



Issues Paper

Natural Catastrophes and Personal Property Insurance

July 2016

This Issues Paper reflects the work of regulators who are members of CCIR. The views expressed herein do not constitute legal opinions and should not be interpreted as such. In addition, this Paper does not necessarily represent the official position or views of any particular provincial, territorial or federal government or agency.

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1. Executive Summary

As we write this Paper, the 2016 Fort McMurray Wildfire in Alberta has led to the largest evacuation in the history of the province. Nearly 88,000 residents were evacuated on May 3-4, 2016 as a major wildfire burned entire neighborhoods, business districts, and a portion of Fort McMurray's downtown. Preliminary reports suggest that more than 1,600 homes and other structures (such as sheds, garages, outbuildings, etc.) were damaged or destroyed. Fortunately at this time, there have been no fatalities or significant injuries that have been directly linked to the fires. The wildfire is expected to be one of the costliest disasters in Canada's history.¹

Over the past few years there has been considerable media attention on price increases and changes in coverage for personal property insurance products as a result of natural catastrophes in Canada. In particular, the severe weather events in Alberta and Ontario in 2013 brought the issue of flood insurance into the public eye. The increase in severity and frequency of natural catastrophes, not just in Canada but also globally, has brought to light that while coverage is available there are certain gaps in available product and policy coverage options and exclusions. As a result, the Canadian Council of Insurance Regulators' (CCIR) is concerned that consumers may not be aware of the risks posed by natural catastrophe-related events and the consequences of limited insurance coverage for some of those events.

This Issues Paper documents the preliminary understanding that CCIR has regarding the impact of natural catastrophes on the personal property insurance marketplace in Canada. For the purpose of this Issues Paper, we have limited natural catastrophes to significant events resulting from water-floods, wind, wildfires, earthquakes and hail-ice storms.

CCIR established the Personal Property Insurance Working Group (PWG) with a mandate to review personal property insurance policy language, exclusions and endorsements. It has also examined insurer outreach to consumers relating to natural catastrophes, conducted jurisdictional reviews of relevant legislation, statutory provisions and consumer complaints, and a review of insurance industry publications and articles.

The purpose of this Issues Paper is to stimulate discussion and initiate consultation. In order to enhance its preliminary understanding of the impact of natural catastrophes, CCIR seeks input on the following issues:

- the impact of natural catastrophe-related events on the Canadian personal property insurance marketplace;
- personal property insurance coverage currently available for natural catastrophe-related events in Canada; and
- consumer understanding of the risks associated with natural catastrophes, and their degree of coverage.

Once these issues have been clarified, CCIR will be in a better position to determine what work, if any, needs to be done to ensure acceptable levels of consumer protection, namely accessibility and availability, and an innovative and competitive marketplace for personal property insurance in Canada.

Every day, new developments arise with respect to the effects of natural catastrophes, including news stories, product development, more comprehensive research, risk management and

¹ AON plc, Impact Forecasting, Weekly Cat Report, May 6, 2016.

analysis tools as well as awareness and prevention. As such, this Issues Paper reflects the marketplace information and our analysis as of April 30, 2016.

2. Introduction

2.1 Canadian Council of Insurance Regulators (CCIR)

CCIR is an inter-jurisdictional association of provincial, territorial and federal insurance regulators. The provincial and territorial regulators are responsible for market conduct regulation and legislative compliance of insurers authorized in their province or territory. They may also have responsibility for the solvency of insurers incorporated in their jurisdictions.

One of the major goals of the CCIR is to promote greater consistency of insurance regulation across Canada to benefit both consumers and the insurance industry. A harmonized approach promotes efficiencies and cost savings while providing consistent fair treatment to customers across Canada.

2.2 About the Personal Property Insurance Working Group (PWG)

The increase in severity and frequency of natural catastrophes across Canada has become a significant source of risk and loss in the personal property insurance marketplace. It is with this in mind that CCIR formed the PWG. The mandate of the PWG includes the following:

- review the type and availability of natural catastrophe coverage for personal property insurance in Canada;
- understand changes in the marketplace resulting from natural catastrophes; and
- understand the impacts that these changes have on consumers in terms of their insurance coverage and their awareness of risk.

2.3 Stakeholder Involvement

The PWG wishes to acknowledge the assistance of several organizations. Special thanks goes to the Insurance Bureau of Canada (IBC), the Property and Casualty Insurance Compensation Corporation (PACICC) the Institute for Catastrophic Loss Reduction (ICLR) and the Intact Centre on Climate Adaptation, University of Waterloo for their insights that contributed to this Issues Paper. The PWG would also like to thank the Canadian Association of Direct Relationship Insurers (CADRI) for meeting with the PWG and presenting the findings of its Homeowner Property Insurance Survey Report.²

The PWG acknowledges the contribution of the Participating Insurers, who provided samples of their comprehensive policy wordings, endorsements and marketing materials for review. The

² "Homeowner Property Insurance Survey Report", Canadian Association of Direct Relationship Insurers, accessed January 28, 2016. http://c.yimcdn.com/sites/www.cadri.com/resource/resmgr/News/2015_Survey/CADRI_Property_Survey_Report.pdf

Participating Insurers represent 74% of the total Canadian market share of direct written premium for personal property insurance policies across Canada.

2.4 Purpose of the Issues Paper

Natural catastrophes are an earnings, customer relationship and management risk for Canadian insurers. This paper is focused on the customer relationship risk or the fair treatment of consumers. In this Issues Paper, CCIR makes observations about whether it sees that insurers have effective tools for managing changes to personal property policy wordings that are driven by natural catastrophe losses and if they have developed techniques for ensuring the fair treatment of consumers arising from those changes.

“Canada’s insurance system works very well for most natural disasters. Insurance is the business of managing risk. The experience in Canada and elsewhere around the globe shows that natural disasters have not been a solvency risk for *most* insurance companies. Insurers have developed techniques to manage the solvency risk of natural disasters and these tools have proven to be very effective. [emphasis added]”³

This Issues Paper documents CCIR’s understanding of the impact of natural catastrophes on the availability, accessibility, coverage and forms of personal property insurance and levels of consumers’ awareness of risk and policy coverage in Canada. The purpose of this Issues Paper is to stimulate discussion and initiate consultation. It is also intended as a means to educate and build a common understanding of the impact of natural catastrophes on consumers and personal property insurance for both regulators and stakeholders. The Issues Paper has purposefully not highlighted affordability as an issue, largely because personal property insurance rate regulation is not a mandate for regulators. However, CCIR welcomes comments related to affordability, where relevant.

CCIR seeks stakeholder input with respect to the following issues:

- the impact of natural catastrophe-related events on the Canadian personal property insurance marketplace;
- personal property insurance coverage currently available for natural catastrophe-related events in Canada; and
- consumer understanding of the risks associated with natural catastrophes, and their degree of coverage.

3. Natural Catastrophes and Insurance in Canada

Section 3 outlines CCIR’s current understanding of natural catastrophe-related events. It includes an overview of risk modelling for specific natural catastrophes, a discussion on whether or how insurers might use risk-sharing methods to mitigate against these events, the trends in new product development related to natural catastrophes, the effects of climate change on the insurance marketplace in Canada and complaints data.

³ Grant Kelly and Peter Stodolak, “Why Insurers Fail, Natural Disasters and Catastrophes”, Property and Casualty Insurance Compensation Corporation, accessed January 28, 2016.
<http://www.pacicc.com/publications/pages/publications/WIF%20Natural%20Disasters.pdf>

In developing this understanding, a series of fact-finding and review exercises were conducted, including:

- a comprehensive review of policy wordings, exclusions and endorsements of the 16 Participating Insurers;
- a review of personal property insurance complaint experience across Canada in years in which there was an increase in natural catastrophe-related events; and
- a review of articles and insurance industry publications on climate change, flood mapping, risk modelling and risk sharing in Canada.

3.1 Risk Modelling

Canadian insurers and reinsurers use catastrophe models to manage the risk associated with natural catastrophes. These risk models help insurers and reinsurers to assess their portfolios and determine underwriting criteria and premiums.

