



Toronto, October 30, 2015

ATTN: Aaron Meyer
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Re: New Earthquake Advisory Wording – Consultation Package

IBC has sought to obtain CADRI views on the draft version of a new earthquake advisory wording before a final version is presented to IBC's board in December 2015. We welcome this opportunity and would like to thank you for reaching out to CADRI.

Through 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 and when combined these two business lines represent over 50% of the personal lines market.

CADRI 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. We will make references to the findings of this survey when deemed appropriate.

IBC suggested a list of potential questions intended to serve as a basis for discussion on prospective distribution challenges, with an emphasis on the two provinces that have the highest potential for earthquakes (British Columbia and Quebec):

- What is your overall view on the new proposed advisory endorsement?
- Does it address challenges you've encountered in the marketplace?
- Would you suggest any changes to the endorsement?
- How will this endorsement affect your ability to sell earthquake insurance?

We trust the following comments will provide IBC with useful feedback:

1. Overall

The proposed advisory wording is welcome by CADRI members. Its template provides great flexibility to accommodate existing and future needs of consumers and insurers.

Decisions on how it will be introduced and used would be more prone to creating issues, if any, than the wording itself.

2. Availability and Access

With options of using different limits, deductibles, level of coverage and level of coinsurance, this proposed wording appears to be the right tool to help increase availability and to improve access to earthquake coverage over time, assuming that insurers are comfortable with risk exposures and pricing is right for consumers.

The CADRI survey shows that many Canadians believe that natural disasters occur more frequently but few are



alarmed. More basic, timely and relevant information from governments and industry will be necessary to boost the adoption rate of insurance coverage as only 12% think it is somewhat or very likely their home could be affected by an earthquake.

The survey also shows that more than half of Canadians estimate that their financial stability would be at risk if they were to sustain a loss of more than \$5,000. Although it is difficult to assess whether the respondents included their ability to borrow in their response, the survey shows clearly that the tolerance threshold varies considerably from one individual to another.

Offering more flexibility and options is surely the best way to meet these needs, especially if paired with a program to further consumer education and with the development of industry-wide solutions to manage risk exposures so the most popular and sought after earthquake insurance benefits amongst Canadians will be deemed affordable.

3. Consumer Understanding of Coverage

The new wording, if approved, will introduce a new notion of "coinsurance" to property insurance as the deductible will be a percentage of the insured loss, subject to a minimum dollar amount. This will likely stand out from the provisions of any other deductible clause stated elsewhere in the policy.

It could therefore differ from the deductible that would be applied if the damage is caused by fire, explosion or smoke ensuing from an earthquake shock, as this peril is covered separately from the proposed wording (as part of the base policy in most provinces, or through a separate endorsement in Quebec).

This will come at a time when the findings of CADRI survey demonstrate that consumers may not fully understand their current coverage. Homeowner property insurance covers a wide range of risks either associated with natural disasters or several other perils. It covers many perils 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.

Homeowner insurance will likely remain this way, even if efforts to simplify and improve the wordings should continue. Evidence of this misunderstanding is clear in the survey as 51% of Canadians are certain or think they are covered for earthquakes (the adoption rate is estimated to be in the single digits in all Canada except for BC where it could be nearing 50%).

Consumers would benefit from quick access to clear information on the key coverage available, and the one they have, presented in a format that is easy to understand. The proposed Coverage Summary for Earthquake would be a great step in that direction, but more thoughts should be given to a broader scope over time for other perils where consumers may have risk exposures beyond their financial tolerance threshold.

4. Ability to Compare

CADRI members are strong proponents of a healthy and competitive insurance marketplace where consumers have the right to compare products and choose the product that best meets their needs. A healthy and competitive marketplace can only exist when appropriate protection for the consumer and the environment to foster innovation in the industry are present.

Too much flexibility if not used properly could bring complexity to the earthquake coverage and hinder its adoption rate. Although each insurer will decide what options they want to offer, it is likely that most if not all will narrow it down to a few choices for this purpose.



Consumers also want the ability to compare offers easily, including the coverage they might have with another insurer. The additional effort for prospective clients to understand the features of the coverage and for distributors or insurers to assess the needs of the clients will be the true measures of success.

Guidance should be given to how best to ensure that the flexibility offered by the new wording will not be detrimental to the ability to compare that is treasured by consumers. The notion of a base coverage that could be a standard across the industry and make it simple for consumers to compare, while providing room for each company to enrich the coverage or to innovate, might be one option.

5. Transition

The introduction of this new wording with clients who already benefit from earthquake coverage will create additional work and interactions. Decisions will be made by each company on how to minimize the impact of these changes and the best strategy to ensure a smooth transition.

CADRI members are of the opinion that the long term benefits for the consumers and the industry of having a more flexible wording will outweigh the short term operational cost.

Natural disasters may impact thousands of people living in the same area at the same time. They draw media coverage that influences the public perception and awareness. It will be critical for the industry to demonstrate its positive contribution in times of crisis. The new wording and flexible options should help increase the rate of adoption of earthquake coverage, the suitability of the coverage purchased and the ease of settling several simultaneous claims in hard-hit areas.

CADRI members are not seeking changes to the proposed wording. They believe it should be tested against a number of scenarios, including settlement of claims, prior to its adoption and use. We must consider the impact on consumer perception of using very different deductibles if damage is caused or not by fire ensuing an earthquake, and the effect on the speed and ease of settling claims if the deductible is a percentage of the insured loss.

CADRI would be delighted to further contribute to the successful introduction of the proposed earthquake advisory wording by sharing the full findings of its homeowners survey with IBC or making available its distribution and point-of-sale expertise.

Yours sincerely,

Denis Guertin
CADRI
Chair - Property Insurance Task Force