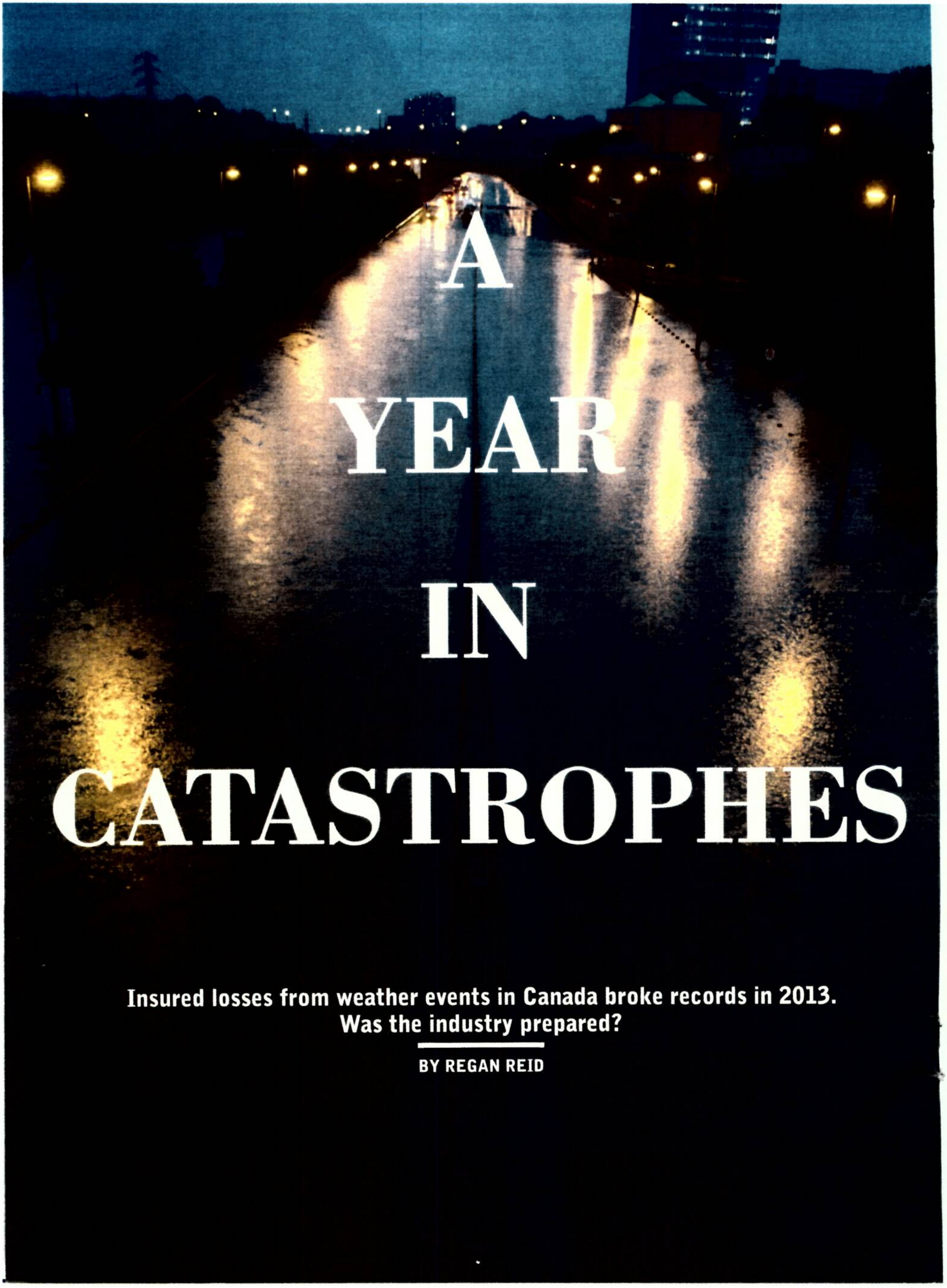

A YEAR IN CATASTROPHES

Insured losses from weather events in Canada broke records in 2013. Was the industry prepared?

BY REGAN REID

Between June 20th and 24th, southern Alberta was hit by a devastating flood that caused $1.7 billion in insured losses,* making it the costliest natural catastrophe in Canadian history. Just 14 days later, on July 8, 126 millimetres of rain fell on Canada's largest city in a span of just two hours. The storm stranded commuters, left thousands without power and flooded countless basements. To date, the Greater Toronto Area (GTA) flooding event has caused $940 million in insured losses. Just 11 days later, on July 19, the third costliest natural catastrophe of the year in Canada, a hail and thunderstorm event, affected large areas of Ontario and Quebec. It was a year of unprecedented catastrophe in Canada, and one that tested the ability of the insurance industry to respond to multiple severe weather events in a row.