Questions to Stakeholders

1. Are there other risk modelling tools or options that insurers commonly use that enhance risk management?

Assessing risk comes with a degree of uncertainty, which increases the importance of the quantity and quality of information that is available to help insurers and reinsurers set pricing.⁴ There are several independent risk modelling organizations that specialize in global aggregate data for modelling catastrophes.

A number of risk models were reviewed in order to assess how they might impact an insurer's ability to make relevant and accessible insurance products available to consumers.

3.1.1 Flood / Water

With the increased severity and frequency of flood and water-related events in recent years, water damage claims are becoming more common. It is estimated that the Canadian insurance industry pays \$1.7 billion each year in claims due to water damage.⁵

With growing populations and expanding urban areas, cities have less and less green space to help mitigate damages from water/flood events. As a result, damage to households and businesses from sewer backup has increased significantly over the last few years. Most insurers provide sewer backup coverage for personal property insurance as an endorsement, with specific limits and deductibles.

A review of policy wordings and endorsements submitted by the Participating Insurers revealed that several insurers have introduced some form of overland water coverage to policyholders in addition to sewer backup coverage. However, in order to better craft these products for consumers, insurers have claimed that they need access to improved flood mapping data and that provinces and municipalities need to be involved in updating building codes and city

⁴ Matthew Buchalter, "Taking the Plunge: Flood Insurance and Canadian Homeowners", Canadian Institute of Actuaries, accessed January 28, 2016. <http://www.cia-ica.ca/docs/default-source/2014/214091e.pdf?sfvrsn=0>

⁵ "Water damage is on the rise", Insurance Bureau of Canada, accessed April 1, 2016. <http://assets.ibc.ca/Documents/Brochures/Water-Damage-on-the-Rise.pdf>

infrastructure as a means of preventing and mitigating damages.⁶ Some action has already been taken in this regard with the creation of the Partners for Action Network (P4A), an applied research network at the University of Waterloo, which will work to advance flood resiliency in Canada.⁷ P4A brings together a diverse set of stakeholders to share knowledge, address information needs and better manage risk posed by flooding.⁸

Efforts have been made over the last year by the insurance industry and independent risk modelling organizations to improve and update Canada's flood maps. In particular, IBC spearheaded a national flood program to develop a new set of flood hazard maps (including the creation of new pluvial and fluvial flood maps) and property-level exposure data.⁹ These new models provide updated river flow and rainfall estimates, giving insurers access to more accurate data. As a result of this program, IBC has identified that 1.8 million Canadian households are at a high risk of flooding.¹⁰ The IBC indicates it will continue to work with government in 2016 to develop a national flood program to ensure that even the most at-risk consumers have access to accessible insurance products or subsidy.¹¹

In addition, other independent risk modelling organizations have developed flood maps and flood mapping services such as Opta, which provides insurers with real-time flood assessment at the time of a quote.¹² Also, Flood Risk Canada Inc. has launched the Flood Hazard Mapping Program (FHMP), which helps insurers determine a property's actual flood risk.¹³ Prior to these improvements, Canadian flood maps were outdated and generally designed for land planning use, not as a means for insurers to determine flood risk.¹⁴

The development of improved flood mapping tools has provided insurers with multiple options to better model and rate the risk of flood/water events, and aid in prevention and mitigation. They also allow the insurance industry and private risk modelling organizations to better identify geographic regions at risk of flooding, potential economic losses across Canada and form the basis of discussions about flood-related insurance products.¹⁵ This can also be evidenced in the

⁶ "Connecting the Dots: Overview and Conference Objectives", (presented at the C4 2016 Conference, February 1 and 2, 2016) and Jason Thistlethwaite, "Canada's Coming Property Insurance Crisis", CIGI Policy Brief No. 57, Centre for International Governance Innovation, March 2015.

⁷ "Waterloo teams up with insurance companies to advance flood resiliency in Canada", University of Waterloo, accessed April 4, 2016. <https://uwaterloo.ca/environment/news/waterloo-teams-insurance-companies-advance-flood-resiliency>

⁸ "New applied research network looks to advance flood resiliency in Canada", *Canadian Underwriter*, April 20, 2015, accessed April 4, 2016. <http://www.canadianunderwriter.ca/insurance/new-applied-research-network-looks-to-advance-flood-resiliency-in-canada-1003579412/>

⁹ "Institute for Catastrophic Loss Reduction to host workshop on IBC's new flood maps", *Canadian Underwriter*, January 13, 2016, accessed April 1, 2016. <http://www.canadianunderwriter.ca/insurance/institute-for-catastrophic-loss-reduction-to-host-workshop-on-ibcs-new-flood-maps-1003976709/>

¹⁰ Greg Meckbach, "New IBC flood model shows 1.8 million Canadian households at very high risk", *Canadian Underwriter*, February 2, 2016, accessed April 5, 2016. <http://www.canadianunderwriter.ca/insurance/new-ibc-flood-model-shows-1-8-million-canadian-households-at-very-high-risk-1004006457/>

¹¹ Carr, Nancy, "IBC sets sights on flood program and sharing economy for 2016", *Canadian Insurance Top Broker*, April 22, 2016, Accessed May 10, 2016. http://www.citopbroker.com/news/ibc-sets-sights-on-flood-program-and-sharing-economy-for-2016-10129?utm_source=EmailMarketing&utm_medium=email&utm_campaign=Newsletter

¹² "Opta says model lets insurers 'quickly identify properties more at risk of flooding'", *Canadian Underwriter*, March 17, 2016, accessed May 11, 2016. <http://www.canadianunderwriter.ca/insurance/opta-says-model-lets-insurers-quickly-identify-properties-more-at-risk-of-flooding-1004081062/>

¹³ "New Canadian flood map program seeks to help provide true flood risk for insurers, others", *Canadian Underwriter*, September, 24, 2015, accessed May 11, 2016. <http://www.canadianunderwriter.ca/insurance/new-flood-map-program-seeks-to-help-provide-true-flood-risk-for-insurers-others-1003816507/>

¹⁴ Regan Reid, "What to do about Canada's outdated flood maps", *Canadian Insurance Top Broker*, November 26, 2014, accessed April 1, 2016.

¹⁵ *Ibid*

commercial property insurance market. Generally, coverage for flood or other water-related events was covered by commercial property insurance policies, with the risk spread amongst all policyholders.

While there appears to be coverage for sewer backup, and some partial coverage for overland water, advanced tools and models for flood/water events should assist in the development of suitable insurance products for high-risk areas, and raise consumer awareness about the nature of flood/water-related events.

3.1.2 Earthquakes

In Canada, there are 4,000 earthquakes recorded each year.¹⁶ Studies conducted by the Geological Survey of Canada and Natural Resources Canada have hypothesized that there is a 30% chance that a strong earthquake will strike British Columbia (BC) in the next 50 years. In addition, there is a 5-15% chance that an earthquake strong enough to cause significant damage will strike the region surrounding Montreal, Ottawa and Quebec City in the next 50 years.¹⁷

There are a number of commercially available earthquake risk assessment tools, including Catastrophe Risk Evaluation and Standardizing Target Accumulations (CRESTA). Until recently, CRESTA zones were a global zoning system to manage the risk of natural hazards. CRESTA zones are a uniform method for the electronic transfer of aggregate exposure data, risk control, and modelling amongst insurers and reinsurers.¹⁸ Using CRESTA's generally accepted principles and data, insurers and reinsurers can still determine risk accumulation and pricing models for earthquakes, and other natural catastrophes.

There is now a growing number of advanced, commercially available earthquake risk models and assessment tools. While they may continue to be based on CRESTA's data and principles, these new models are a more complete risk management tool, using Monte Carlo simulation techniques or other stochastic methods to monitor exposure accumulations and in assisting underwriting decisions.

