HOMEOWNERS AND NATURAL HAZARDS

By Paul Kovacs, Executive Director, Institute for Catastrophic Loss Reduction

How well do Canadian homeowners understand insurance coverage for natural hazards? Would they like their insurance companies to send them information about hazard safety? Do homeowners approve of insurance companies funding loss prevention research? These are questions the Institute for Catastrophic Loss Reduction (ICLR) sought to answer through the first survey of its kind in Canada.

ICLR recently engaged Venture Market Research to survey homeowners about natural perils and insurance coverage. This was a large survey, involving more than 2,000 homeowners across the country. The questions addressed a range of topics. For example, respondents were asked about 15 different natural hazards, and whether they considered these to be covered in a standard homeowner policy. These hazards included flood, wildfire, severe windstorm, hail, lightning, coastal flooding or sea surge and heavy snowfall.

Two central findings were drawn from the survey:

• Homeowners are not very knowledgeable about how their property insurance protects them from natural hazards, and

• Most homeowners would like their insurer to tell them more about natural hazards and loss prevention, including industry-funded research in this area.

Homeowners do not understand insurance coverage for natural hazards

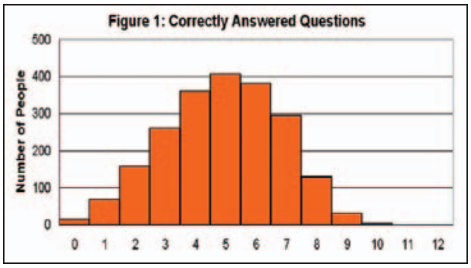
None of the 2,105 homeowners responding to the ICLR survey answered all of the questions about insurance coverage correctly. Only 11 respondents (less than 1 percent) scored above 80 percent for the questions about hazard coverage. Indeed, the respondents typically answered less than 50 percent of the hazard coverage-related questions correctly.

The survey was limited to Canadian homeowners who do not work in the insurance industry, although insurance professionals sometimes are also challenged to explain coverage for hazards like water damage. This was a national survey. The results were very similar across the provinces, with homeowners in all parts of the country indicating that they often do not understand what damage from natural disasters is covered.

The survey also included some questions that were not about natural hazards, to provide a general sense of homeowners' knowledge about insurance. It was encouraging that the survey found that 99 percent of homeowners are aware that fire damage is covered under a basic policy. Also 95 percent know that burglary and theft is covered.

However, the responses were very disappointing when assessing homeowners' knowledge of natural hazard coverage. Only 48 percent of homeowners, for example, understand that they are covered for wildfire damage. Only 29 percent are aware that flood damage is not covered. Figure 1 shows the number of correct answers across the survey population, and most homeowners answered less than half of the twelve questions correctly.

Figure 1: Correctly Answered Questions



Homeowners want to know more about hazard loss prevention

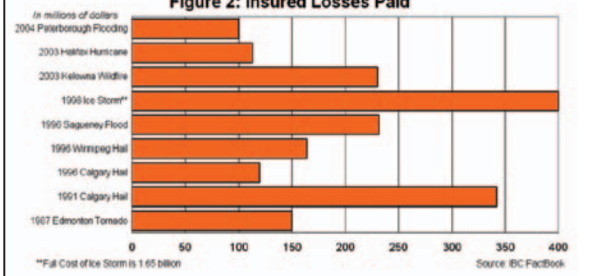
Most homeowners said they expect insurance companies to send them information about disaster safety and hazard loss prevention, and the vast majority (81 percent) would like insurance companies to send this kind of information to them.

In each of the provinces, between 75 and 85 percent of homeowners believe that insurance companies should continue to spend money to support academic research to reduce future damage to property.

Given the increase in frequency and severity of natural disasters, the lack of consumer knowledge about insurance coverage is a disturbing finding. The threat of natural catastrophe is very real for Canadians living in every region of the country. Disaster damage has been doubling every five to ten years in Canada and elsewhere around the world. This represents a 14-fold increase over the past 40 years. The number of natural disasters recorded in Canada increased almost every decade throughout the past century.

The most costly disasters faced by Canadian and international insurers have taken place in recent years. A list of major natural perils occurring in Canada, and their associated costs, is provided in Figure 2.

