



CADRI HOMEOWNER PROPERTY INSURANCE SURVEY REPORT

NOVEMBER 2015

INTRODUCTION

The Canadian Association of Direct Relationship Insurers (CADRI) is a trade association representing insurance companies who offer automobile, home and commercial insurance products to Canadians on a direct basis. Whether through the web, on the phone or face-to-face, CADRI members provide end-to-end service and are in direct relationships with their customers through all steps of the sales and service process.

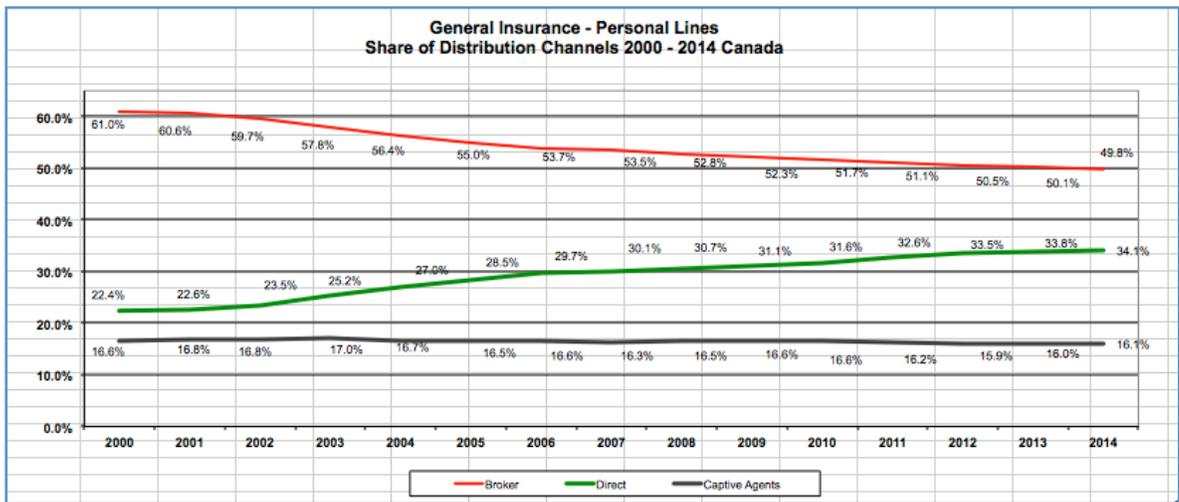
CADRI monitors the insurance regulatory environment in all Provinces and Territories and supports regulation that encourages distribution accessibility and efficiency, technological innovation and other measures necessary for a healthy and competitive insurance market for the benefit of all Canadians.

Because of our involvement as both distributors and underwriters of insurance products, CADRI members have developed a comprehensive understanding of all facets of the insurance business and are in a unique position to offer valuable input in the development of a Canadian insurance market regulatory framework that is responsive to customers' needs.

The members of CADRI are:

- belairdirect
- CAA Insurance
- Canadian Direct Insurance
- Co-operators General Insurance
- Desjardins General Insurance Group
- RBC Insurance
- TD Insurance

Through our thousands of licensed agents, and millions of visits each year on their websites, CADRI members have direct contact with Canadians right across the country. CADRI members operate in both the captive and direct business lines illustrated below and when combined these two business lines represent over 50% of the market.



With this growing and evolving relationship with consumers, CADRI members are well placed to bring a consumer voice to ongoing discussions on natural disasters and homeowner property insurance.

