Study: Insights into the impact of extreme weather trends in Canada on homeowners insurance profitability and consumers

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Extreme weather is costing insurers and Canadians

Insurance claims related to extreme weather events have increased in frequency and severity, costing insurers billions of dollars in damages yearly. From 1983 to 2008, insurers spent on average $400 million yearly on catastrophic claims; since 2009, the yearly average has risen to almost $2 billion. These "once in 100 years" events are happening more frequently and are becoming more severe and more costly. 2020, 2021, 2022 and 2023 all rank in the top 10 worst years, surpassed only by the 2016 Fort McMurray fires, the 2013 floods in Calgary and Toronto and the 1998 Quebec ice storm.

Homeowners have been particularly affected by extreme weather claims, with recent hurricanes, floods and unprecedented wildfires. Insured claims costs were $3.4 billion in 2022 and $3.1 billion in 2023, each more than 50% above the yearly average.

The study "Insights into the impact of extreme weather trends in Canada on homeowners insurance profitability and consumers" explores the impacts of extreme weather trends and catastrophic claims on the property and casualty insurance industry's financial performance.

Higher claims costs put insurer profits at risk

Higher expenses for insurers were driven by higher catastrophic claims costs and were heightened by a labour shortage, the COVID-19 pandemic and high replacement cost factors. Due to similar trends, reinsurance costs have also increased, making it more costly for insurers to manage their risks.

Claims costs rose at the onset of the pandemic, with the claims ratio (see Note to readers) reaching 73% in the second quarter of 2020. Since then, it has largely been above 50%, with a peak of 77% occurring in the third quarter of 2023. The claims ratio at the Canada level has fluctuated and risen but remains near historical norms. Across the provinces, the impact of increased claims costs on the claims ratio varied significantly since 2020. Combined ratio (see Note to readers) has also been impacted by extreme weather events and higher expenses, in some cases nearing or surpassing 100%, meaning there was little or no profit margin. Despite these expenses, higher revenues have allowed insurers' profitability metrics to stabilize in the last two years, partially attributable to premium rate increases.

Homeowners impacted by extreme weather and higher premiums

From the first quarter of 2020 to the third quarter of 2023, homeowners were impacted by higher insurance premiums; the homeowners' insurance Consumer Price Index largely outpaced all items inflation since 2020. In addition to extreme weather, replacement costs factors, such as lumber prices, also rose significantly during this time. The coupled effect has made it more costly for all participants—reinsurers, insurers and consumers—to manage risk.

Industry adaptation is at the forefront

The insurance industry is adapting with the support of regulatory and government agencies to ensure resilience and profitability for insurers, alongside affordability and sufficient protection for consumers.

Insurance affordability and accessibility are increasing in importance, especially flood insurance. Flooding is the costliest weather risk, with yearly claims consistently being hundreds of millions of dollars, exclusive of any uninsured damages. Consumers may also experience limited coverage or extreme pricing for flood insurance. The effects of extreme weather are significant and consumers as well as insurers may want to stay up to date with risks and policy options to minimize undue financial hardship.

Note to readers

Definitions

Claims ratio: *The claims ratio is defined as net claims incurred divided by the net premiums earned. A lower ratio is better because it indicates an insurer's ability to pay claims costs. The claims ratio can be segmented to the line of business in the Quarterly Survey of Financial Statements. All else equal, higher claims lead to a higher claims ratio.*

Combined ratio: *The combined ratio is defined as net claims incurred and expenses divided by net premiums earned. A lower ratio is better.*

The study "Insights into the impact of extreme weather trends in Canada on homeowners insurance profitability and consumers" is now available as part of the series *Analysis in Brief* (**11-621-M**).

For more information, or to enquire about the concepts, methods or data quality of this release, contact us (toll-free 1-800-263-1136; 514-283-8300; **infostats@statcan.gc.ca**) or Media Relations (**statcan.mediahotline-ligneinfomedias.statcan@statcan.gc.ca**).