

# Swiss Re 2019 Canadian Insurance Outlook Breakfast

## Remarks by Don Forgeron

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Good morning everyone.

Over the years, this breakfast has become an important event on our industry calendar. It's a chance for us to look back on the results from the previous year, and look ahead to the challenges and opportunities that await us.

Today, I'm going to spend more time looking ahead. A lot more time. I think it's safe to say that most insurers are happy to see fiscal 2018 fading into the rear-view mirror.

Like any bad medicine, it's better to get this over quickly. So here we go:

2018 saw continued weakness in industry results caused by a number of factors: Anemic investment returns.

More severe weather events.

And a variety of strains on auto insurance in almost every province of the country.

Insured catastrophic losses were close to \$2 billion – about 60 per cent higher than in 2017 – even though we experienced nothing on the scale of the Calgary floods or the Fort McMurray wildfire.

Commercial insurance performance was significantly weaker than the previous year.

Combined ratios in auto were close to 100 per cent.

All of you in the room know that it is an uphill battle we face in creating competitive and sustainable auto insurance markets across the country. But, we have been making our case to government with passion and with math.

Simply put, auto insurance systems across the country are broken. And we need government to support and encourage meaningful, pro-consumer change to systems that are in dire need of it.

It falls to us to do what we can to adapt to this tough new era -- and navigate through it as smoothly and as quickly as possible.

That means working to combat insurance fraud. To encourage balanced regulation and modern public policy. To press for competitive and sustainable auto insurance markets. And to help protect the public from the impact of natural disasters.

These are our priorities at IBC – the areas where we focus most of our efforts. Because progress on these files holds the potential to improve the operating environment for insurers across the country.

With that in mind, I'd like to look forward now – and talk about the future impact of one of the key issues in our industry today: climate change.

And I'm going to focus on the challenges not only of climate change itself – but of public policy related to climate.

I'm sure you've read extensively about this. To put it simply, there are a lot of balls in the air. A lot of different policies and measures being debated. And you're probably wondering where IBC is focused when it comes to advocacy on this file.

So today, I want to offer a straightforward analysis of what we're seeing on the climate issue – and share four clear ideas that we are advancing with governments and other stakeholders.

Let's start with the long-term trends – because they are crystal clear. We are facing longer periods of drought, leading to more forest fires. We are experiencing more storms, major hurricanes and extreme rainfalls – leading to more frequent and intense flooding.

And these events are no longer affecting only areas that have traditionally been exposed to risk.

Twenty per cent of Canadian households have some vulnerability to floods – and that figure is increasing. The risk of wildfire continues to grow as well.

We have entered an era of increased threat to life and property.

From 1983 to 2008, Nat Cat insured losses in Canada averaged about \$400 million a year. Over the last decade, that number has risen to over \$1 billion a year. As I mentioned earlier, it was closer to \$2 billion lately.

More severe weather events. More damage. More insurance claims. Greater strain on government treasuries. And increased heartache and anxiety for countless Canadians, especially those who live in harm's way.

The floods in Alberta in 2013 were single-handedly responsible for increasing the federal deficit of the day by almost \$3 billion. The Fort McMurray fires cost Canadians even more.

The Parliamentary Budget Office has been blunt in stating that the government is financially unprepared for the likely costs of future disasters.

Clearly, we need a new framework to guide our collective response – a framework that allows us to build a more resilient country, and better protect those at potential risk from our changing climate.

So, where do we begin?

It can be hard to get people to agree on anything these days. But we can find a measure of common ground when it comes to climate change.

Most people accept that it's real. Most agree that we should do something about it.

Over the long term, that means reducing emissions. In the short term, it means adaptation – taking action to better defend ourselves against the initial impacts of our changing climate.

Both of these responses are important. Both require the sustained attention of policy makers.

And yet, only one aspect of this conversation has taken firm hold in the public mind. The climate narrative has been largely dominated by greenhouse gas mitigation and putting a price on carbon.

Again, I want to emphasize: This is an important discussion. We absolutely need a long-term solution that addresses climate change in a meaningful way. But we also need to step up our efforts to adapt now to emerging climate-related risks that are threatening our country and its people.

