

Intact CEO Charles Brindamour has been sounding the alarm on climate change for years - and he wants other leaders to finally listen up

“The business community needs to think more proactively about the impact climate change has on their businesses and the opportunities that come with it. It’s not just all downside,” says the head of Canada’s largest provider of property and casualty insurance

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What is the essential message you’re trying to communicate about climate change?

We need to act. We need to mitigate the impact of human influence, but more important, we need to protect ourselves against the consequences of change. And those consequences are here. We are on the front line.

Who are you trying to get through to, most of all?

The business community needs to think more proactively about the impact climate change has on their businesses and the opportunities that come with it. It’s not just all downside. It’s a major defining trend of the 21st century. And we need to get our act together.

Do you sense that not enough is happening, that people are not acting?

That’s the sense I’m getting. For example, if you did a global survey of insurance companies, an industry that’s on the front line, a third of them will see it as core business. A third of them will see it as an important social issue and would park it in what one would call “social responsibility.” And a third of them would not see it as an issue.

Give me an example of something you want them to do.

Look, I’m not here to teach lessons to other business leaders. We’ve transformed our own business and are in a good position at this stage. I think Canada as a society and businesses more broadly have to make climate a more integral part of their strategies.

What do you want governments to do right now?

The debate, historically, has been about how we mitigate our footprint in terms of greenhouse gas emissions. Our perspective is that government needs to put more emphasis on protecting against the consequences. And frankly, governments are moving in that direction. There’s far more emphasis on adaptation than there was seven, eight years ago, and it’s an important step. Adaptation is tangible. It’s very clear in people’s minds.

You said you’ve transformed your business around this issue. How?

We had to change our product to be in sync with the perils that are now far more prominent across the country, and change our use of data and how we price for risk—we think pricing for risk is a core competency. We had to change how we get Canadians back on track and restore them following a claim. Then we invested heavily in prevention. Five years after this transformation, we have a sustainable, fast-growing product and we’re continuing to invest, and we’ve turned home insurance into a sustainable and profitable product.

Have you pulled back from the coverage we generally expect from an insurer?

We have expanded coverage. Broadly, for every dollar insured, there are three to four bucks uninsured. Where is that coming from? It’s coming from people not being insured. It’s coming from a product that is not necessarily connected with the perils that are more prevalent. We thought, in the three dollars that are uninsured, maybe there’s an opportunity to expand coverage. Following the Calgary flood in 2013 (1), we realized our product was just not properly built to deal with that, so—on the waterfront in particular—we expanded coverage. But we’re pricing better for that risk, and we’re making sure capital is not deployed in areas that are flooded every year, obviously.

Let’s translate that. “Pricing better for that risk” means premiums are going up.

Premiums have gone up, yeah. We’ve created optionality in the product as well, so people can choose the level of coverage they feel is more adequate for water.

And you're exiting some places you deem too risky.

The places where land-use planning has been an issue, where people have built on flood plains and you see a recurrence of flooding every three, five years—it's impossible to deploy capital in those areas. Land-use planning, in this new world, is hugely important. Building standards are hugely important.

You've made an issue of the need for Canada to improve its infrastructure. How are you analyzing that?

We looked at our own data, at climate data and then at the cost of floods in various cities. There has been a multidecade underinvestment in subterranean water management across the land. (2) We've been advising governments that bridging that infrastructure gap is really important for insurability. We've also pointed out that green infrastructure—marshes, wetlands and so on—are very powerful tools to reduce the damage associated with flooding. Our message to government was that green infrastructure should be critical and should be looked at, in the context of big infrastructure spending projects, as a valid category. There's more and more of that taking place. (3)

In November, Merced Property and Casualty in California declared bankruptcy when it couldn't pay the insurance claims from the California Camp fire. (4) What's the potential for something like that happening here?

We have a very good prudential regulator who is in touch with the changes the world is going through. I think the property and casualty system is very sound and solid. A \$10-billion event such as Fort McMurray, where a big portion of the city burns down—if you are a regional player where those events take place, concentration becomes an issue in ways, I think, people would not have thought about a decade ago. There's a risk there, indeed. But the big threat to the industry, still today, is earthquake.

A recent study said a major earthquake in Vancouver or Montreal could provoke the collapse of the entire Canadian insurance industry. Climate change makes a disaster on that scale more inevitable, right?

