



Climate Change, Natural Catastrophes and Consumer Awareness

Position Paper

Spring 2023

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Executive Summary

This Position Paper is part of an ongoing conversation between CCIR and stakeholders, beginning in 2013, about the risks associated with natural catastrophes (Nat Cats). That year, severe weather events in Alberta and Ontario suddenly brought to light many insurance limitations and exclusions, as well as broader product availability challenges, for policy coverage options for floods. Concerns regarding these limitations and the fact that consumers generally may not be sufficiently aware of the consequences of Nat Cat protection gaps focused regulators' attention.

In July 2016, to better understand and document these issues, CCIR published a "*Natural Catastrophes and Personal Property Insurance*"¹ Issues Paper, followed by a public consultation. A year later, in Summer 2017, CCIR published a "*Natural Catastrophes and Personal Property Insurance*"² Findings Report & Position Paper. The purpose of this paper was to present the results and findings of the consultation on the Issues Paper and to outline the positions and expectations of CCIR to improve the situation.

Since the issuance of the 2017 paper, Canadians' exposure to Nat Cats has only increased with climate change making these events both more frequent and severe. Hurricane Fiona on the east coast and the 2021 wildfires on the west coast represent a more recent expression of those threats. These catastrophes are adding to many other major events Canadians from coast-to-coast-to-coast experience every year that have the potential to threaten their physical, emotional, and financial well-being. Canadians on the west coast of British Columbia (BC) and along the St. Lawrence and Ottawa rivers also live with the threat of a tail-event (low-probability, high-impact) earthquake. As highlighted by the Intergovernmental Panel on Climate Change (IPCC) in its most recent report, given future projections of even more frequent extreme climate events, urgent action is required to maintain the stability of the financial system and protect consumers.³

The 2017 Findings Report and Position Paper confirmed that for a significant number of Canadian homeowners⁴ there exists a large consumer protection gap between their Nat Cat risk and insurance coverage (i.e., the cost to rebuild after an event). Through a newly constituted Climate Change, Natural Catastrophes, and Consumer Awareness Working Group, CCIR is committed to collaborative efforts to translate the findings and recommendations in that paper into concrete action by the insurance industry that help Canadians protect themselves from Nat Cats and climate-related risks. This paper presents an updated analysis of gaps in consumers' knowledge that affect their ability to make informed insurance decisions in the face of Nat Cats and climate change. In particular, the paper discusses consumers' awareness of:

- the risks posed by Nat Cats to their property;
- available insurance coverage options to transfer risk to insurers; and,
- the content, coverage, and limitations/exclusions of existing insurance that homeowners have purchased.

¹ [CCIR Natural Catastrophes and Personal Property Insurance 2016 – \(FINAL Eng\) \(ccir-ccrra.org\)](#)

² [CCIR Natural Catastrophes and Personal Property Insurance 2017 – 2838 \(ccir-ccrra.org\)](#)

³ [IPCC AR6 WGIII Full Report.pdf](#), p.129

⁴ "Homeowners" includes all personal property owners regardless of the type of residence, nature of the habitation, or ownership interest, insured or not

The increased production of consumer awareness materials from government, academia, and industry does not appear to have translated into a greater awareness among homeowners of their risk. This is reinforced by the Task Force on Flood Insurance and Relocation, which found that Canadians living in high-risk flood zones are largely unaware of their exposure as well as the risk mitigation options available to them.⁵ CCIR has heard that Canadians, especially those in high-risk areas, are much more willing to investigate their risk profile and insurance options once their exposure to relevant perils has been properly communicated to them. Complexity regarding policies, coverages, limitations, and deductibles can also cause confusion and limit consumers' ability to make informed decisions, resulting in unintended coverage gaps. CCIR has heard from industry and stakeholders that the insurance industry should provide more accessible information and clearer communications to consumers.

Despite best efforts by industry, consumers equipped with the right information do not always act on that information in ways that reduce and/or mitigate their risk. Risk-based decisions are multifaceted, meaning that even a well-informed homeowner may make a seemingly irrational decision to forgo insurance coverage or to knowingly purchase an insufficient amount of insurance based on their risk. This is consistent with findings from the Task Force on Flood Insurance and Relocation, which found that individual mitigation actions depend on risk awareness, premium price, deductible, capacity to pay, and the extent to which premiums reflect the perceived risk.⁶ CCIR encourages government and industry to continue to explore innovative ways to help address these broader challenges. Thus, this paper also explores possible approaches that could help ensure customers act on personalized advice and take advantage of product features to mitigate their risk.

Industry, governments, and regulators in Canada and across the globe recognize that now is the time to act. While other actors work towards addressing climate related issues such as reducing carbon emissions and developing adaptation strategies, CCIR believes that the insurance industry is well positioned to help ensure Canadians are protected (i.e., close the consumer protection gap) by:

- Identifying and implementing best practices for assessing and communicating property-specific Nat Cat risk at point of sale and at renewal to customers;
- Identifying and implementing best practices that insurers and intermediaries may use to communicate Nat Cat related insurance options to customers;
- Taking steps to help ensure consumers understand the insurance product they are being offered, including a simplified approach to summarizing Nat Cat related coverage on the first page of the policy;
- Training and educating those selling insurance products to customers to ensure they understand the product's key features and how it aligns with the customer's needs; and,
- Designing innovative products and creating incentives to encourage customers to act on personalized advice and product features, including both mitigation methods, and to encourage insurance purchase.

While insurers and intermediaries can help protect consumers by educating them on their property-specific risk, providing advice, and ultimately offering insurance coverage, other stakeholders play a critical role in closing the consumer protection gap. For example, government and partner organizations can work to improve consumers' financial literacy while leveraging their reach to provide authoritative

⁵ [Adapting to Rising Flood Risk - An Analysis of Insurance Solutions for Canada \(publicsafety.gc.ca\)](#), p.26

⁶ [Adapting to Rising Flood Risk - An Analysis of Insurance Solutions for Canada \(publicsafety.gc.ca\)](#), p.79

and credible baseline information on Nat Cats. To that end, CCIR lends its support to important initiatives underway that improve the quality and accessibility of information available to industry and consumers, including:

- Making improved multi-peril information available to consumers; and
- Working with government to help ensure consumers understand disaster financial assistance programs, including clarifying program parameters and eligibility requirements (i.e., identifying situations where assistance will not be available).