CADRI Consumer Homeowner Property Insurance Survey

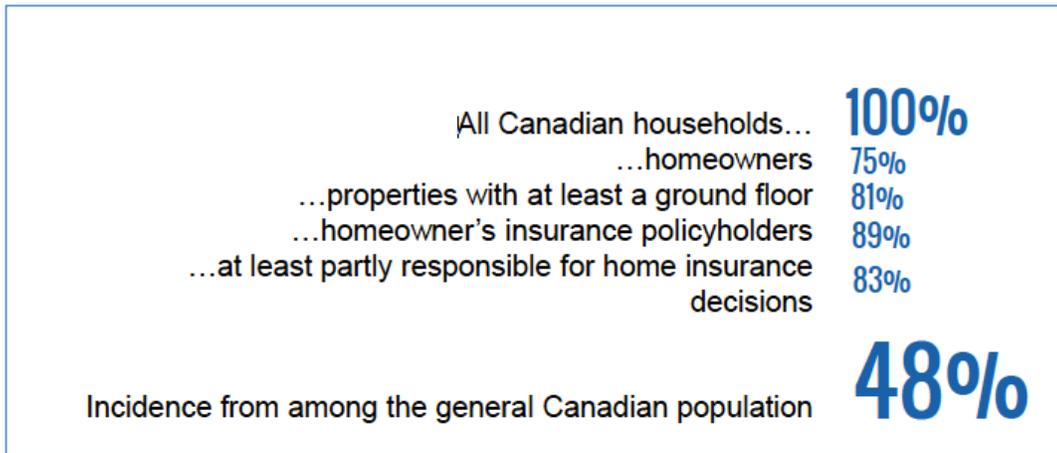
Homeowner property insurance needs are changing and are very different today than when the product was first designed. At that time, fire was the main risk to homeowners and the product was designed to address that risk. However, due to education, building construction changes and other public policy initiatives, fire is no longer the main risk to homeowners. "From 2009 to 2014 insured losses from catastrophic events were close to or above \$1 billion each year – most of this was due to water damage. Flooding and related sewer backup damage is costly for homeowners, businesses, municipalities and insurance companies. In fact, in 2013 insurers paid out a record-high \$3.2 billion to policy holders."¹

With the objective of bringing further information and data to discussions on the future of homeowner property insurance, CADRI conducted a consumer survey in 2015 to explore consumer perceptions of natural disasters and homeowner property insurance.

Methodology

The Canadian Association of Direct Relationship Insurers (CADRI) working with Substance Strategies, an independent research company, conducted an online survey with homeowners to explore perceptions of natural disasters and property insurance. The survey included 5,539 respondents from the Angus Reid Forum across Canada and was in the field between March 25 and April 7, 2015. It included over 1000 respondents per province from BC, AB, ON and QC.

To be eligible, respondents had to be 18 years of age or older and own a residential property (with at least a ground-floor level). They were also required to have homeowner's insurance and to take part in related decisions. The incidence of this client base among the overall Canadian population is 48%.



This report shows select highlights from the survey that CADRI feels are particularly relevant to ongoing discussions on homeowner property insurance and natural disasters. The survey findings showed no material differences in consumer perceptions or needs between insurance distribution models.

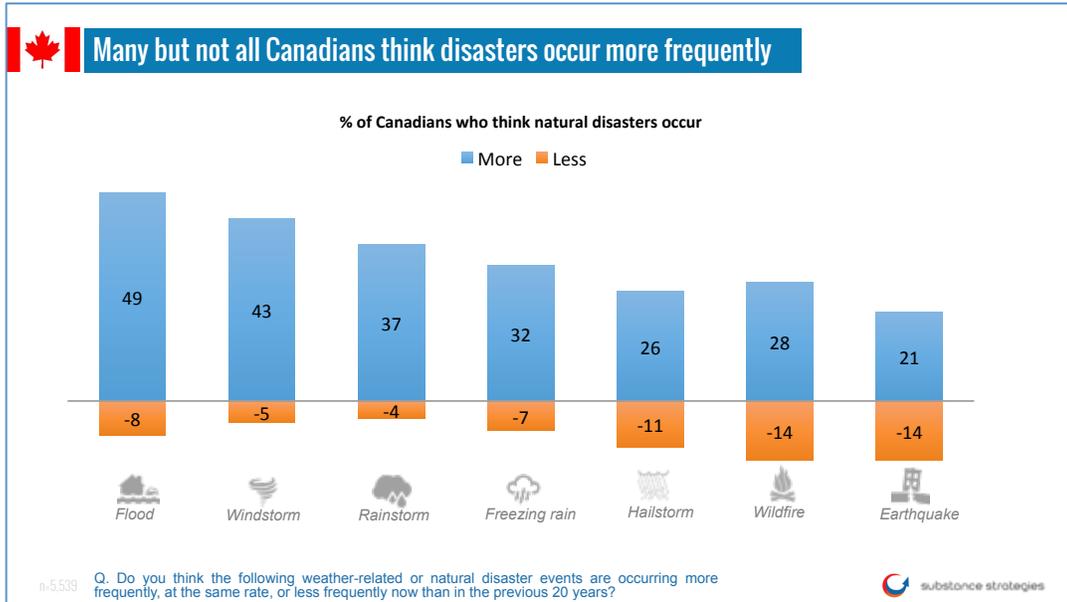
With these findings, CADRI hopes to bring a unique perspective to on-going discussions of natural catastrophe coverage. By focusing on the consumer, CADRI believes that these results can contribute to informed discussions on solutions for natural catastrophe coverage.