Because of the rapid evolution of these modeling techniques, the Office of the Superintendent of Financial Institutions (OSFI) has developed the Earthquake Exposure and Best Practices Guideline, which sets out key principles and best practices to assist Canadian insurers and reinsurers in developing strategies to manage earthquake risk.¹⁹ Similarly, as earthquakes are of particular risk in Québec, the Autorité des marchés financiers (AMF) published the Earthquake Exposure Risk Management Guideline.²⁰

With the above-noted predictions of potential earthquakes in BC, Ontario and Québec, it is particularly important for insurers and reinsurers to have access to earthquake risk models in

¹⁶ "Study of Impact and the Insurance and Economic Cost of a Major Earthquake in British Columbia and Ontario/Québec", Commissioned by the Insurance Bureau of Canada, AIR Worldwide, October 2013, p. 12, accessed April 1, 2016. <http://assets.ibc.ca/Documents/Studies/IBC-EQ-Study-Full.pdf>

¹⁷ *Ibid*, pp. 12-13.

¹⁸ "What are CRESTA zones?", Europa Technologies, accessed March 16, 2016. <https://www.europa.uk.com/what-are-cresta-zones/>

¹⁹ "Earthquake Exposure and Best Practices Guideline", Office of the Superintendent of Financial Services, accessed March 16, 2016. <http://www.osfi-bsif.gc.ca/eng/fi-if/rg-ro/gdn-ort/gi-lid/Pages/b9.aspx>.

²⁰ "Earthquake Exposure Risk Management Guideline", Autorité des marchés financiers, accessed April 1, 2016. http://www.lautorite.qc.ca/files/pdf/reglementation/lignes-directrices-assurance/g_earthquake_exposure_2012_final.pdf

order to continue to make insurance products available to consumers in higher risk locations, while still managing to keep such insurance products reasonably accessible.

3.1.3 Wildfires

Canada has about 10% of the world's forests.²¹ A study commissioned by IBC indicates that the implications of climate change will have an impact on fire activity. Climatologists predict that Canada will see an overall increase in fire occurrence of 25% by 2030 and 75% by the end of the century.²²

The early fire season nature of the 2016 western Canadian wildfires can partially be attributed to the intensity of El Niño during the last several months. Temperatures were above normal during the winter months, which led to a below-average snowpack and brought the arrival of early spring-like conditions. The milder air caused the snowpack to melt much earlier than usual and a lack of precipitation caused soils to dry out and become vulnerable for wildfires.²³

Natural Resources Canada provides information from several sources to assist insurers and reinsurers with risk modelling for wildfires, such as the Canadian Forest Service, which provides studies and analysis to improve the ability to predict wildfires and manage the associated risks.²⁴ In addition, there are several independent risk modelling firms that provide modelling tools on how to understand and manage wildfire risk across Canada.

While fire is generally covered under the standard multi-peril policy, the steady rise in urbanization has increased the number of homes built in proximity to forested areas. This in turn, has increased insurers' claims paid due to wildfire. Access to modelling tools and data that identify these specific areas will help insurers and reinsurers to cover their expected risk accordingly, such as determining targeted underwriting rules by geographic region or securing reinsurance contracts.

The current record for costliest Canadian wildfire was the Slave Lake Fire that damaged almost 33% of the town. That fire caused more than \$700 million in nominal insured losses, and at the time, was the second-costliest event in the history of Canada's insurance industry²⁵. Overall economic losses in the Slave Lake Fire were greater than USD1.0 billion. However, it is expected that once assessments are finalized, the 2016 Fort McMurray Wildfire will end up as the costliest natural disasters in Canada's history.

With the predicted increase in fire activity across the country, insurers and reinsurers require access to risk modelling tools and accurate data related to wildfires across Canada in order to ensure that all communities will continue to have accessible insurance coverage.

3.1.4 Hail, Wind, Ice Storms

Canada is subject to severe weather conditions year-round, from wind/ice storms to tropical cyclones and hail. An IBC-commissioned research report states that Canada will see an increase in hail and storm-related events in the coming decades, and Atlantic Canada in

²¹ "Wildfires in Canada", Advantage Monthly: Emerging Issues and Trends, CIP Society, June 2012

²² "Telling the Weather Story", Insurance Bureau of Canada, June 2012, accessed April 5, 2016.

http://assets.ibc.ca/Documents/Studies/McBean_Report.pdf

²³ AON plc, Impact Forecasting, Weekly Cat Report, May 6, 2016.

²⁴ "Forest Fire's", Natural Resources Canada, accessed March 16, 2016. <http://www.nrcan.gc.ca/forests/fire-insects-disturbances/fire/13143>.

²⁵ "Slave Lake", Insurance Bureau of Canada, accessed May 20, 2016. <http://www.ibc.ca/nu/disaster/fire/slave-lake>

particular will see more intense precipitation and more frequent hurricanes and winter storms by 2050.²⁶ For example, in July 2014, New Brunswick was hit with post-tropical storm Arthur, causing widespread blackouts from heavy wind and rain.²⁷ The storm caused an estimated \$12.6 million in damages. Although most homeowners and businesses with personal property insurance would have coverage for wind under the standard multi-peril and/or fire policy, given the severity of damages, the government of New Brunswick offered financial assistance to approved applicants, to cover basic needs items such as repairs and structural damage.²⁸

Insurers and reinsurers have access to several risk modelling tools and resources for hail, wind and ice-related events. The Canadian Hurricane Centre (CHC) provides meteorological information about hurricanes and tropical storms in Canada.²⁹ In addition, commercial service providers are developing new risk models – for example, Canada Winter Storm and Canada Tropical Cyclone provides an overview of hail, tornado, snow, freezing rain, and wind risk in Canada.³⁰

The development of new catastrophe models for hail, wind and ice-related events gives insurers and reinsurers access to more targeted, comprehensive data. As these perils are commonly available in most personal property insurance policies, such tools may assist insurers with peril pricing and help them to maintain general insurance availability by working with local governments to improve building resistance through changes to building codes. For example, ICLR recently made a submission to Ontario's Building Code review process, proposing to make hurricane straps, as well as backup water valves, mandatory in all new builds in Ontario.³¹ ICLR's proposal would limit the damage caused by extreme wind, a key strategy in mitigating and preventing risk, and potentially reducing the size of loss for insurers.

It appears that there are risk models available to insurers and reinsurers to predict and rate the risk of hail, wind and ice-related events in order to advance and improve the accessibility of insurance products for consumers.

3.2 Risk Sharing

Risk sharing is defined as a self-insurance method of managing or reducing exposure to risk by spreading the burden of loss among several organizations.³² A number of risk sharing arrangements are used by insurers to diversify their risk, including geographic and product diversification, reinsurance and flexible premiums and deductibles.

Reinsurance is generally sold by large international companies, allowing for greater diversification of geographic and risk type. It is a means through which an insurer can guarantee enough capital to pay out for losses if a catastrophic event were to occur. For example, if an

²⁶ Amanda Dean, "Atlantic Perspective: Property Damage Claims Are on the Rise in Atlantic Canada", *Canadian Underwriter*, January 1, 2015, accessed April 1, 2016. <http://www.canadianunderwriter.ca/features/atlantic-perspective/>

²⁷ "Arthur Hits Maritimes: Post-tropical storm causes widespread blackouts", *CBC News*, July 5, 2015, accessed April 1, 2016. <http://www.cbc.ca/news/canada/new-brunswick/arthur-hits-maritimes-post-tropical-storm-causes-widespread-blackouts-1.2697339>

²⁸ "New Brunswick to assist damage costs caused by post tropical storm Arthur", *Canadian Underwriter*, November 19, 2014, accessed April 4, 2016. <http://www.canadianunderwriter.ca/insurance/new-brunswick-to-assist-damage-costs-caused-by-post-tropical-storm-arthur-1003360086/>

²⁹ "Canadian Hurricane Centre", Environment and Climate Change Canada, accessed March 16, 2016. <https://www.ec.gc.ca/ouragans-hurricanes/default.asp?lang=En&n=DA74FE64-1>.

³⁰ "Canada Atmospheric Perils", AIR Worldwide, accessed March 16, 2016. <http://www.air-worldwide.com/Models/Canada/Canada-Atmospheric-Perils/>.

³¹ "ICLR makes two submissions to the Ontario Building Code review process:", CATtales, Institute for Catastrophic Loss Reduction, Volume 9, Issue 6, November/December 2015, accessed April 5, 2016. http://iclr.org/images/Cat_Tales_Nov_Dec_2015.pdf

³² "Risk Sharing", Investorwords, accessed April 1, 2016. http://www.investorwords.com/19203/risk_sharing.html

insurer has a large number of personal property policies in a geographic region prone to a specific natural catastrophe, the insurer may consider reinsurance to minimize the risk in case of a catastrophic event.