It is CCIR's position that the insurance industry needs to take more coordinated and concrete actions to support efforts to close Nat Cat and climate-related protection gaps. Recognizing insurance regulators' mandate in the fair treatment of customers, the paper focuses on actions insurers can take to address knowledge gaps and ensure consumers have the information, advice, and incentives necessary to make informed decisions respecting their insurance coverage. The actions taken by insurers should increase the likelihood that consumers make informed decisions when purchasing and/or renewing homeowner property insurance that provides adequate coverage against the risks posed by Nat Cats and climate change. CCIR intends to work collaboratively with industry and other stakeholders to advance the recommendations outlined above, ensuring consistency with existing legal obligations and regulatory expectations.

Introduction – Nat Cat Risks in Canada

Nat Cats include seasonal extreme weather events, such as water (flooding), wind (hurricanes, tornados), wildfires, and hail/ice/lightning storms as well as non-seasonal events like earthquakes. Recent reports by the IPCC suggest that climate change is likely the main driver behind more frequent and more severe extreme weather events in every region across the globe, including heat waves, wildfires, flooding, and sea ice loss.⁷ For Canada, this represents an acute challenge, given that the country is warming at nearly twice the global rate.⁸

At the same time, Canadians' properties are perhaps more exposed than ever. Property-specific risk is a combination of the likelihood and consequence of a specific peril being realized. This is driven by exposure to different perils (i.e., the probability⁹ and potential intensity¹⁰ of various perils, given the area where the property is located) and hazards (i.e., conditions that increase the likelihood of loss, such as building structure, building materials, soil composition, proximity to steep terrain or river). This means that two properties with the same postal code may both be exposed to the same peril, but may not have the same risk (i.e., different hazards).

Homeowners in Canada have witnessed a dramatic increase in property damage over the past decade due to the increasing frequency and severity of Nat Cats. Whereas the average annual insured losses from Nat Cats totaled \$446 million between 1983 to 2009, the annual average increased to \$2.0 billion in insured losses between 2010 to 2020.¹¹ The federal government's 2019 Canada's Changing Climate Report makes clear the threat this warming poses in every region across the country, noting that climate change increased the likelihood of costly extreme weather events, such as the 2016 Fort McMurray wildfires and the 2013 Southern Alberta floods.¹²

Canadians on the west coast of BC and along the St. Lawrence and Ottawa rivers also live with the threat of a tail-event earthquake. These two key earthquake zones exist near large urban centres, which increases the likelihood of significant economic damage. Estimates from a 2013 AIR Worldwide study commissioned by the Insurance Bureau of Canada (IBC) suggest a 9.0 magnitude earthquake off the west coast of Vancouver Island could result in \$20 billion in insured losses while a 7.1 magnitude earthquake in Quebec would result in approximately \$12 billion in insured losses.¹³ For comparison, the Fort McMurray fire resulted in insured property damages of \$3.7 billion¹⁴, and total downstream damages of approximately \$9 billion.¹⁵

Every province is exposed to Nat Cats; however, the type of peril varies regionally. Generally, the main Nat Cats breakdown as follows:

- The probability of an earthquake is particularly high in BC, Quebec, and Eastern Ontario.

⁷ [IPCC AR6 WGIII Full Report.pdf](#)

⁸ [Canada's Changing Climate Report](#), p.34

⁹ e.g., a 1-in-20-year vs a 1-in-500-year occurrence

¹⁰ e.g., a magnitude 5.0 earthquake vs 9.0 earthquake

¹¹ [IBC 2021 Facts](#); author's calculations in 2020 dollars based on reported losses plus loss adjustment expenses; note, figures for 2019 and 2020 are preliminary estimates that include only the two largest events in the year and annual totals

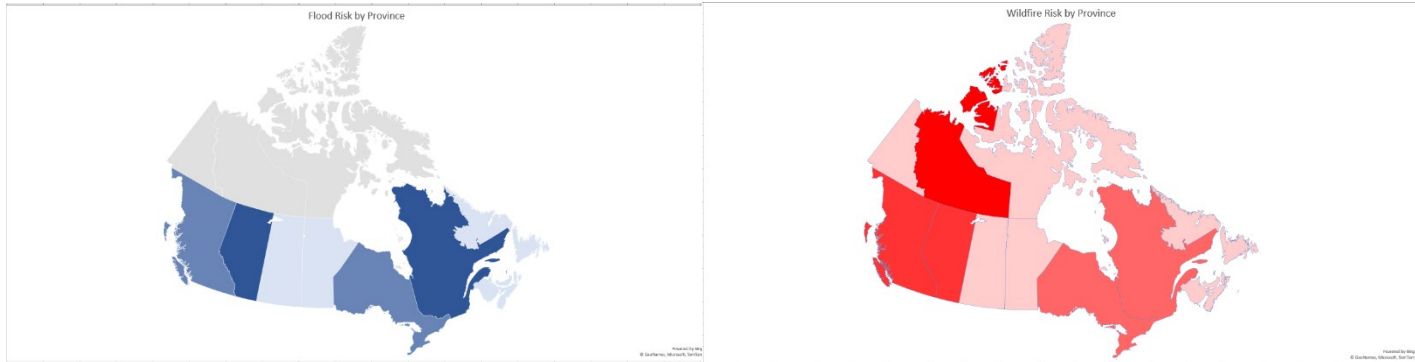
¹² [Canada's Changing Climate Report](#)

¹³ [WHAT WOULD THE "BIG ONE" COST CANADIANS? \(ibc.ca\)](#)

¹⁴ [Northern Alberta Wildfire Costliest Insured Natural Disaster in Canadian History \(ibc.ca\)](#)

¹⁵ Alam, 2017: [CRCTI Webinar Aug. 28 Final \(iclr.org\)](#)

- Flooding is prevalent across all provinces; however, as shown in Figure 1 below, Quebec, Alberta, and BC face the greatest flood exposure.
- Hail and windstorms have been recurring across all provinces although the disasters have traditionally been associated with the Prairies and Eastern Canada.
- Wildfire is concentrated in Alberta, BC, and the NWT, though parts of Eastern Canada are also exposed to this peril, as shown in Figure 2.