¹ Insurance Bureau of Canada (IBC) data

CADRI SURVEY FINDINGS

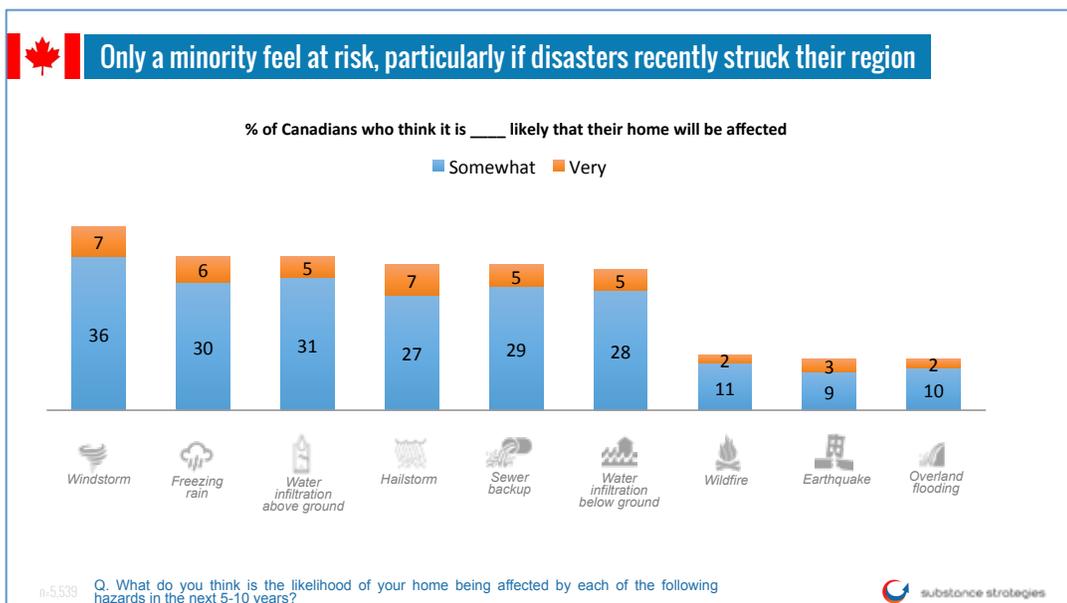
1. Education and Awareness

Many Canadians believe that natural disasters occur more frequently today than they did in the past, but few are alarmed. All seven natural disasters listed in the survey: flood; windstorm; rainstorms; freezing rain; hailstorm; wildfire; and earthquake are perceived to happen more frequently today than they did in the past. This is true even of earthquakes, for which there is no evidence to support that view.



There were some interesting provincial differences. For example, 42% of Albertans believe hailstorms are more frequent (compared to 26% of the general population) and in British Columbia 47% believe that wildfires are more frequent (compared to 28% of the general population).

However, only a minority, notably those Canadians that have some experience or have been informed about the likelihood of a natural disaster that could strike in their neighborhood, feel at risk.



Again, there are some provincial differences. For example, 69% of Albertans think it is likely (very or somewhat) that their home will be affected by hailstorms (compared to 34% of the general population) and 30% of those living in B.C. (compared to 12% of the general population) hold similar views about the risk of earthquakes.

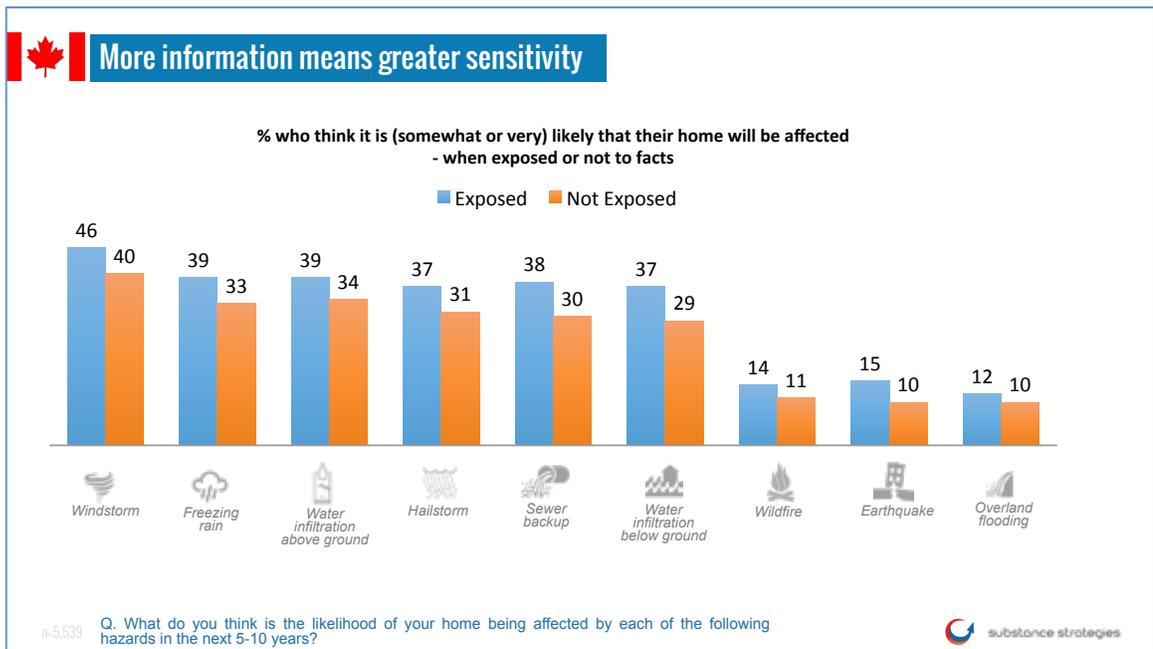
The potential impact of consumer education