"Let's face it, this [year] stretched the infrastructure of the entire industry," says Wayne Ross, vice-president, national property claims, at Aviva Canada. "We were robbing Peter to pay Paul because there were so many catastrophes in a very short period of time." Ross explains that the insurer typically handles catastrophe claims internally by sending staff from all across Canada to the affected area. If there is an event in the areas vacated by its staff, Aviva then uses independent adjusting partners to handle those claims. "We were not able to do [that] this summer because of the volume we experienced." Ross says that Aviva received just under 9,000 claims this catastrophe season—about 30% more than it sees in a typical year. The Alberta and GTA storms, he adds, represented roughly 50% of the company's total catastrophe claims. "Notwithstanding the increased volume, the team was able to handle about 75% of our volume internally," he says. Adjusting firms and restoration companies from across Canada were called upon to augment the catastrophe responses of insurance carriers—and even they were strained. "We had to ship people out to Calgary for that CAT, and then we ended up having to ship several people back to respond to the CAT in the GTA on July 8," says Sean Hobson, senior vice-president, sales, at FirstOnSite Restoration.

The importance of a solid catastrophe response plan was made abundantly clear in 2013. But what this year also demonstrated was that even the most prepared industry members with the most robust catastrophe plans can be caught off guard. "We have been fairly mature in terms of our CAT plan," says Aviva's Ross. "[But] obviously this summer created a lot of activity and barriers that we had never experienced before." Ken Robinson, president of Paul Davis Systems, says his company saw a range of responses from insurers. "They really ranged from prepared to not prepared at all—even panic," he says. "They were really taken aback by Alberta." Then with the GTA flooding occurring so soon after the Alberta event, he says insurers "really weren't fully prepared for that second event."

Hobson compares the catastrophe planning process to a boxer training for a fight. "As much as boxers in a ring plan for each hit...as soon as they get hit, their plan [changes] because it's completely different than what they had tried in every scenario," he says. Every catastrophe is different, he stresses, and it's impossible to completely plan for the unexpected. "When two or three [catastrophes] happen in a very short period of time, it throws out your contingency planning, which you might not have even planned for, because we typically don't see one [CAT] after another in Canada," Hobson adds. The biggest lesson of 2013, it seems, is to learn from the events of 2013. "It's a case of making sure you update your plan, and making sure you learn from what caused problems this year," Ross says. Bob Fitzgerald, president of ClaimsPro, adds that a robust CAT plan includes having a clear understanding of available manpower—and this is something all industry stakeholders (insurers, brokers, adjusters, etc.) must recognize. "[The CAT plan] needs to be a living, fluid document because capacity changes over time."

Though a quick and effective response to catastrophes can go a long way in helping to control losses, industry members stress the importance of mitigation and infrastructure spending in preparing for future catastrophes. In the short-term, there are many things homeowners can do to reduce future flood claims, says Paul Davis Systems' Robinson. They can get proper back-flow valves, leave as little as possible on the ground and, when deciding to purchase a property, take flood and sewer backup risk into consideration. "Is flooding or sewer backup an element of this location? If it is, you make a decision, I'm going to have a finished basement but I'm not going to have the Cadillac of finished basements," he says. Robinson says that brokers and insurers need to be discussing mitigation with homeowners, and adds that clients must have a clear understanding of their policy limits. "What does it mean to only have $5,000 of sewer backup coverage or $10,000 sewer backup coverage when you've put $40,000 worth of stuff in the basement? That's an important conversation that needs to take place from an education standpoint." Municipalities and governments also need to get involved to mitigate losses. "Improved infrastructure is going to go a long way to mitigating the cost of water losses into the future. It's a long-term fix and it's a very expensive fix, but it's a fix that needs to happen," says Fitzgerald. Recently, Insurance Bureau of Canada (IBC) unveiled a new technology to help municipalities identify infrastructure vulnerabilities. Using a variety of municipal, industry and climate change data, MRAT (the municipal risk assessment tool) produces maps that highlight areas most at risk for infrastructure failure (for more on MRAT, visit www.citopbroker.com/special-reports). TB

**All data on loss estimates provided by PCS-Canada as of November 26, 2013. Estimates are in Canadian dollars and reflect payouts or reserves allocated for claim payouts for all lines of business, and exclude loss adjustment expenses. PCS-Canada estimates are resurveyed in 60-day intervals until fully developed.*