Reinsurance appears to be the risk sharing model most heavily relied upon by Canadian insurers³³ as it seems to supply most of the funds in cases of major natural catastrophes.³⁴ For example, the combined losses for the Calgary and Toronto floods in 2013 were \$3 billion, of which 35-40% was covered by insurers and 60-65% by reinsurers.³⁵

Questions to Stakeholders
2. What are current natural catastrophe risk-sharing practices? How are catastrophe risks currently being grouped/classified/segmented?
3. What are the potential implications not addressed by the paper with respect to risk-sharing/pooling for natural catastrophe coverage across Canada?

Reinsurance is not only relied upon in Canada, but globally. Recent large-scale flood events in the United Kingdom prompted the government and the insurance industry to develop Flood Re, a reinsurance program to make flood coverage more affordable.³⁶ Flood Re began accepting policies in April 2016. Participating insurers pay an annual levy that funds the program, with consumers continuing to purchase insurance as they normally would.³⁷ The development of reinsurance programs such as Flood Re, provides insurers with the ability to share risk and minimize loss if a catastrophic event were to occur.

Flexibility in premiums and deductibles are also a widely used means of risk sharing with consumers by insurers in Canada. For example, in the context of flood risks, insurers could introduce varying options in

premiums for consumers in high-risk areas and discounts for those who have taken preventive measures.³⁸ Alternatively, insurers employ the use of deductibles as a means to share risk with the consumer, minimize their loss and encourage mitigation and prevention strategies. For example, insurers in Alberta increased their deductibles for hail claims following the significant hailstorms in 2010 and 2012, which caused approximately \$600 million in damages.³⁹ In the U.S., in order to keep property insurance available and affordable for homeowners living in hurricane-prone areas, some insurers have added hurricanes or named storm deductibles to limit potential losses through higher deductibles, often expressed as a percentage.⁴⁰ Similarly for earthquakes, insurers generally offer coverage as an endorsement and limit potential losses through higher deductibles; however, earthquake coverage has limitations and restrictions on loss of use and contents. As residential building costs increase, the deductible amounts also increase. When expressed only as a constant percentage, policyholders may not fully appreciate the dollar amount that the deductible actually represents and what consequences that may have in the event of a loss.

³³ Grant Kelly and Peter Stodolak, "Why Insurers Fail, Natural Disasters and Catastrophes", Property and Casualty Insurance Compensation Corporation (2013), p. 8.

³⁴ *Ibid.* p. 13.

³⁵ Angela Stelmakowich, "Water Logged", *Canadian Underwriter*, July 2015, p. 26.

³⁶ "About Flood Re", Flood Re, accessed, April 4, 2016, <http://www.floodre.co.uk/industry/about-us>.

³⁷ "National flood reinsurance scheme launches in UK", Canadian Insurance Top Broker, April 4, 2016, accessed April 5, 2016 http://www.citopbroker.com/news/national-flood-reinsurance-scheme-launches-in-uk-10048?utm_source=EmailMarketing&utm_medium=email&utm_campaign=Newsletter

³⁸ Angela Stelmakowich, "Water Logged", *Canadian Underwriter*, July 2015, p. 28.

³⁹ "Brokers prepare for big hail deductibles", Insurance Business Canada, April 2, 2013, accessed April 7, 2016.

<http://www.insurancebusiness.ca/news/home/brokers-prepare-for-big-hail-deductibles-173667.aspx>

⁴⁰ "Hurricane and Named Storm Deductibles", National Association of Insurance Commissioners, last modified December 28, 2015. http://www.naic.org/cipr_topics/topic_hurricane_deductibles.htm

Other types of insurance have additional risk sharing mechanisms that may be applicable to natural catastrophe coverage in Canada. Risk sharing pools and residual market mechanisms are generally implemented when market mechanisms fail. For example, in the automobile insurance context, a risk sharing pool is a mechanism whereby insurers sell coverage at prices that are sometimes less than full actuarial rates and send under-priced risks to an insurance industry-wide pool where premiums and claims are shared.⁴¹ This provides a residual market for those who cannot obtain auto insurance coverage in the regular market. An “insurer of last resort”, like the Facility Association, is established that is financially supported by an assessment charged to all insurance companies operating in the regular market.⁴²

Governments play a role in risk sharing through the Disaster Financial Assistance Arrangements (DFAAs). DFAAs do not compensate claimants for whom insurance is available at a reasonable cost, but reimburse provinces (and individuals via the province) for expenses and damages resulting from natural or manmade disasters.⁴³ As a result of the rise in frequency and severity of weather-related events, DFAA liabilities have significantly increased, particularly in Manitoba, Saskatchewan and Alberta. In fact, DFAA estimates that over the next five years, the program can expect claims of \$229 million per year because of hurricanes, convective storms and winter storms, and \$673 million for floods.⁴⁴ Currently, flood/water-related events may be covered through DFAA as, up until recently, there was no reasonably available products.

As summarized above, many insurers are employing a variety of risk management techniques to support their products, such as pricing specific perils and using deductibles to mitigate their losses.⁴⁵ The current landscape of products for natural catastrophes are offered with limitations, often excluding consumers in high-risk areas or offering coverage with higher premiums. Risk sharing mechanisms and risk modelling tools may help insurers identify ways to offer coverage to consumers who may not otherwise have access, while at the same time minimizing loss and assisting in the fair treatment of consumers.

3.3 Product Development for Natural Catastrophes

The nature of product development for personal property insurance is based on need, whether it be the needs of consumers, insurers or government. The typical fire policy provides comprehensive coverage for all fire related incidents, with some limitations. Over the course of the 20th century, the fire policy evolved to include other perils, such as hail, theft, wind and winter storms.⁴⁶ The standard multi-peril and/or fire policy generally provides coverage for most natural catastrophes, such as wildfire, wind and hail, while other, such as earthquake or flood

⁴¹ Matthew Buchalter, “Taking the plunge: flood insurance and Canadian homeowners”, *Canadian Institute of Actuaries*, July 2014, accessed April 4, 2016. <https://www.cia-ica.ca/docs/default-source/2014/214091e.pdf>

⁴² *Ibid.*

⁴³ “Estimate of the Average Annual Cost for Disaster Financial Assistance Arrangements due to Weather Events”, Office of the Parliamentary Budget Officer, February 25, 2016, pp. 8, 15 and 31.

⁴⁴ “Estimate of the Average Annual Cost for Disaster Financial Assistance Arrangements due to Weather Events” Office of the Parliamentary Budget Officer, February 26, 2016, accessed April 4, 2016. <http://www.pbo-dpb.gc.ca/en/blog/news/DFAA>

⁴⁵ “Brokers prepare for big hail deductibles”, *Insurance Business Canada*, April 2, 2013, accessed April 4, 2016.

<http://www.insurancebusiness.ca/news/home/brokers-prepare-for-big-hail-deductibles-173667.aspx>

⁴⁶ Paul Kovacs, “Wildfires and insurance”, *Institute for Catastrophic Loss Reduction*, ICLR Research Paper series no. 11, January 2001, accessed April 5, 2016. http://www.iclr.org/images/Wildfires_and_insurance.pdf

are covered for an additional premium, with some limitations. Until recently, coverage for flood/water events was not generally offered for personal property insurance, outside of sewer backup. However, it has been widely available for commercial property insurance, but what consumers are probably seeking is coverage for any “unwanted water”.

As a result of the increase in severity and frequency of flood-related events, several insurers have developed and/or enhanced products for overland water. The trend towards increasing insurance coverage for natural catastrophes, particularly flood/water events, is in response to several factors, including:

- recent natural catastrophes and reports of climate change;
- the need for coverage, where none was available, to avoid “goodwill payments” outside of policy coverage that can jeopardize reinsurance coverage;
- the reputational risks associated with a significant number of policyholders having limited coverage⁴⁷ or unexplainable differences in the settlement of claims between affected neighbours with similar coverage from different companies; and
- insurers seeking product differentiation in a highly competitive marketplace.

