

**Subject:** Inadequate Earthquake Insurance is Affecting the Canadian Economy  
**To:** Provincial and Federal contacts  
**From:** Insurance Brokers Association of B.C.

## Purpose

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This briefing is to inform you of the issue of insufficient earthquake insurance coverage compounded by the current diminished capacity for earthquake (EQ) coverage in the province of British Columbia as well as the ineffective nature of existing Canadian EQ insurance policies.

## Key Points

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- The earthquake product currently being offered by insurers, for both personal and commercial policies, will not be sufficient to help residents and businesses recover in the event of a large-scale catastrophic earthquake in B.C. or elsewhere.
- 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 for personal and in some cases for commercial lines, nor adding or increasing earthquake coverage on existing policies, in these designated regions.
- Without provincial and national intervention to encourage insurance companies to revise their earthquake product AND to create a government-supported backstop to reduce consumer cost and generate adequate spread of coverage, Canadians will not be able to fully recover in the event of small to mid level damaging quakes. As a result, as well, all of Canada will suffer economic hardship in the event of “the big one.”

## Background

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The earthquakes that struck in Türkiye and Syria in early February 2023, were another tragic reminder of Canada’s vulnerability to this peril. B.C. should be in a better position in the event of a major quake as the province has taken steps to mitigate the risks with some seismic retrofits of infrastructure and seismic requirements in the building codes. The hope is that preparedness will mean less loss of life, but a large seismic event would still result in significant damage, and the attendant long delays to anything approaching recovery.

### *Earthquake Deductibles*

Insurance should be an integral part of the recovery for people and businesses when “the big one” hits. For many years, insurance brokers in B.C. have been encouraging homeowners and

businesses in at-risk areas to purchase earthquake insurance. However, market conditions have seen premiums and deductibles for earthquake insurance rise to the point where even those who have purchased the coverage are having to self-insure the most probable levels of damage through their deductibles in the event of an earthquake.

Earthquake policies have historically had a standard 5% or 10% deductible, calculated on the policy *total insured value* (TIV). In recent years, brokers were seeing that deductible increase to 15% and now to 20% for many insurers. Given the current property values in the province, and in particular much of the high-risk earthquake areas, even the previous standard 10% deductible would place a heavy burden on the consumer. Adding to that burden are the strata (condo) properties where homeowners will not only have their personal deductible to deal with, they will also be responsible for a portion of their strata building's deductible. In the event of a mega earthquake, a \$20 million strata building with a 20% deductible will make the first \$4 million in damage the responsibility of its owners, who may or may not have their own unit insurance that may include some level of deductible coverage.

Remarkably at time of writing, there are 25% minimum deductibles being imposed on some commercial properties in the high risk (Lower Mainland B.C. and Vancouver Island) areas.

### ***Restricted Coverage***

In early 2022, Intact Insurance closed its CNS operations, which was part of its RSA acquisition, in an effort to reduce its earthquake exposure in B.C. This left a large book of earthquake business for brokers to try to place with other insurers. While some insurers worked to expand their capacity to support consumers in the province, by the end of the year, several major insurers chose to take restrictive action to manage their earthquake accumulation as well.

***At the end of 2022, most insurance companies announced they cannot offer earthquake coverage on a new policy or add to or increase this coverage on an existing policy for consumers in high-risk areas.*** At this time, in 51 postal codes identified as high risk, brokers are unable to offer earthquake insurance to new customers. The results being:

- 1) New property owners are unable to buy EQ insurance.
- 2) Existing property owners with EQ insurance will be faced with the choice of significantly increased EQ premium and deductible or be forced to operate without EQ insurance as competition on the product has dried up.

The outlook for the near future doesn't indicate coverage changing to better protect consumers. Insurer capacities have been set for 2023, through the global reinsurance market, for which insurers saw increased costs even at higher retentions to the reinsurance they currently have in place.

## *Additional Pressures*

Other factors also play a part in the consumers' current ability to bounce back in the event of an earthquake:

- Rising interest rates for mortgages have put financial pressure on homeowners
- Steeply rising costs of construction e.g. material and labour
- Supply delays and a limited number of contractors for restoration or rebuilding
- Rising cost of living

## **Conclusion**

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Regardless of the economic climate, given the state of earthquake insurance in Canada, there will be a devastating financial burden for all affected B.C. residents as well as Canadian governments and taxpayers to fund recovery when a damaging earthquake occurs.

Forty percent of Canadians live in moderate or high-risk earthquake regions. Damaging quakes can and do occur in Quebec and the Ottawa area, though very few Ontario and Quebec consumers currently buy coverage. Earthquake insurance, as currently structured in Canada, does not provide an adequate safety net to consumers, nor adequately contribute to the stark realities of rebuilding community.

## **Recommendation**

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There are two equally valuable paths for government to intervene on behalf of consumers:

1. The creation of a national and provincial backstop to reduce costs and expand the use of EQ insurance to aid in consumer recovery in the event of a damaging earthquake.
2. 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, sensible coverage, for consumers.

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### **About IBABC**

The Insurance Brokers Association of B.C. serves as the voice of the general insurance brokerage industry and promotes its members as the premier distributors of insurance products and services in British Columbia. IBABC is the primary provider of pre-licensing and continuing professional education for the general insurance brokers in B.C. IBABC represents the interests of the public and its member brokers to government and to industry stakeholders.

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