While homeowners can transfer financial risk to the private sector by purchasing insurance, they can also reduce the risk of losses through mitigation actions (e.g., landscaping to divert water away from a structure, bolting a structure to the foundation, installing water-sensors, purchasing a back-up generator to maintain sump-pump during power outage). Community-level risk mitigation can occur through climate adaptation measures (e.g., ecological restoration initiatives such as expanding wetlands or building dykes or breakwaters) that can affect overall risk.

Whereas Canadians appear to be becoming more aware of climate change and Nat Cats, CCIR is concerned about Canadians' continuing lack of awareness of, and protection from, the Nat Cats to which their properties are exposed. This includes a perception among some populations that federal and/or provincial governments will provide financial assistance through Disaster Financial Assistance (DFA) programs in the event of a Nat Cat.

While this paper mainly focuses on homeowners, CCIR recognizes that risk awareness and insurance is equally important for developers/builders and prospective buyers who require similar information in order to make informed decisions.

Section 2: Issue Identification and Gap Analysis

By purchasing property insurance, homeowners can transfer some of the financial risks associated with Nat Cats to the private insurance market. Where insurance is not readily available, property owners may be eligible for DFA programs that provide financial assistance to those affected by a Nat Cat. While private insurance coverage for catastrophic risks is generally available across Canada, focusing events such as the 2013 floods in Ontario and Alberta and the 2016 Fort McMurray Wildfire exposed potential insurance coverage gaps. More recent events, including the Lytton Wildfires, the November 2021 Floods, and Hurricane Fiona have demonstrated that these gaps continue to exist.

CCIR is concerned with potential coverage gaps that leave residential property owners unprotected against Nat Cats.

Even where homeowners have some insurance protection or receive financial assistance from DFA programs, a significant proportion of the overall cost from Nat Cats is typically borne by consumers.

Following engagement with industry and other stakeholders on its 2016 Issues Paper, CCIR released a Findings Report and Position Paper in the summer of 2017, which identified knowledge gaps among homeowners that contribute to inadequate coverage against the risks posed by Nat Cats. The four knowledge gaps include:

1. Low awareness of the risks posed by Nat Cats to their home/property;
2. Low awareness of available insurance coverage options;
3. Low awareness of the content, coverage, and limitations/exclusions of the existing insurance they have purchased; and
4. Low awareness of how provincial/territorial DFA programs operate, including eligibility requirements, restrictions, and limitations.

Increasing awareness of both Nat Cat risk and the insurance options available to consumers is a time-sensitive issue. Natural Resources Canada estimates that there is a 30% chance of an earthquake strong enough to cause significant damage in Southwestern BC in the next 50 years and a 5 – 15% chance in Quebec.¹⁶ However, no one can accurately forecast when either region will be hit.

The working group acknowledges that public awareness of risk and products are not the only factors affecting insurance uptake levels. Among the other potential factors, research indicates that the cost of insurance (i.e., premiums, deductibles) may impact some consumers' decision-making process.¹⁷ CCIR has also heard that more could be done to explain to customers in plain language coverage gaps based on their property-specific risk as well as ways that they can reduce their risk and potentially their insurance premiums. The working group recognizes the ability of insurers to freely set prices that reflect competitive market conditions and price risk accordingly. Federal, provincial, and territorial

¹⁶ Summary on IBC Website: [Earthquake Insurance \(ibc.ca\)](http://www.earthquakeinsurance.ca)

¹⁷ [EQ-Symposium Executive-Summary-E-Jan15.indd \(ibc.ca\)](#); in a Pollara survey of BC and Quebec residents in high earthquake risk regions, some respondents reported that insurance coverage is too expensive to consider purchasing, though the most common reason reported was a belief that an EQ will not occur. Industry representatives also indicated to CCIR during its engagement that price likely impacts consumer decision making with respect to earthquake insurance.

governments are examining the feasibility of market interventions to address protection gaps that exist where consumers cannot readily purchase insurance for a variety of reasons, including affordability issues.

A component of awareness is communicating the benefits and risks associated with the cost of insurance in a manner that can be easily understood by the consumer.

While awareness is a first step, the working group encourages all stakeholders to focus on addressing other issues that affect insurance coverage. This includes greater consideration for consumers' decision-making process when designing products (e.g., building in premium discounts for certain mitigation actions that consumers can take) and when developing product information and marketing materials. For example, in its recent report, the Task Force on Flood Insurance and Relocation found that "individual risk reduction behaviour can be incentivized if the costs of premiums and deductibles are explicitly linked to mitigation actions" (i.e., if risk reduction is rewarded at the consumer level).¹⁸ As noted above, there are currently several consumer knowledge gaps for insurance that can protect homeowners against the risk Nat Cat risks in Canada. Each of these is discussed in detail below.

Consumer awareness gap #1: Low awareness of property-specific Nat Cat risk

Canadians often underestimate their own risk profile, which includes exposure to Nat Cats. Where Canadians are not aware of their actual level of risk, they aren't likely to seek insurance against that risk.

