# Global Risk Institute's

# Property & Casualty Insurers' Risk Management Conference

## Remarks by Don Forgeron

**Thursday, April 4, 2019**

**Toronto**

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Good morning. Thank you all for making the time to be here.

I am going to focus my remarks today on a specific kind of risk. It's an area in which IBC and our industry have been active for some time now – because, quite frankly, we see a potential threat that Canada and Canadians are simply not prepared for.

When we talk about major earthquakes, we speak in almost 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 per cent chance of a major quake happening along the British Columbia coast. Almost one in three.

In Quebec, near Montreal, the Geological Survey of Canada estimates a 10 to 15 per cent chance of a major quake in the next 50 years. Other regions in the province face a higher probability.

It's natural to not want to think about potential disasters of this magnitude. It's understandable to hope for the best.

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

It pays to have a plan in place – a plan for the immediate aftermath of a disaster, and a broader strategy to limit the economic impact of a catastrophic event.

We need only look at the earthquakes that happened this decade in Japan and New Zealand.

Both served to remind us of the potential scope of devastation.

In Japan, it took two full years simply to remove the debris caused by the tsunami.

In Christchurch, some areas remain uninhabited eight years after the quake.

The impact of a seismic event can extend through every corner of the economy.

International statistics show that up to 40 per cent of businesses affected by disaster never reopen. Another 29 per cent fail within a year.

And that affects us all.

The 2011 tsunami in Thailand showed how 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.

The lesson is 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.

We need to have the discipline and the rigor to ask ourselves today:

How can we best prepare for both the immediate and longer-term challenges that an earthquake would bring?

How would we handle the strain of a potential financial contagion?

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

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 might be lower – but the scope and severity of the challenge would be no less significant.

The depth and breadth of such a recovery effort would be beyond anything we've ever dealt with.

So preparedness is essential if we are to react quickly and effectively in the immediate aftermath of an event.

In a 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.

Part of preparing for an earthquake is, of course, preparing for the immediate aftermath – the minutes, hours and days that follow.

Search and rescue. Relief efforts. Safety and security.

This is, of course, the most important way in which governments can ready themselves and serve our population.

But today, let's look a little further down the road.

Let's explore what we can do to confront the challenges that will follow– challenges that hold the potential to affect our homes, our businesses and our way of life.

Not just in B.C., not just in Quebec, but across our country.

Together, we need to be ready to confront the potential ripple effects that start in one area of the economy and begin to spread.

At IBC, we have funded new seismic catastrophe models so we can better understand the true risks of earthquake in Canada.

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 per cent of that in commercial, business and industrial losses.

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

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

A magnitude 5.8 quake near Montreal would cause similar damage – more than $80 billion in total.

But what does that mean for the long term?

We worked with the Conference Board of Canada to answer that question.

The economic consequences of a 9.0 earthquake along the B.C. coast would be, and I quote from the Conference Board's report, "devastating."

Economic growth cut in half in the first year following the disaster.

Cumulative real GDP losses of close to $100 billion….and…

Consumer spending reduced by $133 billion over a 10-year period.

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.

And yet no clear plan exists to protect our economy and bolster 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 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, about half 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 wildfires 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.

At IBC, we've been advocating on this file for years. And lately, we've started to see some progress.

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

In B.C., the provincial government is investing millions to better prepare for floods, earthquakes and other emergencies.

Meanwhile, the federal government has set up a dedicated team to review international models for management of earthquake risk. That team will be helping to form a made-in-Canada solution that is expected to be made public at some point in the future.

There's also inter-agency collaboration happening with Finance Canada, Public Safety Canada and Natural Resources Canada. Together, they are exploring the linkages between flood, earthquake and other risks.

Now, to be clear, the role of these organizations is to better protect the Canadian taxpayer – not just the insurance industry. They want to reduce government exposure to risk.

However, their engagement makes it possible for us to propose new ideas – ideas for how to limit the potential economic impact of a disaster.

Let me walk you through four things we can do now to accelerate our national preparedness.

One: We need a greater focus on earthquake education – the risks, the potential costs, and more. We need it across the country. But we need it especially in Quebec.

Generally speaking, the people of Quebec don't perceive a major earthquake as a plausible threat.

Only one in three businesses have insurance to cover damage from earthquake.

Among homeowners, that figure is only 4 per cent. One in every 25 homes.

In total, fewer than 20 per cent of structures in Quebec have any kind of insurance against damage caused by earthquake.

In B.C., the risk is more clearly understood. Almost two in three households in the province have some form of earthquake insurance.

But even there, a third of residents don't have any coverage – and our surveys show that many more people don't really understand their coverage and its limits.

At IBC, we've worked to raise public awareness. And we are certainly willing and eager to be part of a broader, sustained information campaign.