As consumers are informed about the likelihood, severity and potential consequences of natural disasters they become more sensitive to these risks. CADRI’s consumer survey took an innovative approach to testing how consumers respond to basic education about natural disasters.

Half the respondents were exposed to a short list of informative facts prior to being asked to answer questions about the likelihood and the potential consequences of natural disasters. The second group was not shown the list of natural disasters facts until after they had completed the questions.

1. The number of natural disasters in Canada has increased by 600% over the past 50 years.
2. In 2013, insured losses from natural disasters totalled \$3.2 billion, the largest sum in Canadian history.
3. Overland flooding that results in water entering homes is not covered in Canada.
4. The value of water-related insured losses far exceeds the value of fire-related claims.
5. In the last 5 years, insured losses from catastrophic events in Canada totalled \$1 billion annually.
6. Certain areas of each province will have a 15 to 30% chance of significant damage from earthquakes during the next 50 years.
7. Tornado risk increases for residents of southern Ontario, southern Quebec, Atlantic Canada, and the Prairies.

Those respondents who had seen the natural disaster facts prior to answering questions about homeowner property insurance were more sensitive to the risks of disaster. It was interesting to note the affect of fairly basic, short and relevant information on consumer awareness and perception of risk.

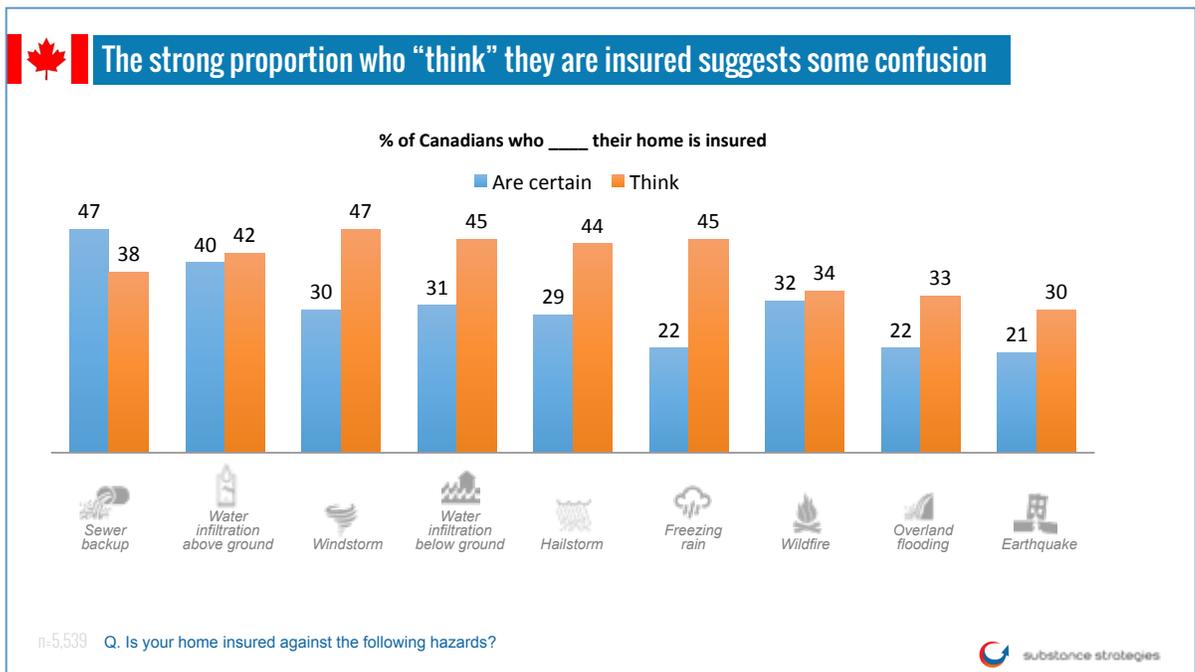


2. Consumer understanding of coverage

"Canadians are sometimes confused if their home is insured against natural disasters."