Property insurance policy wordings, including endorsements and exclusions from the Participating Insurers were reviewed to develop an understanding of the current array of available products that exist for damages resulting from natural catastrophes. Overall, property insurance policy structures are fairly similar; however, coverage specific to natural catastrophes varies from insurer to insurer. This variation promotes a competitive market and provides consumers with some limited access. *Section 5* provides additional details with respect to these products and their features for each type of natural catastrophe.

There has generally been no major market failure with respect to protection for natural catastrophes. Insurers have access to third-party risk assessment models and risk sharing mechanisms to support the development of products for the natural catastrophes identified in this Issues Paper. In fact, the growing trend of product development for overland water, using updated flood mapping, illustrates that there is a market for such insurance coverage and a means for insurers to develop products that minimize their risk and to provide consumer protection.

3.4 Climate Change and Insurance

The increased frequency and severity of natural catastrophes over the last few years has had a significant financial impact on the Canadian insurance industry.

“Over the last 10 years, there has been a significant upward trend of more frequent and severe weather-related losses across Canada”.⁴⁸

Severe weather has caused billions of dollars in damage to private homes, businesses and urban infrastructure across Canada. Mitigation and prevention strategies are necessary to protect Canadians, and our economy. Ensuring consumers have access to private insurance

⁴⁷ New Zealand’s property and casualty insurers tackled the issue of reputational risk after the devastating 2011 earthquake by promoting consumers’ awareness about their policies and clarifying coverages. See, for example: “Insurance companies worry about reputation in New Zealand”, *Businessday*, August 21, 2015.

⁴⁸ Angela Stelmakowich, “Water Logged”, *Canadian Underwriter*, July 2015, p. 25.

products is a key strategy for risk mitigation but it may not be enough. Continued dialogue between the insurance industry, government and insurance authorities is necessary to ensure the most vulnerable are protected and that cities/municipalities have the resources and means to rebuild when necessary.

Federal, provincial and municipal governments are already taking initiatives to address the consequences of climate change. This work includes the following disaster risk management support initiatives:

- conducting research and gathering information on risks and adaptation mechanisms;
- implementing by-laws to require the installation of backwater valves;⁴⁹
- working with organizations to develop best practices in the design and construction of new buildings;
- providing funds to build flood barriers and protect or relocate critical water management infrastructure; and
- addressing public safety and accessibility issues.⁵⁰

Questions to Stakeholders

4. In general, to what extent has the insurance industry experienced an increase in inquiries / complaints from policyholders related to natural catastrophes (coverage, products, costs, etc.)?
5. What role do the insurance industry, consumers, policyholders and different levels of government have in providing prevention, mitigation and relief solutions related to natural catastrophes?

The Organisation for Economic Co-operation and Development (OECD) has developed the Methodological Framework for Disaster Risk Assessment and Risk Financing. This framework helps develop effective disaster risk management strategies, in particular, strengthened risk assessment and risk financing.⁵¹ In the U.S., state insurance regulators administer a climate risk disclosure tool to ensure that insurers account for the potential effects of these risks on the availability and affordability of insurance. This disclosure also allows regulators to gather information with respect to how insurers are incorporating catastrophic events into their risk management schemes, corporate strategy and investment plans.⁵²

3.4.1 Financial Implications

Insured damage from major storms has soared over the past decade in Canada. For each of the past six years, payouts have been near or above \$1 billion, with a historic loss of \$3.4 billion in 2013 due to floods in Alberta and Toronto.⁵³ In July 2013, water-related events in Toronto caused an estimated \$940 million in damages, while the ice storms in Ontario and Atlantic

⁴⁹ "2016 ICLR Plan and Budget", Institute for Catastrophic Loss Reduction, 2016, p.12.

⁵⁰ "Province of Alberta announces \$25 million in grants to local governments for flood mitigation projects", Canadian Underwriter, February 26, 2016, accessed April 1, 2016; "Canada in a Changing Climate: Sector Perspectives on Impacts and Adaptation", Government of Canada, 2014.
<http://www.canadianunderwriter.ca/insurance/province-of-alberta-announces-35-million-in-grants-to-local-governments-for-flood-mitigation-1004046125/>
http://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/earthsciences/pdf/assess/2014/pdf/Full-Report_Eng.pdf

⁵¹ "G20/OECD methodological framework on disaster risk assessment and risk financing", OECD, November 2012, accessed April 1, 2016. <http://www.oecd.org/gov/risk/g20oecdframeworkfordisasterriskmanagement.htm>

⁵² National Association of Insurance Commissioners, Climate Change and Risk Disclosure, June 3, 2015

⁵³ "2015 Facts Book" Insurance Bureau of Canada, accessed April 4, 2016, p. 16.
http://assets.IBC.ca/Documents/Facts%20Book/Facts_Book/2015/FactBook-2015.pdf

Canada in December 2013 caused more than \$200 million⁵⁴ and the 2016 Fort McMurray Wildfire losses will be unprecedented.

“Property damage caused by severe weather is now the leading cause of property insurance claims. It exceeds fire damage in some areas of the country”.⁵⁵

Insurers’ total loss due to claims for damages as a result of natural catastrophes is on the rise. Anecdotally, it appears that the vast majority of insurers honour their policies as worded. However, there are instances where some insurers have made “goodwill payments”, despite a lack of policy coverage, for losses resulting from the 2013 floods and ice storms in Alberta and Ontario.

Where coverage is not offered through private insurance, government disaster relief programs have provided relief to some provinces and individuals. As noted earlier in the paper, as a result of catastrophic events over the last few years, DFAA paid out \$673 million for flood damage, representing 75% of their weather-related expenditures.⁵⁶

The increase in the severity and frequency of natural catastrophes has triggered an increase in insured damages and in some cases lower earnings for insurers. This in turn may have been, in part, an impetus for the creation of new products and tools, such as OECD’s framework, and has sparked discussion among stakeholders.⁵⁷

Furthermore, in a 2015 Report of the Environmental Commissioner of Ontario, she wrote, “Ontarians face costly climate change-related risks to public assets and government operations, including infrastructure (e.g., roads, the electricity grid and buildings), services (e.g., emergency response), and finances (e.g., consequences of reduced insurance affordability). Additional investment over a number of years will be required to make public infrastructure more resilient to extreme weather. Delivery of government services will be affected in different ways: some impacts may be sudden due to extreme weather and others more gradual due to longer-term climatic shifts. For example, in 2012, Emergency Management Ontario projected that emergency management services will be challenged to keep up with the increased frequency and greater severity of natural disasters, such as floods, predicted under a changing climate.”⁵⁸

3.5 Complaints Experience

Regulators across Canada require insurers to submit complaints data to the national Complaint Reporting System (CRS) on a semi-annual basis.⁵⁹ A review of complaint trends from the CRS revealed that property insurers experienced a 25% increase in property complaints from 2012 to 2014 (i.e., from 384 complaints in 2012 to 492 in 2014). This increase was followed by a

⁵⁴ “Canadian Extreme Weather Will Find Many Unprepared”, HuffPost Living Canada, April 29, 2014, accessed April 7, 2016. http://www.huffingtonpost.ca/2014/04/29/canadian-extreme-weather_n_5231428.html

⁵⁵ “2015 Facts Book” Insurance Bureau of Canada, accessed April 4, 2016, p. 16. http://assets.ibc.ca/Documents/Facts%20Book/Facts_Book/2015/FactBook-2015.pdf

⁵⁶ “Estimate of the Average Annual Cost for Disaster Financial Assistance Arrangements due to Weather Events”, Office of the Parliamentary Budget Officer, February 25, 2016, p. 3.

⁵⁷ Angela Stelmakowich, “Water Logged”, *Canadian Underwriter*, July 2015, pp. 25 and 28.

⁵⁸ “Feeling the Heat: Greenhouse Gas Progress Report 2015” Ellen Schwartzel, Environmental Commissioner of Ontario (Acting), July 2015, p.6.