While Canadians generally accept that Nat Cats are happening more frequently than in the past, only a minority feel like they are directly at risk of a variety of catastrophes. For example, a 2015 survey by the Canadian Association of Direct Relationship Insurers (CADRI) showed that only 12% of Canadians (~4.5 million people) believe that their property is at risk of an earthquake whereas 24% (~9 million people) of Canadians live in high-risk earthquake zones.¹⁹ This misalignment is also evident for flooding. A 2020 survey by Partners for Action, an applied research network based out of the University of Waterloo, showed that only 6% of Canadians living in designated flood risk areas know their property is at high risk, and 63% do not believe that flood risk will increase within the next two decades.²⁰

According to the Canadian Institute for Climate Choices, this awareness gap is not limited to homeowners; it also exists for builders and prospective buyers. The Institute notes that, "stakeholders and investors in both government-owned and privately owned infrastructure are unknowingly buying into [climate-exposed] risks", i.e., buildings and properties in areas at high risk of flooding, wildfires, and other climate change impacts.²¹ Similar sentiments were raised in past submissions to CCIR, noting that more could be done by builders, lenders, and real estate agents to educate consumers about Nat Cat risks in certain areas and for specific homes.

Even if consumers are aware that they are exposed to a particular peril, they may not fully understand what this means in terms of their risk, and how they could be affected by a Nat Cat, making the financial commitment of an insurance policy seem less worthwhile. This is partially mitigated by recent Nat Cats

¹⁸ [Adapting to Rising Flood Risk - An Analysis of Insurance Solutions for Canada \(publicsafety.gc.ca\)](#), p.79

¹⁹ [Microsoft Word - CADRI Property Survey Report - FINAL - November 16, 2015.docx](#)

²⁰ [Partners for Action, 2020 Survey](#)

²¹ [Canadian Institute for Climate Choices, 2021](#)

that may serve as focusing events, building awareness by making the risk more *real* for consumers; however, the risk from an earthquake may be more abstract. Most Canadians have never experienced an earthquake, and there has not been a major earthquake in Canada since 1700.²² This may affect consumers' willingness to consider insurance protection despite the possibility of a major earthquake in Canada over the next 50 years.

In its 2015 survey of homeowners, CADRI found that Canadians, especially those in high-risk areas, are much more willing to investigate their risk profile and insurance options once the proper risk has been communicated to them.

CCIR believes that increasing financial literacy and educating consumers about their property-specific risk is a shared responsibility, involving industry, think tanks, and government. These stakeholders have produced numerous public-facing resources available to consumers that identify and explain Nat Cat risks. The IBC has spearheaded several initiatives on behalf of industry and actively shares disaster insurance information through its website.²³ Partners for Action has developed and implemented a national flood risk awareness communication program, 'How to Be Flood Smart'.²⁴ In addition, the Institute for Catastrophic Loss Reduction (ICLR) hosts an earthquake risk mapping tool that allows consumers to search their postal codes and view their region's risk level.²⁵

In theory, these resources should increase insurance take-up by helping consumers understand their exposure. Unfortunately, despite stakeholders' best efforts to provide education, CCIR has heard that people often do not seek out or listen to information without focused events (i.e., a Nat Cat that they or someone within their peer group has experienced).

As highlighted in CCIR's 2017 issues paper and findings report, the fact that improved modelling, identification of Nat Cat risks, and the production of consumer awareness materials has not translated to greater understanding suggests that further action is required to communicate and explain risk to consumers.

The persistence of insurance coverage gaps suggests that the greater availability of resources has not led to broad Nat Cat insurance take-up. This could mean that consumers decide to forego insurance after reviewing the materials, but it may also suggest that they are not accessing the resources in the first place, especially in situations where the onus is on them to seek out information independently. For example, 81% of people surveyed by Partners for Action said that have not viewed flood maps for their community.²⁶

As found by the Task Force on Flood Insurance and Relocation, current flood maps are not generally available or easily accessible for homeowners, which further reduces the likelihood of consumers

²² A major earthquake is defined as 7.0 magnitude or higher

²³ [Disaster \(ibc.ca\)](http://Disaster (ibc.ca))

²⁴ Partners for Action, [How to Be Flood Smart](#)

²⁵ [Earthquake Risk Tool – ICLR](#)

²⁶ [Partners for Action, 2020 Survey](#)

knowing whether their property is at risk.²⁷ Notably, consumers are often responsible for understanding their risk with limited education offered directly by insurance representatives. For example, a 2020 KPMG survey commissioned by IBC found that only 30% of surveyed insurers educate clients as to their location specific earthquake exposure.

CCIR has heard from stakeholders that those interested in learning more about their risk are often confused about where to find resources. This is especially challenging as consumers must synthesize information from various websites and sources, which may be difficult to access and navigate. This problem was echoed during the 2019 CatIQ conference as well, as there are “many voices but one message.” Most of the available resources also focus on a single peril, which could lead to an incomplete understanding of one’s risk, especially for those in regions that face multiple perils.²⁸ Furthermore, the available resources typically provide general or aggregate information, which does not necessarily tell the user anything about the risk to *their* property. In the absence of professional guidance, consumers may face challenges translating general information from a variety of sources into a comprehensive understanding of their risk.

Consumer awareness gap #2: Low awareness of available insurance coverage options

There is a lack of awareness regarding options for Nat Cat insurance, which may leave consumers inadequately protected or uninsured against certain risks. Stakeholders note that awareness of insurance options is a prerequisite for newly developed or refined insurance products to have market uptake.

As noted earlier, private insurance coverage for major perils in different regions is generally available across Canada. Additionally, the existence of a competitive marketplace suggests that property insurance products are accessible, provided through multiple distribution channels, and generally affordable to consumers who need coverage. This combination of availability and accessibility is instrumental in mitigating losses associated with catastrophic events. However, the value of these products can only be maximized if consumers are aware of their choices when shopping for insurance, ensuring they have the information required to obtain the right coverage and are protected from the relevant Nat Cats. This is partially mitigated by the structure of most homeowner insurance policies, which cover a range of perils. However, certain perils such as earthquake and flooding are not normally included in homeowner insurance policies.

