ISSUES BRIEF

EARTHQUAKE

On any given day, the Earthquakes Canada website lists several recent "significant" earthquake events within B.C. or just offshore. A 2013 study by the risk assessment firm AIR (now Verisk) estimated that a major quake off the west coast would result in economic losses of $75 billion, of which only an estimated $20b would be insured.

This study, the lessons learned from major earthquakes around the world, and further research and consultation prompted the Office of the Superintendent of Financial Institutions to upgrade its earthquake Guideline B-9, which sets thresholds for how insurance estimate their probable maximum loss arising from a major earthquake. The changes led to increased costs of earthquake insurance, increased earthquake deductibles, and reduced insurance capacity – all factors that have contributed to widening the earthquake protection gap.

The market penetration for earthquake insurance in B.C. is considerably higher than Washington state, (60% in B.C. vs. 14% in Washington), even though both places are subject to similar and significant earthquake risk. But IBABC members remain deeply concerned about the earthquake protection gap. A major earthquake event would result in financial hardship for individuals, businesses, and communities, and put severe pressures on Canada's entire economy.

Brokers help reduce consumers' earthquake exposure through various services

- Insurance brokers explain available earthquake coverage and risk-management options. They explain how earthquake deductibles differ from standard deductibles: a percentage of the value of the insured property vs a predetermined amount. They bind coverage, process mid-term and material changes to the policy, and absorb the errors and omissions risk.
- Brokers advocate for their clients with the insurance companies to keep earthquake affordable and available.
- Brokers bring localized knowledge and informed perspectives to discussions about earthquake coverage to insurers, government, and stakeholders. Brokers educate the public through face-to-face interactions and offer risk-management advice and emergency-preparedness resources.

Key issues

- Earthquake insurance is available, but capacity is tightening, and premium costs are increasing as insurers revise their earthquake programs to meet the updated OSFI guidelines. Because earthquake is considered insurable, earthquake losses are not eligible for government Disaster Financial Assistance.
- Most insurance companies have restricted the availability of coverage in high-risk earthquake zones in B.C. and are not accepting earthquake coverage on new business, nor adding or increasing earthquake coverage on existing policies in these designated regions. Some insurance companies have left the B.C. earthquake market.
- For catastrophic losses – i.e., more than $25 million in insured damage – insurance companies typically buy reinsurance from international reinsurers. As a result, hundreds of millions of dollars in earthquake insurance premiums that Canadians are paying are going offshore, and are not contributing to an earthquake financial backstop within Canada.

Ask

- The creation of a provincial and national backstop to reduce costs and expand the use of earthquake insurance to aid in consumer recovery in the event of a damaging earthquake.
- A call to the insurance industry for investigation, innovation, and redesign of the current earthquake insurance products and practices that allows insurance companies to provide better, more sensible coverage for consumers.

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ISSUES BRIEF

WILDFIRE

The 2023 wildfire season was B.C.'s worst year in terms of affected area, with 2.25 million hectares burned, and insured losses estimated at $720 million – slightly more than record-breaking cost of 2021's losses when the entire town of Lytton was destroyed by fire. B.C. is on track to spend the most it has ever spent on wildfire response this season, with costs projected to be close to $1 billion in the 2023 fiscal year. Our fire season is now year-round and an increased threat to communities.

As communities grow and encroach on surrounding forest and grassland, the risk of "interface" fire increases. Instead of the solid-wood construction of the past, new homes are built and furnished with laminates and synthetics that contain foams, glues, and synthetic components. Today's house fires burn eight times faster and produce 200 times the amount of smoke that a fire would have 50 years ago. Alarms save lives, but do not deter the fire.

Coverage for fire is the basis of all insurance contracts, and is widely available. But insurance companies place binding restrictions on new policies for properties within a certain radius of active wildfires, and those insurers rely on B.C.'s wildfire activity maps to determine those restrictions. Wildfire activity maps are not always updated in a timely manner when the official wildfire status changes. This can result in the temporary inability to insure newly built or newly purchased properties.

Brokers mitigate fire damage through various services

- Insurance brokers explain fire coverage and risk-management options. They assist customers in determining replacement-cost valuations for their homes and outbuildings, and advise on limits to coverage for recreational equipment, valuables, and other possessions. They bind coverage, process mid-term and material changes to the policy, and absorb the errors and omissions risk.
- Brokers are on the front lines in the aftermath of fire events, providing critical services and support to individuals and businesses affected, and helping them regain productivity.
- Brokers help clients initiate the claims process and if, after the loss has been adjusted and coverage is limited or denied, brokers will advocate for their clients with the insurance companies.
- Brokers bring localized knowledge and informed perspectives to discussions about fire coverage to insurers, government, and stakeholders. Brokers educate the public through face-to-face interactions and offer risk-management advice and emergency-preparedness resources.

Key issues

- Insurance companies place binding restrictions on new policies for properties within a certain radius of active wildfires. The radius of that restriction is set by each insurer independently.
- Insurers often rely on B.C.'s wildfire activity maps to determine where they have places restrictions and when they lift those restrictions.
- The wildfire activity maps are not always updated in a timely and consistent manner.
- Properties may be left vulnerable to risk while waiting for insurance companies to drop their binding restrictions for an area.

Ask

- Government, insurance brokers, and insurance companies collaborate to improve the flow of information about wildfire activities between all parties.
- Improvement of the timeliness of updates to B.C.'s wildfire activity map.