Jason spoke to us this morning about a new imperative for our industry – the need to adapt on a number of fronts. When it comes to climate, we need to be the ones encouraging others to adapt – governments and citizens alike.

We need to be leading, guiding and influencing the discussion.

We need to step up, speak out and make it clear to Canadians that we need progress on adapting to the climate-related challenges that our country will face in the coming years.

So, what can governments do? What specific and meaningful actions can we encourage them to implement? And how can we as an industry help to make these solutions a reality?

Here are four proposals that we are bringing to governments – steps that can be taken right now to help Canadians adapt to the reality and the impacts of climate change.

First, invest more in consumer education.

Public attitudes about natural disasters are well-entrenched. They are based on lived experience.

Even in at-risk areas, floods are still perceived as generational events. The chances of wildfire continue to be largely seen as remote.

We need to better explain the evolving reality of risk today – and the need to take clear action to respond.

Before people can respond to a threat, they need to be made aware of it – and educated about it.

For example, government needs to be more proactive in sharing with Canadians the increased risk of overland flooding – and the measures they can take right now, and in the future, to better protect themselves and their homes.

Sewer backwater valves, sump pumps and berms – they all make a difference. The more we learn about the growing threat of floods, the more we understand that better preparation is just common sense.

At IBC, we've undertaken a significant consumer education campaign of our own – and we would be more than happy to partner with government to amplify our message.

The second step governments can take right now: target priority infrastructure investments.

That means spending more on sewer, storm-water systems and other flood defences – and doing so on a priority basis in areas with the greatest likelihood of experiencing floods.

This can help to limit both economic losses and human hardship. It's an effective and doable way of offering at least some element of protection to homes and businesses.

But frankly, part of the problem right now is that infrastructure money – money that's been set aside and allocated by the federal government – isn't getting out the door quickly enough.

In some cases, provinces and municipalities are having trouble coming up with matching funds because the thresholds are so high.

More realistic expectations from the federal government could help to put more shovels in the ground.

There have, however, been some success stories. At IBC, we have been closely involved in the creation of the Disaster Mitigation and Adaptation Fund at Infrastructure Canada. Given the overwhelming interest in the April call for proposals, we believe it has already been a remarkable success.

What's important now is for government to increase its financial support of the fund – and lower the financial threshold so that smaller communities can participate.

We can't lose sight of the fact that smart investments like these can save lives, protect home and business owners and potentially save government itself from the cost of disaster cleanups.

The third step governments can take in the short term: improved land-use planning, building codes and building standards.

In other words, it's time to get smart about the decisions we make. Let's stop building in places where the risk of flooding is highest. In areas of more moderate risk, let's start building in a way that takes into account the need to adapt to our changing climate.

Now, we've been talking about this for years – and very little has changed. Too many communities are still making bad decisions – decisions that defy logic.

And then everyone acts shocked when their low-lying, riverside subdivision wakes up to three feet of water.

Government needs to send a clear message: Our world is being transformed.

It's time to prioritize climate resilience in our planning and regulations.

We can no longer afford to ignore when the evidence stares us in the face and plainly says: It's not smart to build here.

In practical terms, this means limiting or ending the practice of building in areas deemed high risk by flood mapping. It also means having a hard discussion about where to build in areas that are close to our boreal forests.

Even today, dwellings are still being built in river valleys or on flood plains. They are being positioned in such a way that flooding claims are all but inevitable.

Frankly, we have a role to play here, too. We need to stand up taller than ever – and speak out louder than ever. As a voice of advocacy for common sense. And a voice of support for any government willing to make it clear to homeowners that if they want to build in high-risk areas, the risks are theirs and theirs alone.

Finally, the fourth step: Preserve and restore natural wetlands as a cost-effective way to reduce flooding.

For years, environmental organizations such as Ducks Unlimited have been proposing measures to restore wetlands and coastal ecosystems – actions that would buffer communities from intense rainfall and storm surges.

These projects would require less upfront capital and less maintenance than traditional flood defenses – while simultaneously enhancing biodiversity.

To be candid about it, we don't spend enough time focusing on our natural infrastructure as a way of reducing flood damage and flood-related costs.

That's why we collaborated with the Intact Centre on Climate Adaptation and others to create a framework that demonstrates the value of investing in these protective measures: Retaining what we have, restoring what we've lost – and building what we must.