Homeowner property insurance covers a wide range of risks associated with natural disasters or several other perils. It can be a complex product and consumers are sometimes confused if their home is insured against natural disasters. Homeowners rarely have to use the product except when faced with a disaster, making it even more challenging to recall the features.

For example, only 30% of Canadians are certain that they are covered for windstorm damage, which is in fact covered by most insurance policies in Canada. Additional evidence of misunderstanding is clear in the survey, as 51% of Canadians are certain or think they are covered for earthquakes, and that number rises to 62% in BC and 58% in Quebec. In reality, earthquake tremor coverage² needs to be purchased separately and the adoption rate is estimated to be in the single digits in all of Canada, except for BC where it could be nearing 50%.



Another striking example is that 55% of Canadians claim to be certain or think they are covered for overland flooding. Yet such coverage was only introduced recently in Canada by a limited number of companies.

² Most homeowner policies cover fire following an earthquake but earthquake coverage for damage resulting from the actual tremors or shaking needs to be purchased separately.

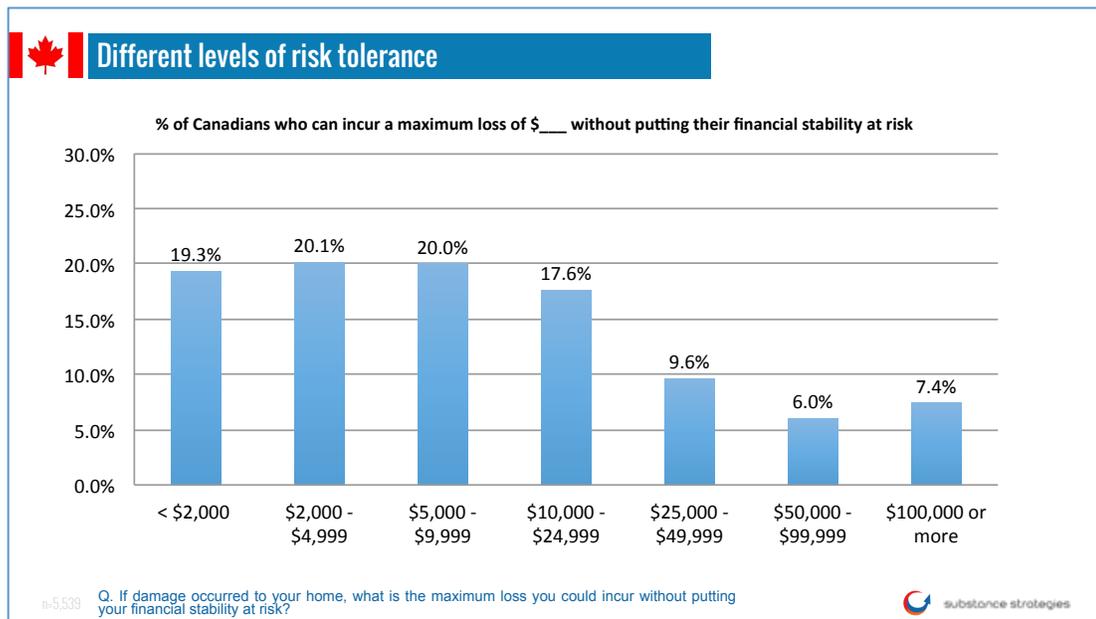
3. Choice and Flexibility

" When they perceive there is risk related to natural disasters, Canadians tend to be risk averse."

The survey findings point to the fact that, when they perceive there is risk related to natural disasters, Canadians tend to be risk averse.

More than half of Canadians also estimate that their financial stability would be at risk if they were to sustain a loss of more than \$5,000. However, it is difficult to assess whether the respondents included their ability to borrow in their response.

So, though it is possible that number is underestimated, the survey shows clearly that the tolerance threshold varies considerably from one individual to another.