⁵⁹ Participating regulators are Alberta, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec, Saskatchewan, and Yukon.

decrease of 10% in 2015, when 440 complaints were reported. The data is not detailed enough to identify complaints related to a natural catastrophes, it also does not indicate the basis for any complaints arising out of the 2013 floods.

Given the total number of policyholders across Canada and the billions in dollars in personal property insurance premiums written annually, complaints are still relatively low. These numbers cannot serve as a credible reference point for drawing conclusions. In any case, there is a need to ensure Canadians are being treated fairly and are informed about the physical and financial consequences of natural catastrophes, as well as the details of their natural catastrophe policy coverage.

4. Current Regulatory Structure for Personal Property Insurance

Section 4 outlines the current regulatory structure for personal property insurance based on a jurisdictional and legislative review. It includes a review of insurance legislation, which varies across jurisdictions in Canada.

The intent was to determine whether there is a common approach to the interpretation of natural catastrophe-related events, and the current level of consumer protection that is legislated. The jurisdictional review was limited to obtaining a high-level understanding of legislative descriptions of flood/water, wildfire, hail, wind and earthquakes. With respect to exclusions, no regulatory exclusions were found (with the exception of Alberta's exclusions in home warranty contracts) for natural catastrophes.

Section 4 also assesses the statutory provisions under each jurisdiction's insurance legislation governing natural catastrophes, including definitions, levels of coverage and fair treatment of consumer provisions.

4.1 Flood/Water

No particular legislation defined or included coverage for flood or water-related events.

4.2 Wildfire

No particular legislation defined or addressed coverage for wildfire. Provisions for fire are more or less identical in the insurance statutes of all common law jurisdictions. They contain several conditions relating to disclosure, termination, claims procedures, etc., which are mandated for all fire policies and may inform legal precedents in insurance contracts.

As multi-peril property policies covering fire and other risks (e.g., theft, liability, and property damage) became more common, the courts appeared confused as to whether the fire provisions or the general provisions of the insurance statutes governed multi-peril policies. Eventually the Supreme Court of Canada held that multi-peril policies are not governed by the

fire provisions.⁶⁰ In light of these Supreme Court of Canada decisions, some provinces (Alberta, British Columbia, and Manitoba) eliminated the fire provisions in their insurance legislation, creating one set of provisions that apply to all property and casualty insurance contracts (except automobile and marine contracts). New Brunswick, Ontario, Saskatchewan, and Newfoundland and Labrador currently have fire provisions in their insurance legislation, although modern insurance contracts often cover a variety of risks (multi-peril) or all risks.

4.3 Hail, Wind and Earthquake

No particular legislation defined or addressed coverage for hail, wind or earthquakes. Legislation in New Brunswick and Saskatchewan makes reference to “weather insurance”, which is defined to mean insurance against loss or damage as a result of windstorms, cyclones, tornados, rain, hail, flood or frost, but does not include hail insurance. In this instance, the term “flood” is not defined or explained.

Provincial insurance acts were, for the most part, written at a time when fire was the predominant insurance risk, and they continue to remain focused on fire losses. While the fire provisions are still important, coverages for other natural catastrophes are not always dealt with specifically. The jurisdictional legislative review concludes that there is no common understanding or peril requirement with respect to natural catastrophes, with few protections for consumers built into provincial legislation. As such, making the accessibility to personal property insurance coverage is all the more necessary for the fair treatment of consumers.

5. Coverage for Natural Catastrophes in the Personal Property Insurance Marketplace

Section 5 outlines CCIR’s observations about natural catastrophe coverage in the personal property insurance marketplace in Canada and the impact that natural catastrophes have had on changes to these insurance policies and coverage options. These findings are the result of product reviews, including an assessment of Participating Insurers’ policy wording, together with endorsements and exclusions.

There are numerous insurance policy types, coverage options and exclusions across the insurance marketplace in Canada. With such a vast array of choice, the policy review focused on the comprehensive policy, as it appears to be the most popular and offers the most inclusive policy wordings to determine if coverages exist for the previously identified natural catastrophes. Of the 16 Participating Insurers, 18 comprehensive policies were reviewed.

Section 5 also looks at the level of communication or outreach by insurers to consumers and insurance intermediaries about these coverages to promote awareness and involvement in risk mitigation.

⁶⁰ Churchland v. Gore Mutual Insurance Co., 2003 SCC 26 and KP Pacific Holdings Ltd. v. Guardian Insurance Co. of Canada, [2003] 1 S.C.R. 433.

The general structure of the comprehensive policies appear to be fairly similar among the insurers surveyed. We did not that coverages specific to natural catastrophes, where available, vary from insurer to insurer in terms of how it is made available (i.e., whether it is part of the policy or an endorsement), the limits of coverage or whether it is offered at all.

Questions for Stakeholders

6. How is product development initiated in response to natural catastrophes?
7. Is communication with policyholders about preventative behaviours, incentives to implement mitigation measures, or other information outreach initiatives sufficient and effective? Are there plans for future outreach initiatives?
8. Do policyholders understand the differences between standard policy terms and those that are designed for natural catastrophe coverage endorsements? Do they understand their implications (i.e. larger deductible or specific exclusions, monetary limits)?

Policies generally cover water damage in a limited way, usually for issues relating to sewer backup, sudden accidental water escape, and water damage where another peril creates an opening. Coverages for wind, earthquakes, wildfire and hail also vary among policies and often tie into other events, such as fire following an earthquake. Specific to overland water coverage, there is little consistency across policy wordings. A few insurers offer an endorsement, but most do not. Some insurers advised that they are currently working on such a product.

Exclusions appear to be conditional on specific events, only some of which are weather-related. In general, where no coverage exists or is provided in specific weather-related situations, insurers typically have an endorsement to fill the gap, albeit with conditions and exclusions built in.

Generally, insurers provide coverage for additional living expenses, providing benefits to maintain normal standards of living in the event of an evacuation order by civil authorities. However,

most insurers include limitations, particularly exclusions when mass evacuation is as a result of a natural catastrophe-related event, such as earthquake or flood (unless additional coverage has been purchased). With the increase in the severity of natural catastrophes, more and more geographical areas are at risk for evacuation, putting pressure on not only insurer costs but also government costs. As coverage stands, many policyholders may not have enough coverage or no coverage at all when faced with a mass evacuation, relying instead on government programs for assistance.

5.1 Products and Definitions

The current portfolio of products offered by the 16 Participating Insurers was reviewed related to natural catastrophes, including coverage, exclusions, endorsements, and diverse product offerings. This review was not intended to be exhaustive, as there are many policy forms, endorsements, riders and materials in the marketplace.

5.1.1 Flood/Water

Damages relating to flood/water events can result from sewer-backup or overland water. A flood-related event involves rising water, which can be caused by melting snow, rain or the overflow of a body of water. Sewer-backup occurs when drainage systems become overloaded.

Coverage for sewer-backup has been available for personal property across Canada for many years but coverage for overland water has only recently been introduced by some insurers. For example, in response to the floods in Alberta and Ontario in 2013, some insurers worked in conjunction with flood experts to develop solutions to protect customers from overland water-related damage.⁶¹ However, of the 18 policies reviewed, 10 policies excluded floods and 6 policies provided only some protection against floods. Of the two remaining policies, they did not provide coverage for floods in their policies, but the insurers indicated that they are working on an overland water product.

Of the six policies offering some protection against flood, coverage varied. For example, some policies excluded salt water floods or damage resulting from a water main, seepage or surface or ground water.

Access to flood/water coverage seems to be more limited than coverage for other perils. This may be due to the various definitions of flood (i.e., sewer overflow, fresh water, salt water, etc.) and the differences in coverages depending on these definitions. For example, one endorsement differentiates between “overland water”, defined as an “*accumulation or run off of surface waters, including torrential rainfall when water enters the property*” and “flood” which is defined as “*includ[ing] waves, tides, tidal waves, tsunamis, dam breaks and the rising or overflow of any stream of water or body of water, whether natural or man-made*”.⁶²

Policy definitions are important because they determine how coverage will be applied between “overland” water but not for “flood” water. Overall, with respect to flood/water events, definitions vary amongst insurers, are used sporadically through policies and are subject to various conditions. Flood or overland water coverage was generally not offered in the Participating Insurers’ policies when the damage resulted from another natural catastrophe such as earthquakes or hail. These definitions introduce a complexity to determining the cause of loss that may not be anticipated by policyholders, who simply want protection from “unwanted water”.

