough moments and in hard times. That's our business and a responsibility that we embrace.

We also play an active role in public education and in research. Over the years, we've devoted a lot of time and resources to understanding risk – so that we're better able to prepare.

For example, this summer we will once again be travelling to dozens of BC communities with our ShakeZone tour. It's a simulator that allows people to experience the effects of a magnitude-8 earthquake.

Over the past two years, we've found this to be a very effective way of encouraging residents to take emergency preparedness more seriously.

In 2013, IBC funded a new catastrophe model using the latest in seismic science. We wanted to get a better sense of what we as a country – and what we as an industry – would be dealing with in the aftermath of a major earthquake either here in BC or in the Ottawa-Montreal-Quebec City corridor.

What we learned was sobering.

A magnitude 9 quake off the coast of Vancouver would result in massive damage related to shaking, tsunami, landslide and fire.

We're talking about more than \$20 billion in insured losses alone – about 75% of that in commercial, business and industrial losses.

And it doesn't begin to take into account the \$55 billion in uninsured losses – a burden that would fall on governments, businesses and individuals.

That's five times the disaster and challenge we're still dealing with in Fort McMurray.

To put this in perspective, \$55 billion is greater than the entire BC budget for the current year.

More recently, to deepen our understanding, IBC commissioned the Conference Board of Canada to analyze the resilience of our economy, our business sector and our financial services industry – the equivalent of a stress test to the risks posed by a major earthquake.

The long-term consequences of this kind of earthquake on key macroeconomic performance indicators would be, and I quote from the report, “devastating.”

Economic growth cut in half.

Cumulative real GDP losses of close to \$100 billion.

Consumer spending reduced by \$133 billion. Almost a half-million person-years of lost employment.

Higher deficits as all levels of government struggle to cope with the fallout of the disaster. According to the Conference Board, the federal government alone could be expected to take an \$87 billion hit to the treasury.

Certainly, our members undertake stress testing to ensure they are sufficiently capitalized for a severe event.

The big banks and agencies like the CMHC do the same. It's important work.

But we conduct these simulations in a vacuum – when in reality, we are all interdependent. A failure in one industry could cascade into others.

We do not have a clear idea of how a potential contagion might spread across the financial sector. It's something we may wish to collectively explore.

Beyond this Conference Board study, we at IBC are also partnering with Natural Resources Canada, the Geological Survey of Canada and others to fund the development of a new earthquake risk platform for the country – because detailed and accurate modelling is an important first step in preparing a better and more effective response for what is sure to be a chaotic environment.

To give you a sense of the potential uncertainty that could emerge following a major earthquake, consider just the insurance implications. This may sound like I'm giving you an insurance sales pitch but it's important information – because the potential ramifications could affect us all.

Some here in Vancouver have earthquake insurance. Maybe you do. Maybe your neighbour doesn't.

Maybe neither of you is sure if you've got it. That's pretty common, actually. Even those who have earthquake insurance may not fully understand it. For instance, your home is covered – but the land beneath it isn't.

Historically, the thinking was that regardless of what happened to your home it could always be rebuilt. We now know that this is not always the case.

In New Zealand, the forces generated by the Christchurch earthquake were so great that the nature of the ground itself was transformed and made unstable through a process known as liquefaction. Some 10,000 homes ultimately needed to be demolished. Liquefaction would likely be a significant issue here as well because we know that the soil in the City of Richmond, for example, is similar to what you find in Christchurch.

As the New Zealand example illustrates, we need better public education about earthquake insurance. That's something we can do and, in fact, it is something that we at IBC have been supporting, in partnership with the provincial government.

Now, speaking of uncertainty and confusion, consider this: According to surveys, most of the people who don't have earthquake insurance hold the belief that the governments will pay the costs for them to rebuild.

Put another way, they see the public treasury as a substitute for earthquake insurance.

And not to get too deep into the weeds here, research clearly shows that it's not cost pressures that compel people to decline quake insurance – it's risk perception. Everyone knows there will be a major quake one day – they just don't think it will happen in their lifetime.