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ISSUES BRIEF

FLOOD

Flooding is Canada's most common natural hazard, with 80% of Canadian cities built in part on flood plains and 10% of homes at high risk of flooding.

Changing climate patterns – not just wetter, warmer winters, but also drier, hotter summers – along with aging flood-protection infrastructure and increased growth and density in marginal areas, puts more homes, farms, and businesses at risk of overland flooding.

The insurance industry has expanded its flood coverage, but it's still not enough. Insurers responded after the 2013 Calgary floods by extending residential insurance for overland water damage, which had previously been excluded. But a lack of uniformity of coverage, gaps in flood-mapping, cost, and slow acceptance of available insurance products by some consumers means that many are still at risk of losing everything to a flood.

The Disaster Financial Assistance program compensates, with certain limits, losses for which insurance is not readily and reasonably available. In addition to flood damage, this can include mudslide and land subsidence. Accessing DFA compensation can be complicated for consumers. Brokers are called upon to confirm that coverage was unavailable or unaffordable. After the 2021 floods in the Fraser Valley, the B.C. government enhanced and expanded the Disaster Financial Assistance (DFA) program to compensate flood losses. However, DFA compensation is still limited: 80% of the amount of total eligible damage, to a maximum of $400,000.

Brokers mitigate flood damage through various services

- Insurance brokers explain available water-escape coverage, such as for sewer backup and overland flooding, and risk-management options. They bind coverage, process mid-term and material changes to the policy, and absorb the errors and omissions risk.
- Brokers are on the front lines in the aftermath of flood events, providing critical services and support to individuals and businesses affected, and helping them regain productivity.
- Brokers help clients initiate the claims process and if, after the loss has been adjusted and coverage is limited or denied, brokers will advocate for their clients with the insurance companies.
- Brokers help clients navigate the DFA application process and provide confirmation that insurance coverage was unavailable or unaffordable.
- Brokers educate the public through face-to-face interactions and offer risk-management advice and emergency-preparedness resources.

Key issues

- The DFA qualifications are ambiguous in determining what is "unaffordable."
- Insurance companies each use their own flood maps, which vary in age and detail, with the result that some companies are willing to provide coverage in certain areas and others are not.
- An independent assessment of B.C. flood risks is necessary, followed by a standardized flood plan that considers the future affects of climate change. More uniformity is required to help simplify what insurers consider insurable. This in turn would simplify the DFA process.

Ask

- Create a standard flood map of the province for insurance companies to use in the consideration of their overland-flood insurance policies.
- Ensure that high-risk lands such as flood plains are thoroughly assessed before allowing development or redevelopment.
- Work with brokers to streamline communication process between insurance brokers and government regarding Disaster Financial Assistance for consumers.

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ISSUES BRIEF

BANK ACT

The *Bank Act* governs Canada's federally recognized banks and credit unions. For more than a century, insurance brokers have advocated to uphold the important consumer protection provisions in Section 416 of the *Bank Act* that prohibit banks from selling insurance at the point of granting credit and on their websites.

Insurance protects the property that consumers can't afford to lose, such as houses, cars, and businesses, from pure risk, such as fire or water damage. Keeping the separation of banking and insurance is important to protect consumers from potential exposure to high-pressure sales tactics or coercive-tied selling when consumers are securing a loan or mortgage. The limitation on banks also ensures a competitive insurance marketplace that benefits consumers.

Without that separation, consumers could be pressured into accepting insurance coverage as part of a package deal or as an incentive for another transaction, losing access to choice and independent advice. They could easily find themselves underinsured – after a loss, when it's too later. And later insurance premium increases could be imposed if the customer is led to believe the insurance is tied to the mortgage.

Brokers keep the interests of the customer paramount

- Insurance brokers provide unbiased advice, free of inducements and conflicts of interest. When they buy their insurance from an insurance broker, consumers are assured that they are buying from a licensed advisor who adheres to a strict code of conduct based on trustworthiness, competence, integrity, and utmost good faith.

- The nature of the insurance contract, the consumer protections involved, and the account servicing and advice consumers need and expect mean that insurance businesses are most successful when insurance is the sole focus.

- The insurance industry is based on fiduciary relationships. Brokers must understand agency common law that establishes the differences in the duty of care that licensees owe to the customer and to the insurance company they represent.

Key issues

- Provisions in the *Bank Act* protect consumers from potential exposure to high-pressure sales tactics or tied selling when consumers are securing a loan or mortgage. The limitation on banks' business powers also ensures a competitive insurance marketplace that benefits consumers.

- The federal government will introduce legislation to create an external consumer complaints system for banks; we are asking for the specific inclusion of Section 416 in the legislation to ensure that the consumer protection provisions can be better enforced.

- Maintaining the current separation between banking and insurance will help to ensure that insurance remains reasonably and readily available, and that consumers have access to expertise and unbiased guidance in the purchase of insurance by licensed intermediaries.

- Governments face a severe financial and reputational risk if they allow an environment in which consumers purchase insurance without adequate knowledge of what it covers, how the insurance policy will respond in the event of a loss, or who is accountable for their purchase.

Ask

- Maintain the existing consumer protection measures in Section 416 of the *Bank Act*.

- Ensure that Section 416 is included in the new consumer complaints process for potential violations of the *Bank Act* provisions.

- Support public awareness campaigns to inform consumers of their rights and the new complaints process.

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