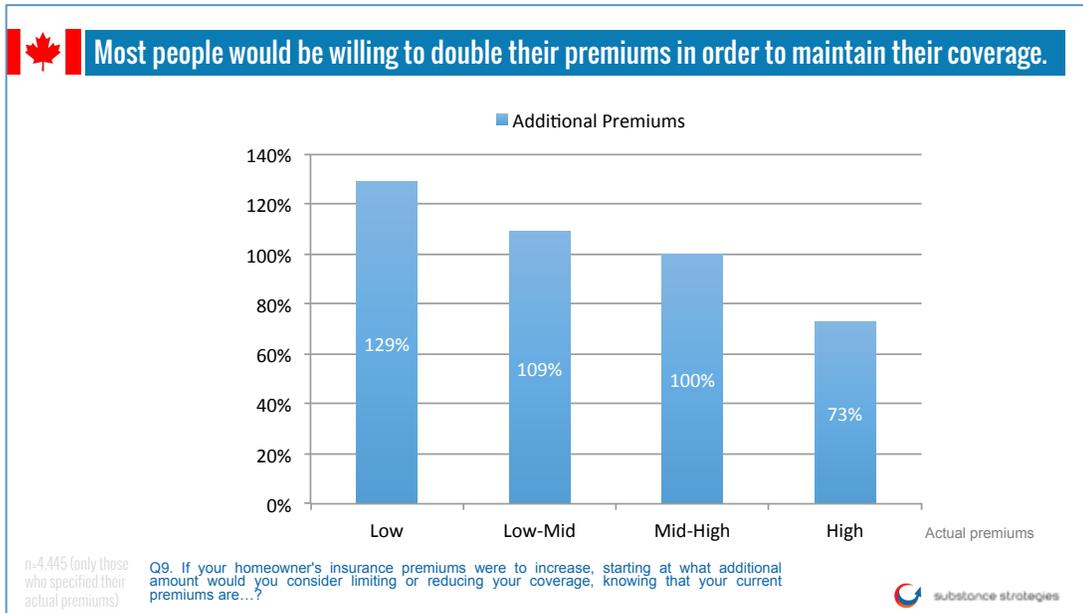
Canadians also may underestimate the costs to restore their homes in the event of a natural disaster, as only a minority have experienced or report ever having experienced the consequences of such an event. In fact, 35% of consumers were unable to estimate repair costs from a natural disaster at all.

Attitude towards risk and insurance premiums

The survey findings suggest that Canadians are not overly concerned about property insurance premiums today. The majority of Canadians - 55% - state that they believe their premium to be fair - even if the cost of insurance for homes has increased in recent years, mostly due to the consequences of natural disasters - while only 6% believe it is far too expensive.

Many consumers expect their premiums to increase over the next 5-10 years and 36% believe it will rise faster than inflation. Those people that were given information on natural disasters prior to answering this question were more likely to believe that their premiums would increase faster than inflation.

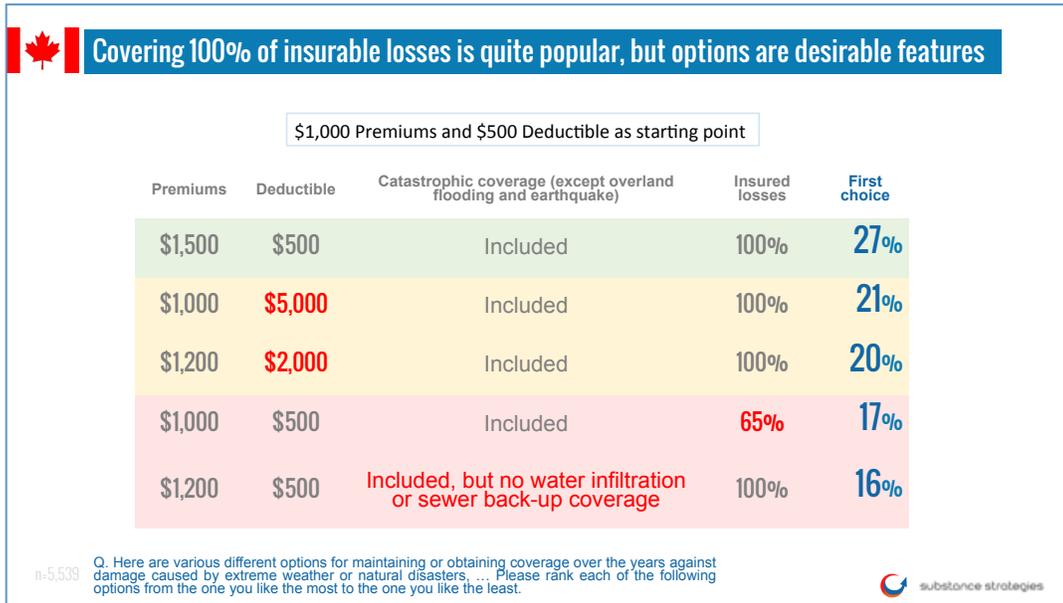
It appears from the survey that Canadians are reluctant to limit or reduce coverage when they perceive the risk for a material loss, even if it means paying significantly more over time. On average, if left with no other options, the findings of the survey suggest that premiums would have to double over time before consumers would start reducing what they consider essential coverage.