In terms of flooding, which is typically sold as an optional endorsement, only 26% of Canadians living in high-risk areas report that their insurance representative has discussed flood insurance options with them.²⁹ Similarly, although 70% of insurers in a 2020 KPMG survey say that they actively sell an earthquake endorsement, relatively low uptake in high-risk regions for some perils suggests that consumers may not always be aware of their options or may have limited knowledge in terms of what is included in various product offerings.

Commentators point to the low take-up rate of earthquake insurance by residents in the Ottawa Valley – St. Lawrence River corridor compared to BC’s Lower Mainland, both of which have material earthquake risks, as an indication that the knowledge gap could be affecting take-up. For example, the

²⁷ [Adapting to Rising Flood Risk - An Analysis of Insurance Solutions for Canada \(publicsafety.gc.ca\)](#), p.26

²⁸ For example, B.C.’s Lower Mainland faces serious earthquake risk and overland flood risk.

²⁹ [Partners for Action, 2020 Survey](#)

2013 AIR Worldwide study found that only about 3% of residential property losses would be covered by insurance if a major earthquake were to occur near Quebec City; for comparison, roughly 20% of residential property losses would be covered by insurance for an earthquake occurring off the coast of Vancouver Island. Some insurers have taken steps at the time the policy is distributed to the consumer to address this coverage gap; though not standard practice, several insurers proactively include a disclaimer about earthquake coverage on policy declarations when earthquake coverage has not been added and the consumer is in a high-risk area.

Insurers are necessarily interested in ensuring consumers understand their exposure to Nat Cats as well as the coverage options available to them. Indeed, stakeholder submissions to CCIR note that consumer awareness drives market take-up of new and/or refined insurance products. Several stakeholders have taken the lead in developing and distributing consumer-facing materials on Nat Cat risk and insurance options to bridge awareness gaps. For example, the IBC and the Financial Consumer Agency of Canada summarize the main types of homeowner insurance policies and explain that, in order to be covered for unexpected events such as earthquakes and overland floods, consumers need to purchase additional coverage. Given intermediaries' role in distributing insurance products, many insurers also provide education materials to brokers and agents to inform consumers of Nat Cat risks and insurance options, including earthquake coverage.

Nonetheless, the CCIR found that there is significant variation in the coverages and the messaging consumers receive regarding insurance for Nat Cats.

For those seeking insurance, the differences in coverage and the variety of options available can seem overwhelming, making it difficult for consumers to understand the coverage on offer. This variation may also lead to confusion and an inability to engage in effective comparative shopping as consumers must compare several policies that may have significantly different features. This may be exacerbated in situations where intermediaries may not have been provided with the adequate knowledge or training on the various coverage options available to customers or with adequate information with regards to the known property-specific Nat Cat risks. CCIR is concerned that customer confusion and the associated awareness gap regarding available insurance coverage options or property-specific Nat Cat risks may result in consumers purchasing inadequate coverage or forgoing Nat Cat insurance altogether.

Consumer awareness gap #3: Low awareness of existing insurance coverage

There is a significant disconnect between actual insurance uptake and consumers who think they are covered. For example, a 2015 survey by CADRI found that approximately 51% of Canadians are certain or think they are insured against earthquakes – the national figure is actually closer to 6%.³⁰

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 recent Nat Cats and research has shown a general lack of awareness among consumers regarding key features of their insurance coverage. This was affirmed in CCIR's engagement with industry as stakeholders noted that the abstract nature and

³⁰ Number of homeowners/condo & strata owner who purchased earthquake coverage in 2019 as a share of homeowners/condo & strata owner who purchased fire coverage in 2019

complexity of insurance contracts create difficulties in terms of consumers' ability to understand property insurance contracts in general and Nat Cat insurance coverage in particular.

As referenced earlier in this paper, homeowner insurance policies are sold as composite policies covering multiple perils with exclusions for certain Nat Cats that may be purchased as add-ons, endorsements, or optional coverages, such as earthquake and overland flooding. Given the wide range of risks covered by a typical policy as well as limitations, exclusions, and conditions therein, homeowner insurance products can be complex, and consumers are sometimes confused if their home is insured against various Nat Cats. Consumers may not always be aware that they need to purchase additional coverage to be insured against exempt perils. For example, a 2013 IBC survey indicated that the vast majority of Quebec and BC residents do not have earthquake insurance, but many consumers are under the impression that standard policies cover it.

The nature and extent of coverage is further complicated by the fact that policies offer protection under certain circumstances and for specific events, but not others. For example, water damage resulting from sudden or accidental escape of water is often included in a typical homeowner insurance policy while water damage resulting from flooding (i.e., sewer backup or overland flooding) is not. Instead, sewer backup must be purchased as an add-on to an existing policy and overland flooding must be purchased as an optional endorsement.

Consumers likely conflate *some* kinds of water damage protection with being protected against *all* kinds of water damage. This is borne out in the fact that 55% of those surveyed in 2015 reported thinking or being certain that they were insured against flooding, despite overland flooding products only recently being introduced at the time.³¹ A more recent survey by Partners for Action suggests that only 23% of Canadians living in designated flood zones have purchased flood insurance coverage; at the same time, roughly half of all respondents were unsure whether their insurance covered different types of flood damage, reinforcing the view that consumers are facing challenges in understanding their insurance policies.³² This was identified as a significant issue by the Task Force on Flood Insurance and Relocation, which contends that moving toward comprehensive flood insurance coverage would alleviate ambiguity and complexity around coverage amounts or responsibility for flooding based on its source and cause.³³

Complexity and confusion regarding policies, coverages, limitations, and deductibles can limit a consumer's ability to make informed decisions and limit the uptake of needed or suitable products that may be available and affordable.

Even where consumers have purchased additional protection, CCIR is concerned that they may not fully understand what is covered by the policy. For example, an earthquake endorsement covers shake damage, but it may not cover secondary events triggered by the earthquake, such as tsunamis, landslides, and liquefaction damage. In other words, a homeowner may assume they are being proactive, and still not have the level of coverage desired. Generally, the complexity of insurance policies may result in consumers assuming they have greater protection than their policies offer.