Figure 2: Insured Losses Paid



There are several implications for the public and the insurance industry that emerge from ICLR's homeowner insurance survey. Low levels of consumer awareness can result in inadequate coverage, disappointment during claim filing or claim handling process, negative publicity for the insurance industry and lack of information about simple loss prevention procedures.

Fortunately, there are a number of options for insurance companies seeking to address some of the concerns raised by policyholders.

1. Provide information to policyholders about loss prevention.

Homeowners would like information on how to better protect themselves and their properties from natural hazards. ICLR has developed this kind of information, and is increasingly looking to work with member insurers and other interested parties to distribute this information to homeowners. In 2004, for example, ICLR worked with Lindsay Olson in the IBC's Vancouver office and our member insurers to distribute more than 240,000 wildfire safety and loss prevention brochures.

Several organizations like ICLR and the Canadian Red Cross provide advice about personal safety, but ICLR is the only organization in Canada that has prepared loss prevention advice for homeowners across a full range of natural hazards. The ICLR information deals with earthquakes, flood/drought, hurricane, lightning/hail, tornado, wildfire and winter storms. These can be sent to customers along with standard mailings, such as bills. ICLR is eager to broadcast more of its research efforts and findings to a wider audience. Many loss prevention tips are straightforward and inexpensive.

Topics of regional interest, such as wildfires in B.C. or flooding in Manitoba, obviously stand a better chance of being read. For example, conditions in the summer of 2004 in the B.C. interior were similar to those that sparked the devastating wildfires in 2003. Homeowners in higher risk communities received the ICLR brochures from their insurance companies, and many, including local MLAs, found the information useful and helpful.

2. Promote investments in disaster safety.

Natural disaster loss reduction is a complex challenge and must involve government, industry, researchers, communities and individuals working together. ICLR and IBC have been working for several years to promote the establishment of a national disaster mitigation strategy. This would include efforts to create a culture of disaster prevention, build resilient communities and invest in preventing natural disasters, instead of just recovery.

Most provinces have recently adopted this approach, in part due to insurance industry leadership, while the federal government continues to edge forward in this direction. Comprehensive hazard risk management by the provinces is contributing to significant improvement in hazard safety as communities work to adopt this new approach. Federal financial support is a critical next step that the p&c insurance industry will continue to champion.

3. Consider financial incentives for loss prevention and disaster-resistant materials. Some insurance companies provide premium discounts for vehicles with theft deterrent systems, such as engine immobilizers. The same principle could apply to homeowners who choose to use recognized disaster-resistant materials in home building or renovation.

In some areas, the insurance industry is offering incentives for people to help better protect their homes. However, these measures are mainly known in the United States. According to an October 2004 article in the Wall Street Journal, catastrophes like the four hurricanes that hit Florida earlier this year "have been a boon for the disaster- proofing industry by prompting local government to enforce stricter building codes. It has also spurred insurers to offer discounts for consumers who take steps to protect their homes." Disaster-resistant materials, such as impact-resistant glass and lightweight, plastic-coated shields for protecting windows, are making inroads into regions of the U.S.

There may be more opportunities for Canadian insurance companies, governments and communities to consider financial incentives for homeowners to improve the structural quality of homes and reduce the need for rebuilding in the wake of natural disasters.

4. Support disaster safety research.

Since ICLR was founded in late 1997 we have levered $3 million in financial support from member insurance companies into more than $47 million in disaster safety research, 350+ research papers, the founding of three research chairs, and the direct participation of more than 30 researchers and 100 students. This research provides the foundation for strengthening building codes and improvements in public policy.

ICLR hosted the recent UN conference on water and disasters, and is working with the other major disaster loss prevention research institutes around the world. Our team members are recognized as international leaders in disaster safety research. Most importantly, this research provides the knowledge to support our efforts to build our resilience to future hazards.

Respondents to the ICLR's first ever survey of Canadian homeowners expressed clear interest in receiving more loss prevention materials and indicated that insurance companies should both fund research into this area and provide information to homeowners. This is an excellent opportunity for insurance companies to capitalize on the research currently done by groups like the ICLR and distribute clear, concise information to policyholders.