These findings appear to be consistent with the perception of economists and risk management professionals that consider most people to be averse to downside risk. Some suggest that losses are twice as powerful, psychologically, as gains.

" Consumers support flexibility and choice within the property product."

When it comes to product choice, CADRI's survey demonstrates that there is great variation in consumer preference and risk perception. There is no "one-size-fits-all" solution to provide coverage for natural disasters. There appears to be a strong desire for flexibility in price and risk options. It is especially interesting to note on the next chart that most people would chose options where there is less perceived risk, even if in some cases it would mean a higher price. For example, most people choose options with either a smaller deductible and/or full coverage.



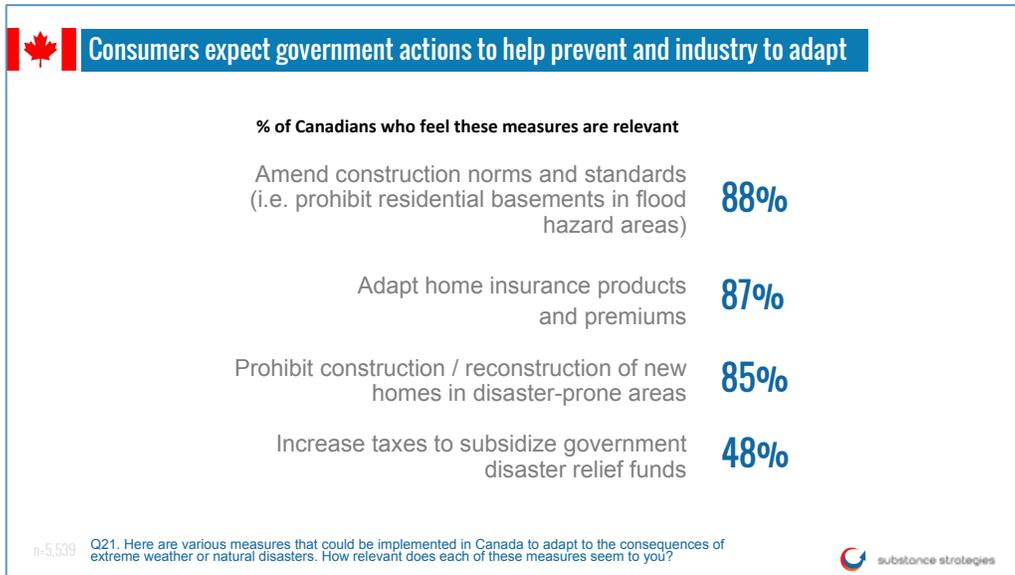
While consumer preferences drive diversity within the product, natural disasters also have important differences and cannot be treated in the same manner. Each potential natural catastrophe has different risks, may create more or less damage and may strike in less predictable ways. The combination of diverse consumer preferences and the important differences in natural disasters highlight the need for flexibility within the product.

When asked about adding coverage for flood, consumers are less likely to support increased premiums. That may be because they believe floods do not occur by accident and most don't see the need for it as they live outside of high-risk areas. In fact, 70% of consumers would not pay to add overland flood insurance. In Alberta, this figure is even slightly higher than the national average at 73%.

Of course, natural disasters and their consequences are not entirely predictable and it is also important that we allow for innovation and adaptation within the insurance industry.