³¹ CADRI, 2015

³² [Partners for Action](#), 2020

³³ [Adapting to Rising Flood Risk - An Analysis of Insurance Solutions for Canada \(publicsafety.gc.ca\)](#), p.77-78

Consumers may also not be aware of how mitigation actions could affect their insurance coverage. For example, consumers may not be aware that they could be eligible for premium discounts or reductions for retrofitting their home or taking other risk reduction measures.

It is not surprising that consumers are generally unaware of the features of their insurance coverage, since they only use the product when faced with a disaster. In this sense, more frequent Nat Cats could lead to greater awareness among consumers of the contents of their policies as they contemplate the possibility of experiencing a disaster – recent wildfires and flooding for example have prompted consumers in affected areas to seek out information on their exposure as well as their insurance coverage. This was reinforced in stakeholder submissions to CCIR’s 2016 Issues Paper, which noted that inquiries spiked following Nat Cats as policyholders, whether impacted or not, were generally more interested in their coverage details following these events. However, protection gaps uncovered by recent Nat Cats make clear the need for a more proactive approach to explain coverage to consumers. For example, the Task Force on Flood Insurance and Relocation argues that homeowners affected by flood events often discover they are underinsured or uninsured after an event.³⁴

Although detailed breakdowns of the content, coverage, and limitations/exclusions is included in insurance contracts, CCIR’s review found that there is tremendous variation in the content and quality of information provided to consumers. Some disclosures provided valuable, plain language explanations of coverage; others provided very little, if any specific information. At the same time, insurers often rely on intermediaries to share disclosures with customers, and to solicit and distribute their products, which may result in inconsistencies in terms of the information and level of detail provided to the customer when the product was originally purchased.

CCIR’s review also identified significant differences in coverage for Nat Cat-related events amongst insurers, which may not be consumer friendly. The differences in the standard policy coverage and coverage for Nat Cats need to be made clearer, as do deductibles, limitations, and exclusions for Nat Cats that may be different from those of the standard personal property terms.

Consumer awareness gap #4: Low awareness of provincial DFA program parameters

Consumers tend to misunderstand how government disaster relief programs operate, particularly disaster financial assistance (DFA). There is a perception among some populations that government will provide financial assistance for all losses associated with a Nat Cat. However, government-provided disaster relief is generally not available for consumers with access to private insurance coverage and is generally limited in scope.

As outlined in its 2017 Findings Report, CCIR observed a knowledge gap in terms of consumers’ understanding of how government assistance programs, such as DFAs, operate. There is a common misperception that DFAs will indemnify consumers for any losses that result from a Nat Cat or that the government will provide for their full recovery following the disaster. DFAs do not compensate claimants for whom insurance is available at a reasonable cost. In other words, eligibility is generally denied if consumers had the opportunity to insure against the risk beforehand and chose not to. CCIR has observed that program eligibility and limitations have not always been clearly communicated to consumers.

³⁴ [Adapting to Rising Flood Risk - An Analysis of Insurance Solutions for Canada \(publicsafety.gc.ca\)](#), p.26

DFA programs also differ across the country, which may cause confusion regarding eligibility. Although the federal government may provide financial assistance to provinces and territories via Disaster Financial Assistance Arrangements (DFAA), each provincial and territorial government is responsible for designing their jurisdictions' DFA program parameters, including eligibility conditions as well as the amounts and types of assistance that will be provided to eligible citizens who have experienced losses. For example, in Alberta, DFAs will cover 100% of primary residence damage for a property that could not obtain insurance while BC covers only 80% of damage up to \$300,000.³⁵ Additionally, not all DFA programs are triggered automatically, such as in BC where events are assessed on a case-by-case basis, and events are not always declared DFA-eligible.

CCIR has heard from industry stakeholders that knowledge gaps respecting DFAs can lead to confusion and frustration among consumers during the claims process in the event of a Nat Cat. Even for those with insurance coverage, it is not always clear whether they should contact government or their insurer respecting immediate financial assistance. As discussed, consumers may also make uninformed or ill-informed decisions about insurance, given a misperception that government will protect them from Nat Cat losses. This was also raised by stakeholders that noted that the lack of understanding regarding the operation of DFAs may result in significant coverage gaps for consumers that could have purchased insurance against Nat Cats. More broadly, reliance on government to provide financial relief for foreseeable risks, especially with current trends toward increasing Nat Cats, could put undue stress on public resources.

³⁵ [Office of the Parliamentary Budget Officer](#), p.6

Section 3 – Response to Issues and Gaps

Canadians are experiencing the impacts of climate change and natural catastrophes now. The response needs to be timely, flexible, and adaptable.

Formal regulatory responses are by their nature longer term in duration. CCIR accordingly supports industry leadership and action on the findings and recommended actions in this report. CCIR is pleased to lead the conversation with stakeholders, provide support, and oversee progress. However, industry is best positioned to coordinate and act with the required urgency.

As stated in CCIR and CISRO’s Conduct of Insurance Business and Fair Treatment of Customers guidance (FTC Guidance)³⁶, the fair treatment of customers encompasses outcomes such as: *treating customers fairly throughout the life-cycle of the insurance product, which begins with product design and continues until all obligations under the contract are fulfilled; and, providing customers with accurate, clear, not misleading and sufficient information before, during, and after the point of sale, which will allow them to make informed decisions.*

CCIR has developed the following recommended actions to help ensure these outcomes are achieved with respect to insurance protection for Nat Cats and climate-related risks. Each of the recommended actions is entirely consistent with regulatory expectations articulated in CCIR and CISRO’s FTC Guidance.