“In response to the floods in Alberta and Toronto in 2013, some insurers have developed solutions to help protect homeowners and tenants from overland water... We listened closely to flood experts and insurance brokers to bring a simple, affordable and easy to implement solution to market quickly”.⁶³

As discussed in section 3.3, the amount of damage/loss and media attention with respect to flood-related events across Canada may have triggered the development of new products in the personal property insurance marketplace. Regardless of the impetus, there were a number of new overland water/flood products introduced in 2015,⁶⁴ and additional products are being

⁶¹ “Gore Mutual launches combined overland water and sewer backup product in Ontario”, Daily News, *Canadian Underwriter*, February 25, 2016. <http://www.canadianunderwriter.ca/insurance/gore-mutual-launches-combined-overland-water-and-sewer-backup-product-in-ontario-1004044375/>

⁶² “This exclusion applies whether or not there are one or more other causes or events (whether covered or not) that contribute concurrently or in any sequence to the occasioning of the loss, damage or expense. However this exclusion does not apply to loss or damage to insured property or any related expense caused directly by a fire or explosion resulting from flood”.

⁶³ “Gore Mutual launches combined overland water and sewer backup product in Ontario”, Daily News, *Canadian Underwriter*, February 25, 2016, accessed April 1, 2016. <http://www.canadianunderwriter.ca/insurance/gore-mutual-launches-combined-overland-water-and-sewer-backup-product-in-ontario-1004044375/>

⁶⁴ Ibid; “Aviva to launch overland flood endorsement for Ontario, Alberta home policyholders in May”, *Canadian Underwriter*, February 19, 2015; “The Co-Operators launches overland flood insurance in Alberta”, *Canadian Underwriter*, May 25, 2015. <http://www.canadianunderwriter.ca/insurance/aviva-to-launch-overland-flood-endorsement-for-ontario-alberta-home-policyholders-in-may-1003486618/>
<http://www.canadianunderwriter.ca/insurance/the-co-operators-launches-overland-flood-insurance-in-alberta-1003640041/>

developed. The difference in overland water/flood coverage options between insurers highlights the importance of clear communications and outreach to policyholders and insurance intermediaries. Pending additional feedback from the insurance industry, it seems that there is some outreach work that could be performed so consumers understand what type of water event is insured and which damages would be covered or excluded.

“I would think that the events [the floods in Alberta] in 2013 were a catalyst for awareness – we’ve certainly, over the last years, seen increased claims and frequency from water damage”.⁶⁵

As there are some products available for flood/water event, consumers have more access to coverage, however, limited.

5.1.2 Wildfire

Most insurers do not have specific coverages or exclusions for wildfire. Also, there is no consistent definition of wildfire within the insurance industry. However, as mentioned earlier, damages caused by fire are covered as part of the standard multi-peril and/or fire policy.

Coverage for fire-related events is statutorily required for most policies and is accessible to consumers.

5.1.3 Hail and Wind

Participating Insurers’ policies indicated that most insurers provide coverage for hail, and wind/ice-related events as part of the comprehensive policy, although some policies provide it as additional coverage through an endorsement. Some insurers exclude loss or damage to radio and television antennae and their attachments caused by windstorm or hail.

Coverage for hail and wind generally appears to be available and accessible to consumers.

5.1.4 Earthquakes

Most of the Participating Insurers’ policies do not offer coverage for earthquakes as a main peril. Some insurers have reduced consumer risk by offering earthquake coverage separately as an endorsement, usually with a much higher deductible.

While coverage is limited, there appears to be earthquake coverage available to consumers.

Coverage for natural catastrophe-related events varies amongst insurers, which may not be consumer friendly. When a catastrophic event affects a large area, homeowners in the same community may have different levels of coverage or no coverage at all. Experience from more recent natural catastrophe events and research has shown that consumers lack sufficient knowledge and may be unclear about their level or extent of coverage, in particular relating to

⁶⁵ Jacqueline Nelson, “Severe flooding prompts new insurance offering”, *The Globe and Mail*, February 20, 2015, accessed April 1, 2016.
http://www.google.ca/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwjLosC9k_XLAhVEbT4KHQ6XDuwQFggcMAA&url=http%3A%2F%2Fwww.theGlobeandMail.com%2Freport-on-business%2Fsevere-flooding-prompts-new-insurance-offering%2Farticle23134088%2F&usg=AFQjCNHkkl1s7Q-7GLwXmnt5Ex7ixB6Gw

water damage. Despite this coverage variation, the policy review confirmed that consumers generally have access to insurance for most natural catastrophes. The increased development of innovative products and more accurate risk assessment and modelling tools allow insurers to adequately determine risk and provide coverage where there may otherwise be gaps in the current marketplace.

5.2 Consumer Awareness and Communications

In addition to the insurance policies themselves, insurers' communications materials distributed over the last two years were reviewed to assess their efforts in raising customers' and intermediaries' awareness of available coverages and ways to mitigate the impact of natural catastrophes.

“As consumers are informed about the likelihood, severity and potential consequences of natural disasters they become more sensitive to these risks”.⁶⁶

Materials varied greatly: some provided valuable, plain language explanations of coverage; others provided very little, if any particular information. Some insurers provided direction to intermediaries, for example, on how to address flood claims. Methods of communicating with consumers may depend on the insurer's distribution channel, whether direct or through intermediaries; nonetheless, it appears that more needs to be done to ensure consumers have a good understanding of the coverages in their policies, what is not covered and how loss settlement processes will apply. If insurers and intermediaries do not provide this outreach to consumers, how else will awareness increase? This is particularly the case for the more vulnerable populations such as immigrants, students, and seniors, who need insurance products but may lack an understanding of the policies and protections available.⁶⁷

Questions to Stakeholders

9. What steps should the insurance industry take to address consumers' understanding of the impact that losses have on the availability and accessibility of natural catastrophe coverage?

10. How can comparison shopping for natural catastrophe products be made easier for consumers?

The availability and accessibility of insurance products for natural catastrophes is paramount to mitigating the losses associated with such events. However, the value of such products in the marketplace can only be maximized if consumers are aware of their choices. Since homeowners only have to use the product when faced with a disaster, they are unlikely to be aware of the relevant features.⁶⁸ For example, a 2013 IBC survey indicated that the vast majority of Quebec and BC residents do not have earthquake insurance, but many are under the impression that standard policies cover it.⁶⁹ That attitude has not changed as demonstrated by the CADRI Homeowner Property Insurance Survey Report conducted in 2015, which found that only 51% of Canadians think or are certain that they are covered in the event of an earthquake. The rate is slightly higher

⁶⁶ “Homeowner Property Insurance Survey Report”, Canadian Association of Direct Relationship Insurers, accessed January 28, 2016. http://c.yimcdn.com/sites/www.cadri.com/resource/resmgr/News/2015_Survey/CADRI_Property_Survey_Report.pdf

⁶⁷ “Who pays the bill?” (presented at the C4 2016 Conference, February 1 and 2, 2016).

⁶⁸ Ibid. p.6.

⁶⁹ “IBC finds earthquake coverage gap for homeowners”, *Canadian Underwriter*, April 4, 2013, accessed April 4, 2016. <http://www.canadianunderwriter.ca/insurance/ibc-finds-earthquake-coverage-gap-for-homeowners-1002203776/>

(62%) in BC and Quebec. However, coverage for earthquake needs to be purchased separately.⁷⁰

CCIR recognizes the value and need for direct, plain language communications to intermediaries and customers with respect to coverages. The differences in the standard policy coverage and coverage for natural catastrophes needs to be made clearer, as do deductibles, limitations and exclusions for natural catastrophes that may be different from those of the standard personal property terms. If the recent natural catastrophes are any indication, there is a heightened need for understanding these potential policy differences.