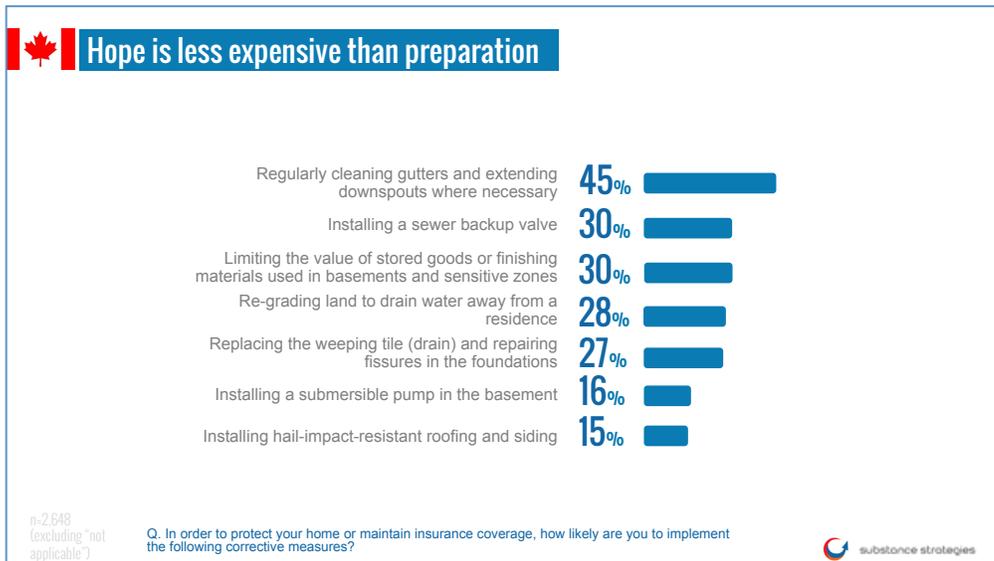
4. Leadership and Prevention

Consumers expect government action to prevent natural disaster damage. They also expect the industry to adapt to meet consumer needs.



While Canadians expect that governments regulate and invest in infrastructure to reduce their exposure to risks, the findings of the survey also suggest support for a disaster relief fund. 48% of the respondents indicated that they would even accept increased taxes for that purpose.

But few people are prepared to implement individual measures to prevent damage and would not invest more than an average of \$5,000 in individual measures to prevent damage.



MOVING FORWARD

CADRI's consumer survey on natural disasters and homeowner property insurance presents some interesting findings that may contribute to ongoing or new initiatives on those topics. The findings point to four areas of opportunity for action.

1. *Canadians need more basic, timely and relevant information on natural disasters and their consequences.*

Canadians need more basic, timely and relevant information from governments and industry about natural disasters and their potential consequences. Informed consumers are more likely to make decisions that meet their needs. The survey demonstrated that very basic information presented in a clear and timely fashion changed consumer perceptions of risk due to natural disasters. Governments may be well placed to help provide this crucial information to consumers.

2. *Canadians need tools to better understand and remember their current coverage.*

The findings demonstrate that consumers may not fully understand their current coverage. Homeowner insurance is a complex product and will likely remain so in the future, even if efforts to simplify and improve the wording of policies should continue. Consumers would benefit from quick access to clear information on the key coverage available, and the coverage they have, presented in a format that is easy to understand.

There are opportunities for improvement, including the development of tools to help consumers better understand and compare their coverage.

3. *Canadians would unlikely be satisfied with a "one-size-fit-all" solution to provide coverage for natural disasters*

The risk tolerance threshold of Canadians varies from one individual to another. The probability of occurrence, the extent of damage and the randomness vary greatly from one type of natural disaster to another.

It is clear that not all natural disasters can be treated equally within the product. The need for product flexibility is evident if the product is to meet the needs of all Canadians that have different views on these perils. It is therefore important to ensure that consumers continue to benefit from innovation and choice.

The industry has undertaken several initiatives to adapt to this new reality. The insurance industry, through the Insurance Bureau of Canada (IBC), has undertaken important work on earthquake, flood and sewer backup, including the review or the introduction of advisory wordings.

4. *Canadians want governments and industry to adapt to extreme weather.*

Canadians look to governments and to insurers rather than themselves to adapt to extreme weather. They expect insurers to work toward better product development and other tools. Examples of such tools are:

- The Institute for Catastrophic Loss Reduction (ICLR) is a world-class centre for multi-disciplinary disaster prevention research and communications. The ICLR was established by Canada's property and casualty (p&c) insurance industry as an independent, not-for-profit research institute affiliated with the University of Western Ontario.

- The Municipal Risk Assessment Tool (MRAC) developed by the IBC is an attempt to help municipalities to limit damage caused by sewer back up by identifying risk areas.

CADRI's survey points to the fact that the vast majority of Canadians support investments in infrastructure and changes to the building code to ensure better protection against natural disasters. This should be a consideration as policies are developed on construction of new homes or rebuilding in high-risk areas. There is a need for alignment between public policy with respect to high-risk areas and availability of insurance coverage.

Governments are beginning to take action to ensure infrastructure is maintained and improved to prevent damage. The Federal Government has earmarked funds to improve crucial infrastructure across the country. This work can make a difference in reducing damage caused by natural disasters.

Governments also have a role to help inform consumers of the risk of natural disasters and the importance of prevention. They may have an opportunity to offer incentives to Canadians to implement individual prevention measures.