As stated in the FTC Guidance, *insurers are accountable for distribution strategies and ultimately responsible for oversight aspects pertaining to the distribution of their products. However, the Insurer’s ultimate responsibility does not absolve Intermediaries of their own responsibilities for which they are accountable.* Therefore, the recommended actions reflect the joint responsibility of insurers and intermediaries, while acknowledging their respective roles and responsibilities, in ensuring customers are treated fairly, recognizing the importance of collaboration in raising consumer awareness and understanding of Nat Cat risks and insurance products.

Recommended action – Disclosure Practices: *Identify and implement best practices for assessing and communicating known property-specific Nat Cat risk at point of sale and at renewal to customers*

FTC guidance: insurers and intermediaries are expected to take into account a customer’s disclosed circumstances when that customer receives advice and before concluding insurance contracts.

Before providing advice, insurers or intermediaries, depending on the distribution model, should take reasonable steps to better understand the known property-specific risk and insurance needs of the specific customer, i.e., ‘know your customer’.

As a best practice, insurers should consider the property-specific risk information collected by those interacting with the customer, including intermediaries where applicable, in assessing the customer’s risk. This ‘know your customer’ front-end assessment should include details that go beyond those collected on the application alone (e.g., postal code, property grading, etc.), which could be supported by the development of a subset of core questions that should be used when first engaging with a customer.

³⁶ FTC Guidance: [Conduct of Insurance Business and Fair Treatment of Customers](#)

Once the insurer has completed its property-specific risk assessment, the insurer is responsible for providing intermediaries with the assessment, including any available material property-specific risk information it may have in its possession.

While the information that is collected from the customer would be used to help understand the customer's risk profile, it should also be explained to the customer, including a clear disclosure of the customer's property-specific Nat Cat risk. Those engaging with the customer should explain to the customer their exposure to various perils as well as relevant hazards that increase the likelihood of loss based on their disclosed circumstances and potential risk mitigation measures that can help reduce their risk. This approach ensures that, regardless of distribution channel, the customer is provided with, in plain language, personalized advice regarding how the products they are being offered relates to their property-specific risk. Insurers and intermediaries should also conduct a similar assessment at renewal, ensuring the customer understands any changes to their Nat Cat risk, including from a changing climate.

Recommended action – Communicating Insurance Options: Identify and implement best practices that insurers and intermediaries may use to communicate Nat Cat related insurance options to customers

FTC guidance: insurers and intermediaries are expected to ensure that customers are appropriately informed about a product, before and at the point of sale, to enable them to make an informed decision about the proposed product. The information provided should be sufficient to enable customers to understand the characteristics of the product they are buying and help them to understand whether and how it may meet their needs.

To meet this expectation, CCIR recommends that insurers and intermediaries identify and implement best practices that they may use to help communicate risk and insurance options to consumers.

Submissions to CCIR recommended that these types of disclosures include simplified materials outlining the coverages and options available as well as examples of how the policy would respond to Nat Cats, including the deductible, limitations, and restrictions. Ideally, these disclosures would be in a format that is comparable between insurers. Reflecting these sentiments, CCIR believes that regulators and industry should work collaboratively to develop standardized terminology and processes to be used by insurers and agents to communicate Nat Cat risks and Nat Cat insurance options. This could include similar definitions or terminology for Nat Cat risks as well as simplified disclosure statements that outline key policy details in clear language, including exclusions, covered perils, and limits as well as any other additional key features. Simplified disclosure materials could also prompt consumers to learn more about the risks facing their properties with references to further information on relevant hazards. Disclosure materials should be used by those engaging customers to explain relevant product features at point-of-sale.

CCIR recognizes that there are various reasons that, even with the advice required to make an informed decision, consumers may make decisions that leave them exposed to Nat Cats. Nonetheless, there is an opportunity to improve the quality of the dialogue between industry and customers when discussing customers' exposure, existing level of protection, and potential insurance options. Industry could take steps to ensure these conversations provide a more complete picture of a customer's situation, considering some of the other factors that may impact their decision making. To continue to enhance

consumers' awareness and understanding of Nat Cat insurance products, the CCIR recommends that industry coordinate its efforts to educate consumers.

Recommended action – Simplified Approach to Summarizing Coverage: *take steps to ensure consumers understand the insurance product they are being offered, including a simplified approach to summarizing Nat Cat related coverage on the first page of the policy.*

FTC guidance: insurers and intermediaries are expected to provide customers with timely, clear, and adequate pre-contractual and contractual information.

CCIR encourages industry to develop a simplified approach to communicating key product features (including limits, deductibles, and exclusions) on the first page of every homeowner's policy to help ensure customers understand the product they are being offered. This information should be provided in clear language and distributed to consumers at point-of-sale and at renewal. Industry could focus greater attention on explaining Nat Cat coverage that is included as part of a homeowner's insurance policy and endorsements.

For a customer to make an informed decision, they need to understand both their risk profile and the insurance coverage they are being offered. Insurers need to have processes in place that can assist them in confirming that Nat Cat risk and related coverage has been explained to the customer and that they understand the product they are being offered. As part of ensuring this understanding, insurers and intermediaries should, as best practice, consider ways to document the conversations between themselves and customers. This would require significant buy in from intermediaries as the consumer facing representatives and distributors of insurance products.

Recommended action – Training and Educating Distributors: *insurers should train and educate those selling their products to customers to ensure they understand the product's key features and how it aligns with the customer's needs.*

FTC guidance: Insurers are expected to be satisfied that the involved intermediaries are providing information to customers in such a manner that will assist them in making an informed decision.

With respect to homeowners' insurance, this means insurers should be able to demonstrate that they have in place effective controls and oversight over all their distribution channels regardless of the type of sales channel.

CCIR recognizes that insurers may not interact directly with customers, and that both insurers and intermediaries are actively involved in ensuring customers understand their risk and the insurance options available to them. CCIR recommends that insurers continue to take meaningful steps to ensure that those selling their products have received sufficient training and education to understand and explain risks and products in a manner that customers can easily understand. This means insurers should help ensure that any seller of their homeowners' insurance products has adequate knowledge to be able to:

- Explain key terms, the nature of the guarantee, options, conditions, and exclusions of the product, in addition to enhancements that are designed to add coverage and value; and
- Provide reliable information/advice on the product or know when and where to direct the consumer for information/advice.