So that's something else that we can do together – we can invest more in risk awareness so people have a better understanding of the science and the probabilities. So they can make smarter choices for their own futures.

In a major report in 2014, OECD encouraged households and businesses to reduce what it described as “an over-reliance on the state” and take more individual responsibility – a step that would improve our overall resilience and reduce potential economic losses.

This could mean everything from better maintenance of protective infrastructure to simply keeping aware of new risk patterns where you live.

More recently, OECD released a comprehensive series of recommendations for managing the financial risk associated with disasters.

It called on the private sector to work in partnership with governments, scientists and researchers to develop better risk-assessment and exposure models – and ensure the findings are shared as widely as possible.

Let me be clear: When it comes to earthquake risk, we can't afford to make the mistake of wishful thinking. We can't afford to be complacent. There is a role for each of us to play – not simply governments alone.

We don't need to look too far back to understand the risk of being unprepared for a natural disaster.

In the aftermath of Hurricane Katrina, it quickly became apparent that the U.S. government and its emergency management agency were simply not ready to confront the challenge.

Response and recovery efforts across New Orleans were slow. And there was a long-term cost to that: Ultimately, around a quarter of the population left the city for good. That kind of emigration was a blow to economic health and to the ongoing prosperity of the region.

More recently, and much closer to home, members of my team spent months on the ground after the wildfire in Fort McMurray. They witnessed the heroism of the first responders and the resilience of the local residents. They also got a glimpse at the chaos and uncertainty that can take hold in the aftermath of a disaster.

We need to have the discipline and the rigour to ask ourselves today: How would we handle the strain and potential contagion of financial failure that could be caused by a major earthquake?

What should the federal government do if one or more financial institutions fail?

How should we prevent impact on other companies and the broader economy?

In a recent study by the C.D. Howe Institute, a former federal superintendent of financial institutions put it this way, and I quote: “It pays to think of a severe earthquake as a certain event whose timing is uncertain.”

In other words, it’s going to happen. Our efforts to prepare today will never be wasted. They will always, eventually, be essential.

Ottawa and the provinces have made significant strides to get disaster preparedness as a key outcome, rather than simply a focus on our disaster response. Getting ready for the physical challenge is one step. There are more steps involved when one thinks about the financial challenges.

Happily, this too is something we can prepare for.

Over the past decade or so, all of us – governments, businesses and individuals – we’ve all become more attuned in general terms to the risks posed by natural disaster.

Our changing climate has meant more floods and more wildfires. They are growing in number and severity.

As a result, we are seeing a real and tangible response – increased investments in green infrastructure, better preparedness and improved emergency response plans. We are seeing governments invest in initiatives to protect at-risk areas.

This is all welcome and obviously it’s all important. But it’s only one part of fulfilling our shared responsibility.

Together, we must also be better prepared for what comes after. We must think beyond the immediate aftermath. No matter the disaster – flood, fire or earthquake – we must be proactive in planning for how we will protect our economy so that we can rebuild as quickly as possible.

There’s a role for each of us to play.

I can tell you that IBC met recently with the Calgary Chamber of Commerce. The chamber has led the development of a program to encourage emergency preparedness among the local business community. It's a worthy topic. And an effective, on-the-ground approach.

As the Board of Trade, you have the wherewithal and the influence to bring together business leaders and stakeholders – and to encourage them in the task of planning for what comes next.

You have the ability to encourage the wider business community to honestly and frankly assess their own risk exposure

... to analyze the potential resilience of their supply chain

... to explore the contingencies that would be available in the event of a major disaster.

The analysis they make, and the decisions that come from it, will make a real and meaningful difference down the road.

The people I work with every day are professional worriers.

It's their job to consider the risks and the consequences. To understand the importance of both short- and long-term responses.

In our business, we know – from real-life experience – the importance of being prepared. For what we'll do in the minutes and hours that follow an earthquake – and for how we'll respond to economic challenges in the following months.

No one should spend their day hobbled with anxiety over subduction zones and probabilities. We shouldn't panic or overreact. What we should do is prepare. We should prepare smartly, wisely and, above all, realistically.

Doing so is an investment in our own safety, in our own community and in our shared future.

Thank you.