As noted in *section 5.1*, there appears to be a reasonable offering of products with respect to most types of natural catastrophes. In addition, the existence of a competitive marketplace for personal property insurance suggests that property insurance products are accessible, provided through multiple distribution channels and that these products are generally affordable to consumers who need coverage. However, the differences in coverage and the variety of options available may overwhelm consumers and make it difficult for them to understand the coverage in their policies. It may also be difficult for them to compare their policies' provisions with those of other policies, especially if they have significantly different features.

Information about the types of policies and coverages available may not be the only items that require clarification and/or enhanced communications strategies. Many consumers may be unaware of whether they reside in an area that is at a high-risk for natural catastrophe losses. For example, in August 2009 residents of Vaughan, a city immediately north of Toronto, were surprised with an F2 tornado struck, severely damaging some 200 homes, with an additional 600 were damaged. Tornadoes had not previously been considered an urban weather risk.

With the advancement of flood mapping in recent years, insurers now have the means and ability to identify high-risk areas and rate risk accordingly. However, consumers may not have access to the same information in order to implement their own mitigation and/or prevention strategies. The City of Edmonton recently announced that it plans to update its infrastructure-a plan estimated at \$3 billion - to address areas that are at a high risk of flooding but, the City will not make flood maps available to the public until they have a plan in place,⁷¹ which may lead to Edmonton residents without appropriate information to make informed decisions about their insurance coverage.

The roll-out of the Home Adaptation Audit Program (HAAP), developed through the Intact Centre for Climate Adaptation at the University of Waterloo, may provide another tool for consumers and insurers to promote risk mitigation that supports their own risk management efforts.⁷²

Partnerships between the private and the public sectors may help to prevent, mitigate or bring relief in case of a natural catastrophe. For example, governments could play a role through DFAA and in promoting mitigation measures, or participating in solutions for high-risk home owners.⁷³ In addition, governments could potentially make insurance mandatory for certain

⁷⁰ Homeowner Property Insurance Survey Report", Canadian Association of Direct Relationship Insurers, accessed January 28, 2016. http://c.yimcdn.com/sites/www.cadri.com/resource/resmgr/News/2015_Survey/CADRI_Property_Survey_Report.pdf

⁷¹ Randall, Steve, "Edmonton homeowners won't get access to flood maps", mortgagebrokernews.ca, April 26, 2016, accessed April 26, 2016. <http://www.mortgagebrokernews.ca/market-update/edmonton-homeowners-wont-get-access-to-flood-maps-206332.aspx>

⁷² The Intact Centre on Climate Adaptation (ICCA), <http://www.intactcentreclimateadaptation.ca/programs/>

⁷³ Floods: where do we stand and what's next? (Presented at the C4 2016 Conference, February 1 and 2, 2016); Angela Stelmakowich, "Water Logged", Canadian Underwriter, July 2015. p. 30.

risks. For example, New Zealand's Earthquake Commission (EQC) introduced a mandatory government program, EQCover, which is automatically applied to every residential fire insurance policy written by private insurers.⁷⁴

The policy review demonstrates that natural catastrophe coverage in the personal property insurance marketplace in Canada appears to be accessible to consumers. The products appear to provide varying forms of protection for most natural catastrophes. Insurers are responding to the effects of natural catastrophes by introducing new products, particularly with flood/water. However, there may be a gap between what coverage is offered and the level of consumer knowledge.

6. Conclusion

Questions to Stakeholders

11. Are insurers well prepared for claims handling in a worst-case natural catastrophe scenario, including dealing with products that are relatively new to the market?
12. Are there other issues or requirements that have not been considered in this Issues Paper that would help to better achieve the fair treatment of personal property insurance customers?
13. Please provide any other information that you believe regulators should consider regarding natural catastrophes and personal property insurance.

There has always been a need for personal property insurance products that provide coverage for events related to natural catastrophes. Advances in risk modelling tools and other risk management mechanisms have allowed insurers to develop products to protect consumers and address potential financial and reputational risks associated with the effects of climate change.

While new products are being developed to address these events across Canada, CCIR has identified that there may be a gap in protection for some natural catastrophes and a lack of consumer knowledge of the available products and their limitations. The review of the Participating Insurers' property insurance policies revealed that, although many insurers now have products that address damages resulting from most natural catastrophes or are in the process of exploring or developing some form of coverage, others do not.

With predictions that extreme weather events will only increase in intensity and frequency over the coming years and the high probability of an earthquake occurring in various regions, it is all the more important that personal property insurance is available and accessible in Canada. The insurance industry is already addressing this need

through the use of risk models, risk sharing and additional policy coverages. Steps must also be taken to educate and communicate more effectively with consumers about their policies and the physical and financial consequences of natural catastrophes. Government and regulatory authorities can ensure public policy and by-laws take into consideration prevention, mitigation and adaptation strategies to counter the significant effects of climate change.

⁷⁴ Roth, Richard, "Foreign Earthquake Insurance Programs", Institute for Catastrophic Loss Reduction, Paper Series B No, 3, 1999. https://www.iclr.org/images/Foreign_Earthquake_Insurance.pdf

While CCIR may conclude that there are products currently available to protect consumers in the event of a natural catastrophe, it might not be enough. With a mandate to promote a fair and efficient insurance system across Canada and ensure the fair treatment of customers, CCIR seeks your comment and suggestions on how to support a competitive personal property insurance marketplace while ensuring that consumers are protected in the event of a natural catastrophe.

It should also be noted that, fortunately, earthquake and the newly developed personal property overland water products have not been tested at this point. Policyholders, insurers and regulators have not had to contend with the different wordings and their applications in real claims situations. Beyond the experiences of similar events in North America or around the world, Canadians have not had to consider how insurer disaster response plans will operate in the event of a wide-spread or multiple occurrences or in situations where access to residences may be denied by the scale of the disaster for an extended period of time. CCIR members are reminded of the ability and capacity of insurers that were needed to respond to the multiple events that occurred in the summer of 2013, both of which, while devastating to the people and businesses involved, were not wide spread.

6.1 Consultation Details

CCIR is seeking validation with respect to its observations and stakeholder questions in Sections 3, 4, and 5.

We look forward to receiving your submissions by 30 September 2016.

Electronic submissions are preferred and should be forwarded to ccir-ccrra@fscs.gov.on.ca.

Written submissions should be forwarded to:
CCIR Secretariat
5160 Yonge Street, Box 85, 17th Floor
Toronto, ON M2N 6L9

An electronic version of this document is available on CCIR's website at ccir-ccrra.org/. CCIR intends to make the submissions received publicly available. If you indicate that you do not want your submission or specific parts of your submission to be made public, we will treat the submission, or the designated parts, as confidential to the extent permitted by law.

Appendix 1

Consolidated Questions to Stakeholders

1. Are there other risk modelling tools or options that insurers commonly use that enhance risk management?
2. What are current natural catastrophe risk-sharing practices? How are catastrophe risks currently being grouped/ classified/segmented?
3. What are the potential implications not addressed by the paper with respect to risk-sharing/pooling for natural catastrophe coverage across Canada?
4. In general, to what extent has the insurance industry experienced an increase in inquiries / complaints from policyholders related to natural catastrophes (coverage, products, costs, etc.)?
5. What role do the insurance industry, consumers, policyholders and different levels of government have in providing prevention, mitigation and relief solutions related to natural catastrophes?
6. How is product development initiated in response to natural catastrophes?
7. Is communication with policyholders about preventative behaviours, incentives to implement mitigation measures, or other information outreach initiatives sufficient and effective? Are there plans for future outreach initiatives?
8. Do policyholders understand the differences between standard policy terms and those that are designed for natural catastrophe coverage endorsements? Do they understand their implications (i.e. larger deductible or specific exclusions, monetary limits)?
9. What steps should the insurance industry take to address consumers' understanding of the impact that losses have on the availability and accessibility of natural catastrophe coverage?
10. How can comparison shopping for natural catastrophe products be made easier for consumers?
11. Are insurers well prepared for claims handling in a worst-case natural catastrophe scenario, including dealing with products that are relatively new to the market?
12. Are there other issues or requirements that have not been considered in this Issues Paper that would help to better achieve the fair treatment of personal property insurance customers?
13. Please provide any other information that you believe regulators should consider regarding natural catastrophes and personal property insurance.