This includes providing those that sell their products with the materials and training required to “know your product”.

Recommended action – Designing Innovative Products: *insurers should design innovative products and create incentives to encourage customers to act on personalized advice and product features.*

FTC guidance: Insurers are expected take into account the interests of the targeted consumer groups when developing and distributing insurance products.

As referenced earlier in the paper, consumer awareness may not always be enough. Therefore, CCIR encourages insurers to continue to develop products and innovative approaches to reduce the overall consumer protection gap. CCIR also supports innovation aimed at incentivizing customers to meaningfully reduce their risk (e.g., installing water shutoff valves, ground water drainage, earthquake retrofits, etc.).

Section 4 – Other Important Initiatives

CCIR recognizes that regulators cannot tackle these issues alone and will need to collaborate with the insurance industry, other stakeholders, and government to help reduce consumers' Nat Cat and climate risk. This is especially important, given the complexity, availability, and accessibility of information on catastrophic risk as well as on financial assistance. To that end, CCIR supports existing initiatives that would help close the protection gap by providing both industry and consumers with greater clarity regarding exposure to different perils and existing protection. Although these initiatives fall outside of CCIR, and its members', mandate, CCIR is committed to multi-stakeholder collaboration, and to helping ensure Canadians can act on personalized information and advice and take advantage of product features to mitigate their catastrophic risk.

Initiative 1: Publicly accessible multi-peril, postal-code level risk portal

CCIR has heard from stakeholders a desire for more authoritative sources of data to assess risk, including granular, credible, and up to date hazard mapping. Stakeholders could consider the development of a publicly accessible multi-peril Nat Cat web-based portal to help ensure industry as well as consumers, including property owners, developers, and prospective buyers, have ready access to the same baseline information required to help understand their exposure to different Nat Cats.³⁷ Ideally, this information would be provided by a single authoritative source, preferably government. Hazards would be provided and searchable using either the first three digits of a postal code³⁸ or at the property level, depending on the map, which is necessary as exposure is highly dependent on location.³⁹

Importantly, these maps generally show hazards, i.e., potential sources of harm or danger, rather than risks, i.e., the probability of loss. High-quality, publicly accessible information on hazards would provide a foundation that insurers could build on to develop and price products and support discussions with clients about their property-specific risk, insurance products, and ways to mitigate risk. While a credible and authoritative source (i.e., government) could work towards establishing and communicating this baseline information, the insurance industry would be responsible for translating that information into advice to consumers that considers their level of risk, given existing mitigation efforts, property specific characteristics, and climate change.

Both public and private stakeholders could play an active role in socializing the portal to consumers. For example, government could do this via public awareness campaigns and by linking to the portal from official sites. Insurers and intermediaries could reference the portal when initially discussing insurance options with prospective and existing consumers. For their part, insurance associations could maintain links to the portal on their websites as well as in communication materials shared with consumers either directly or via intermediaries. These three streams could improve awareness of Nat Cat risk.

Notably, stakeholders are already working towards integrated and consistent hazard mapping that considers climate change. For example, Natural Resources Canada is currently developing an online flood portal to show homeowners their flood exposure as well as a separate website that uses government-validated risk data and postal codes to show earthquake risk in different areas. Hazard

³⁷ See Temblor (<http://temblor.net/>) for an example of what this portal could look like

³⁸ The first three digitals of a postal code represent the "Forward sortation area" or "FSA"

³⁹ For example, in BC's Lower Mainland, the difference of a couple of kilometers from west to east drastically lowers the risk of shake damage, but increases the risk of flood damage (KPMG, 2020).

maps for flood and fire could also be added in the future. This publicly accessible resource could serve as the foundation for the risk portal as it is an open-source platform that can be leveraged by others.

Initiative 2: Clarify Disaster Financial Assistance (DFA) coverage in each province

Public awareness of DFA program coverage and eligibility remain with provincial and territorial governments, not CCIR. As such, it is not for CCIR to make any recommendations how to increase awareness. The working group has noted however that perceptions among some homeowners that government will provide financial assistance in the event of a Nat Cat is a significant contributor limiting the take-up of private insurance.

While CCIR is not advocating that consumers purchase private insurance, CCIR is noting that without adequate public or private insurance, many consumers are potentially exposed to significant financial losses. Climate change will only increase the frequency and intensity of weather-related Nat Cats, and as noted earlier, many Canadians are at-risk to earthquakes.

In order to better clarify what is covered by each province's DFA programs, at a minimum, DFA websites should:

- Clearly define where/when coverage is offered by explaining the phrase "reasonably and readily available"
- Set expectations on the actions that consumers need to take to obtain insurance to be considered eligible for assistance

Provincial governments should also work with the insurance industry to ensure they are communicating DFA program parameters to clients. This may include partnering in the development of resources explaining DFA programs to clients and actively promoting DFA standards.

Next Steps

With the release of this paper, CCIR will engage with industry and stakeholders to develop an approach to translating the recommendations in this paper into concrete actions that help Canadians better protect themselves from Nat Cats and climate-related risks. CCIR will work collaboratively with industry and stakeholders to advance these recommendations, ensuring consistency with existing legal obligations and regulatory expectations.

CCIR is also interested in working with insurers and stakeholders (e.g., emergency management bodies, municipalities, etc.) to explore partnerships that would assist property owners in increasing the resilience of their property.

CCIR also believes that in developing solutions and implementing its actions, industry should consider how it will measure the effectiveness of the actions in achieving the desired FTC outcomes. CCIR intends to continue to work with industry to identify key metrics that should be collected by industry, so both regulators and insurers can proactively monitor whether consumers understand their Nat Cat risk and the protection available to them.