A campaign that promotes risk awareness – so people have a better understanding of the science and the probabilities; and so they can make smarter choices for their own futures.

Two: Governments need to clearly define the conditions for public assistance in the wake of an earthquake or other catastrophe.

Think about the numbers I just mentioned from Quebec. Only one in 25 homes with earthquake insurance.

On one level, the people of Quebec are saying: We don’t believe a major earthquake is going to happen. On another level, they are saying: If it does happen, we believe the government is going to pay for us to rebuild.

Many in B.C. and in other areas of risk also feel this way.

They essentially see the public treasury as a substitute for earthquake insurance.

In a major report in 2014, the 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.

As part of a broader educational campaign, governments in Canada should make clear what they will and will not do in the wake of a disaster. What they will and will not pay for.

That way, people will be better able to plan effectively for themselves and their families.

But here’s an important point – and it’s one we’ve been making to government for some time now.

If insurers are going to take on more risk as a result of increased public awareness and increased take-up on earthquake insurance, then governments and insurers need to work together to create a framework for stability in the case of a truly catastrophic earthquake.

To be clear, we are talking about an event that exceeds the one-in-500 years threshold – something like the earthquake and tsunami in Japan.

In the aftermath of a disaster of this magnitude, our industry could very well face an existential threat. It could affect millions of Canadians – even those who live thousands of kilometres from the disaster, and suddenly find themselves without a company to insure their home or car.

In the event of a worst-case scenario, and in the interest of national economic stability, we need a firm commitment from government to inject liquidity and establish a clear backstop against a potential collapse of the industry.

Three: If we're going to encourage more people to buy earthquake insurance, we need to tailor it to their needs and circumstances.

That means better understanding specific areas of risk. Which is why IBC is 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.

Detailed and accurate modelling is an important first step.

It also means making sure that earthquake coverage truly works for Canadians – in a practical way.

Right now, the deductible on some of these policies is $100,000 or more. It's so high that even consumers who are covered may wind up being financially ruined by an earthquake.

That doesn't make a lot of sense. We need to do our part. We need to examine the products we offer and make sure they actually serve consumers in at-risk areas.

And finally, number four: The regulatory environment needs to foster conditions to ensure our industry remains strong and competitive in order to support Canadians before and after a major disaster.

In a recent report, the OECD was clear about the positive contribution that international reinsurance markets make in managing catastrophe risks – and providing an external source of funding for recovery and reconstruction.

The OECD's support for greater liberalization of the international reinsurance market is unwavering.

Closer to home, some of you may be aware of reinsurance framework changes proposed by the Office of the Superintendent of Financial Institutions in June of last year.

At the core of it, OSFI wants to substantially increase the amount of capital required to operate in Canada, especially for companies with large global operations that cover large commercial risks in Canada.

This would make it uneconomical to implement the global risk management model endorsed by the OECD – and utilized by reinsurers and global commercial insurers alike. This is a serious problem.

We have encouraged OSFI to slow things down – to take the time to conduct a thorough review of the potential business and economic impacts of their proposed changes because we believe they will be widespread and significant.

It's important to remember: Global commercial insurers operating in Canada have choices to make when it comes to deploying their capital.

We want to be in the business of encouraging global companies to invest in Canada – to build and expand their operations here, to help increase the market capacity and spread the risk around the world rather than concentrate it here in Canada.

But more than that, we need global reinsurers and commercial writers to be active in Canada if we are to maintain a financial system that can withstand the impact of an earthquake or another major disaster.

Let's remember that global reinsurers were responsible for paying out close to 80 per cent of claims after the Fort McMurray wildfire.

Like a lot of things in our industry, the OSFI recommendations are complex and technical. They aren't going to send the average Canadian running into the street with a megaphone and a protest sign.

But let's be absolutely clear about their potential impact.

The changes will challenge global players who are in the Canadian marketplace.

That could mean reduced competition and higher costs to consumers.

And it could undermine our efforts to engage government and industry alike in developing a plan to cope with earthquakes.

Right now, we should all be concerned about where this is heading. At a time when natural disasters like flood and wildfire are a growing threat, we will be looking to the major global companies that have the capital needed to cover substantial claims.

At a time when we are taking on the responsibility of better preparing for earthquakes, we need global insurers and reinsurers to be active in Canada – and ready to help us cope with the financial aftermath.

Before I conclude my remarks this morning, I'd like to make one last point:

As an industry, we are good at understanding and responding to the risk of car accidents – because car accidents happen every day.

We're good at understanding and responding to the risk of floods – because floods happen every year.

We need to bring that same level of engagement and expertise to the earthquake file. And we need to call on other stakeholders to do the same.

When people begin to better understand risk, they start to make better choices.

We've seen it on the climate file.

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

As people come to grips with this, we are seeing a real and meaningful 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.

We need to see that same sense of purpose when it comes to earthquake preparation.

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.