Insurance companies are in the business of settling claims. New claims are reported every day. A claims adjuster is assigned to each case to gather the facts, complete paperwork, and ultimately pay for cars to be repaired, wet basements to be cleaned up, stolen bikes to be replaced, and so on. Simple enough. But what happens when an entire city of more than 80,000 people is evacuated and fire destroys 2,400 homes and other buildings? That was the challenge the insurance industry faced when wildfire ravaged Fort McMurray in what would become the most costly natural disaster in Canadian history for insurers. The Insurance Bureau of Canada has estimated that the fire will cost insurance companies a total of $3.6 billion.

Catastrophes of this magnitude require a well-coordinated, multi-pronged response.

“I heard on the radio that there were wildfires in northern Alberta near Fort McMurray,” recalled Kathy Lillico, vice-president of claims at The Co-operators. “That’s typical at this time of year, so I made a mental note. Later that day, I got an e-mail from our chief client officer who was in Portugal, asking what was going on. And I thought, if they’re hearing about it in Europe, this is big.”
as meals and accommodations. We sent out e-mail alerts to clients, used social media, created dedicated pages on our websites, and bought ads to reach affected clients. Using an autodialler, we called clients on their cell phones while claims staff tried to reach them directly.

As staff from other locations headed out to help, they brought with them whatever field-issued cheque books were available in their local offices, because the demand in and around Fort McMurray was sure to exceed the supply of this kind of cheque we normally have on hand. In less than a week, we had issued more than 1,000 cheques to clients, amounting to $4 million.

Insurers had no choice but to build up their capacity in Fort McMurray. At the same time, claims in other parts of the country continued to come in at their usual pace, creating a resources strain at a national level as fewer staff were handling day-to-day claims operations.

Meanwhile, within 48 hours, we had transformed 8,000 square feet of two rented offices into a working claims department. Soon, we had employees in a number of locations, as did other insurers with significant market share in the area, as well as the Red Cross and other service organizations.

Clients could come in person to ask questions, retrieve policy information, start claims, and pick up cheques. They could also take a backpack filled with essentials, and another for kids filled with toys, funded by donations from Co-operators staff and advisors across Canada. Given the traumatic nature of the event, we made counselling services available to our clients and their families. And recognizing the toll this work takes on our staff, the counselling support was offered to them as well.

A lot of manual work goes in to settling claims, as each expense has to be reconciled. Clients have been showing up at offices in Fort McMurray literally with shopping bags full of receipts, which could take several days to validate and process.

**BACK-OFFICE SUPPORT FOR CLIENTS**

Just as the claims operations of insurance companies are setting up on the ground and helping clients, actuarial and finance staff at corporate offices are developing early estimates of the anticipated financial cost of the catastrophe. Because claims take months and sometimes years to settle, insurers set up reserves—essentially set-asides to cover the company’s liability from claims they have yet to settle.

Within the first few days, it was apparent that the cost of the fire in Fort McMurray would be significant enough that publicly traded companies would be required to disclose their estimates publicly, via news release.

In situations where families are forced to evacuate their homes, homeowners’ insurance policies in Canada typically cover out-of-pocket costs for a two-week period. In Fort McMurray, this clearly was not sufficient. Many insurers temporarily extended the coverage period for their clients in recognition of the catastrophic nature of this event. The cost of these types of coverage exceptions are typically borne by the insurance company itself.

In major events such as this, reinsurers come into play. Reinsurance is basically insurance for insurance companies. Reinsurers diversify by operating internationally, across many lines of business, and assuming a large number of risks that
Actuaries are professional business people who are skilled in the application of mathematics to financial problems. They help people plan better for the future by controlling or reducing financial risks.

generally have more independence. “Just as an insurance company aggregates the pooled risks of its clients, reinsurers aggregate the pooled risks assumed from many insurance companies as a way of further spreading risk,” explains Lisa Guglietti, a Fellow of the Canadian Institute of Actuaries and vice-president, corporate actuarial and reinsurance at The Co-operators. “Reinsurance helps insurance companies stabilize underwriting results and manage their capacity by allowing them to write business in a more capital-efficient manner.”

Reinsurance agreements typically commit the reinsurer to cover a portion or all of the claims costs for a catastrophic event once it exceeds an agreed-upon amount. They are often complex arrangements, but by way of illustration, an agreement may be arranged as follows: the insurance company pays all claims up to $10 million; once a single event surpasses that threshold, the reinsurer covers 50 percent of the costs between $10 million and $20 million; and 100 percent of anything above $20 million for a single event. This protects the insurer from the devastating effect of a catastrophic event, providing more security for its equity and solvency, and more stable financial results when faced with major events.

In the case of The Co-operators, this would be, without a doubt, the largest gross loss in our history. However, thanks to the reinsurance treaties we had negotiated, the net loss will be similar to what we experienced in the southern Alberta flooding of 2013. That event resulted in economic losses of $6 billion, but because overland flooding is not traditionally covered by homeowners’ insurance, the insured losses totalled approximately $1.7 billion for the insurance industry. In contrast, fire is covered by virtually every property insurance policy in Canada, making Fort McMurray twice as costly to insurers, with total industry insured losses currently estimated to be approximately $3.6 billion.

Reinsurance is one of several tools insurance companies use to make sure the funds are always there to pay our clients’ claims.

Insurance companies have a structured framework for identifying, measuring, managing, and mitigating risk, including the following:

- **Risk management.** Through catastrophe modelling, we simulate millions of different events to estimate how they would affect the insurance company financially. We know how much and what types of risk we’re willing to accept, and what to do about the rest.

- **Capital modelling.** We study our financial strength to understand what could happen in the case of unexpected events, making sure we have enough money to remain viable long-term and meet regulatory requirements.

- **Loss reserving.** We set aside money for payouts. How much depends on statistics, historical claims data, changes to the economy and market performance, weather patterns, and more.

- **Reinsurance.** Based on the catastrophe modelling and other factors, we buy reinsurance, which is basically insurance for insurance companies to cover large losses. It protects us from the thousands of claims that result from a single event like Fort McMurray, by covering losses over a certain amount.
CLEANING UP AND REBUILDING

The clean-up and rebuilding of Fort McMurray will be a monumental project. Insurance companies work together and in concert with local authorities to coordinate the effort. It begins with restoring power and addressing essentials like drinking water, air quality, and emergency services. Pharmacies, grocery stores, gas stations, and government services soon become operational and the work will continue for years, until the city reaches what will be its “new normal”.

The insurance industry will continue to work with all three levels of government to build up our communities’ resilience to natural disasters. Costs related to such events have doubled every five to seven years for the past several decades, exacting a huge economic, social, and environmental cost.

As an insurance company, The Co-operators takes pride in helping to put the pieces of its clients’ lives back together. But it will be much more satisfying if we are able to work with other stakeholders and make real progress in reversing this trend. Through better planning and risk management, we can build safer, more secure communities.

Kathy Lillico is vice-president, claims, at The Co-operators, a Canadian cooperative and multi-line insurance company. In this role, she oversees the national claims operations for home, auto, and commercial insurance.