We need to acknowledge and respond to the fact that, in southern Ontario for example, almost three quarters of the region's original wetlands have already been lost to urban sprawl and other development.

It's about taking a far-sighted approach. By restoring and preserving ponds, wetlands and vegetated areas, we can help limit the impact of extreme weather and flooding.

So, these are the four steps that governments can take – right now. To make a real difference in the immediate term.

At a time when I'm calling on governments to undertake important new actions, I would be remiss if I failed to acknowledge, first, the investments that governments have already made in adaptation efforts; and second, in the leadership that Minister Ralph Goodale has shown on the flood file.

We've worked closely with the Minister and his officials – first, on a national roundtable, and now as chair of a national working group on flood risk. And we are looking forward to participating in a national flood symposium that will be held this fall – to review best practices related to flood mapping, data and science.

Minister Goodale gets the challenge we face – the challenge that Canada faces as a whole.

He and his provincial colleagues have asked us to define high-risk properties, assess different high-risk insurance pool models and propose ways of reducing the financial risk of overland flooding. We are cautiously optimistic that these efforts will result in meaningful government policy.

But we can't understate the task ahead. Governments are being pulled in a million different directions. We have to be concise and united in our interventions. We have to be clear about what we want – and why it makes sense for Canadians.

And make no mistake about it: We need Canadians on our side. We need them to help convince governments to devote their time, their resources and their political capital to the pursuit of climate adaptation.

We need to keep pressure on. And one of the ways we can do that is by demonstrating that we ourselves are taking this challenge seriously – and doing what we can to make a contribution.

To some extent, we're already proving that with our advocacy and our participation on a number of flood-related initiatives, including participation on building code improvement groups.

Here's one other step we can take. We can expand and improve the way we gather and share data on potential flood risks.

If we're going to encourage government to make smart planning decisions – and if we're going to try to educate consumers about potential risks in their area – we need to be working with the best available mapping data. And we need to ensure this data is made accessible and shared widely.

It's also important that these maps be kept up to date. They must incorporate provincial and municipal data and account for the lowering of risk once flood defenses are put in place.

The data we get right now from risk-modeling companies is good – but we need to take it to the next level, including higher resolution maps and richer datasets.

More information means better risk assessments. That means insurers are better able to price risk in specific areas of threat.

And it means that we as an industry are in a better position to share our models with governments, with banks, with bond-rating agencies – anyone with an interest in understanding the true, up-to-date nature of the risks we face.

Because we ourselves have an interest in making sure more people and organizations are focused on accurate flood-risk evaluation.

With that in mind, I'd like to make one final observation today.

We have as an industry been aware of – and responsive to – our changing climate for some time now. For decades, in fact. We see and understand its impact better than most.

And we've been managing these risks with skill and diligence. Claims have always been paid, no matter how many, no matter how large.

Now we see regulators taking a greater interest. And whenever our regulators take an interest in something, it usually ends in a predictable way: with demands for more capital, or the creation of more rules, or both.

To our regulators, I would say this: Take the time to have a closer look. Examine our long and unbroken record of fulfilling our obligations to Canadians.

Do that, and we trust that you'll see we are on the ball – and very much ahead of the curve when it comes to understanding the challenges of our changing world.

Ladies and gentlemen, our mandate as insurers is clear: we exist to serve Canadians. To provide them with protection against the risks of our world.

Collectively, we need to come to grips with the new reality of our world – and take action to adapt to it.

This will require a whole-of-society approach. Industry, government, citizens – everyone involved, everyone with a role to play. Including us.

It's an approach that can produce real results. For instance, we shared our whole-of-society perspective with the Ford government in Ontario – and the government's new environmental plan incorporates many of our recommendations on adaptation and resilience.

Going forward as a country, we need smarter decisions that actively reduce the potential damage and financial impact that can be caused by severe weather.

And we need far-sighted policy frameworks – an architecture to help ensure that smart planning decisions get made.

The longer we delay, the higher the costs and the greater the risk – to property, to the federal treasury and to consumers.

Better adaptation is an opportunity to meet an immediate test of leadership on climate change, make lives better and keep Canadians safer.

Thank you.