No. The quote in British Columbia you're referring to refers to a once-in-500-year event—an extreme.

But with climate change, it seems 500-year storms happen every few years now. Doesn't it follow that a huge event is more likely?

Huge events are more likely, no doubt about it. The frequency and severity of rainstorms, for instance, have increased by a factor of four or five in the past 30 years, depending on where you look. But an earthquake in B.C. is an issue because the insured values are, in large part, on the fault line. The natural disasters we're seeing from heat, forest fire, flood and hail are more gradual in nature and of a different incidence than what a quake could do. I don't want to associate this with climate change, because people would say, "He's a fear-mongering kind of guy." And I'm not, of course.

Would you agree you're dealing with greater risk now than you were before?

We are dealing with greater risk than we were before. The coverage we're providing is more volatile. But you know, as risk takers, we're comfortable with volatility. We price for it, and we've organized our operations to deal with it. We're building capacity to deal with greater volatility in terms of the pattern of claims, and that's the business we're in.

Does more risk also mean an opportunity to make more money?

There's an opportunity to grow our business. And there's an opportunity to grow our profit base, that is true. There's an opportunity to grow because the pool of risk is growing meaningfully, and risk is our business. Climate is one of the pools of risk. Cyber is a big pool of risk. Inflation and liability is a massive pool of risk, as well. We just acquired an organization called the Guarantee Co. of North America and Frank Cowan Co. One of its business units is government risk. It insures cities across Canada. One opportunity I see, that is directly related to our conversation, is to leverage our expertise in cities to see how we can de-risk, to a certain extent, cities that are also on the front lines of climate change.

Could you also force change by raising their premiums?

Pricing is a powerful behaviour changer, yes. But I think it's not just about raising premiums, because there's a point at which affordability becomes a problem. The sophistication of pricing drives behavioural changes. For one product in Ontario, for instance, we have over one trillion price points. That is a function of the work we're doing in data analytics. When you combine pricing sophistication with prevention activities, you do change behaviour.

Is there a risk inherent in climate change that we, as Canadians, generally haven't thought of, but that you are already preparing for?

The changes we've seen so far are irreversible, as far as we're concerned. In the next 50 years, these changes will be exacerbated. The west is to become 20% drier in the summer months, and central and eastern Canada is to become 20% wetter in the winter months. It's a central thesis we've been operating under for six, seven years, and I think it is becoming more tangible to people. But it's not clear to me that people are aware that these changes are irreversible. We have a lot of work to do, and it's not going to get better.

What are the chances there will be a substantial number of Canadians, or Canadian businesses, that will be uninsurable in the next 10 or 20 years?

I don't want to be a prophet of doom here. I'm saying we need to adapt now, and I think if your position with your business is to create a growth opportunity out of the change, you should think about it now. But I don't want to call "uninsurability" at this stage.

Okay. But if I have a waterfront property, what's the likelihood that in 10 years I won't be able to either get insurance or afford it?

Hard to tell. The biggest danger on the coast is storm surge. The storms will be more powerful, and if water levels are higher, they will be more damaging. Preventing for that as people build will be really important, 'cause if you're not prepared, it'll be hard to find capital and protection. But flooding is not just something you're exposed to on the coasts. Urban flooding is a problem across the board. For insurance protection to be available going forward, additional investments in infrastructure are needed.

Can we end on a positive note?

It's all a positive note.

Well, is it?

I'm optimistic when I see governments putting more emphasis on adaptation. I'm optimistic when I see that a portion of the solution is green infrastructure. I think that as a nation, in the next decades, we'll be in a very good position to face these changes. But it's all hands on deck. And it shouldn't be seen as a constraint for businesses. It should be a core part of one's strategy.

FOOTNOTES

1. For Intact, the direct cost of the Calgary flood was \$239 million. Some of that was covered by Intact's own insurance, but the net cost to Intact was still a serious blow: roughly \$113 million.
2. In February, the Intact Centre on Climate Adaptation at the University of Waterloo will publish a report on how prepared Canada's provinces are to deal with major flood events.
3. In 2016, the federal Liberals budgeted \$5 billion for green infrastructure over five years. Its platform for the 2019 election increased that pledge to nearly \$27 billion between 2016 and 2028.
4. \$16.5 billion: Cost of the worst natural disaster of 2018, the California Camp fire, which killed 86 people, making it the deadliest and most destructive fire in the state's modern record

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