Who’s Covering Your Assets?
Identifying, assessing, and addressing post-catastrophe funding gaps.

Thomas Barnes LLB
CEO & General Counsel
Municipal Insurance Association of B.C.

The status quo is not acceptable.
The MIABC can effectively address some critical aspects of the problem, by creating an Earthquake Recovery Fund.
This can be accomplished in a measured way at a relatively modest cost.

We Know For Certain:
- There is 12% chance of a catastrophic earthquake affecting BC in the next 50 years.
- The resulting devastation will involve local governments’ linear assets.
- These assets will not be insured – local governments will be relying on senior governments to finance the repair and recovery of impacted infrastructure (Disaster Financial Assistance).

Reliance on the DFA leaves local governments exposed to significant unfunded liabilities, because:
- The DFA is a discretionary compensation scheme, not a grant program.
- It only indemnifies 80% of costs incurred.
- It does not reimburse “betterment.”

Priorities? Where is local government compared to...
- Schools
- Hospitals
- Transportation infrastructure
- Housing

What changes are coming to the DFA?
- Federal government has changed its 90% funding commitment.
- How would a restructuring affect the program relied on by B.C. local governments.
Christchurch’s earthquakes left 30% of its underground infrastructure inoperable.

- Insurance Bureau of Canada model – A catastrophic earthquake could cause $75 billion in damage to BC.
- If only 10% of this is borne by uninsured municipal infrastructure – local governments will be looking to the DFA for $7 billion.
- The DFA program will leave the local governments needing to pay $1.5 billion.

- Best estimates are that the total value of uninsured linear assets in the lower mainland is $110 billion.
- A catastrophe damaging 10%, would leave lower mainland local governments with $2.2 billion in unfunded liability.

The Pooling Effect

A risk pool, such as the MIABC, can provide effective solutions to some of these problems.

Governmental Risk Pools

- Public Entity Risk Pooling is the single most successful example of inter-local cooperation in North America and beyond, saving billions of taxpayer dollars and thousands of lives.

Governmental Risk Pools

- 100,000 public entities in North America
  - 85% get some form of coverage from a pool
  - $13-17 billion in premium
In North America

500 Pools
- Liability
- Property
- Auto
- Worker’s Compensation
- Specialty Lines

Governmental Risk Pools

“The smallest local government has access to resources usually available only to the largest.”

Post Disaster Liquidity Crunch

Heterogenic Risks Require Unique Solutions: The Two Pillar Solution

Two Pillar Solution Expands Financial Liquidity

Trigger Definition on the Example of Vancouver

- Liability distributions of the Municipalities are based on population density
- Areas with < 50 people/km² are not considered
- 5/1 liability points
- Weight of each point represents percentage of population within the Municipality
Scenario – Ground Motion Intensity

Simulation of Past Events
(Example: Cascadia / Vancouver)

Additional Services
• Local Government Planning
• Hazard Risk and Vulnerability Analysis
• Logistics

The Cost?
• Really a matter of what is affordable.
• Benefits are dictated by the annual contribution.

$15 million initially
• $1 million for administration and additional services.
• $4 million for reinsurance ($70 million).
• $10 million capital contribution.
• $80 million limits in first year.

The need for each of these services has been documented in the Auditor General’s Report.
Subsequent Years Increase Capacity

- Increase contributions by 1.5% p.a.
- Investment returns of 4%.
- Prorate reinsurance and administration expenses.

Benefit Accrual

- Five years $43 million capital and $130 million benefit.
- Ten years $107 million capital and $203 million benefit.
- 15 years $185 million capital and $290 million benefit.
- 20 years $280 million capital and $397 million benefit.

Funding?

All levels of government have an interest in this.

Next steps?

Elected officials must make this a priority.

Questions?

Tom Barnes
CEO & General Counsel
Municipal Insurance Association of BC
tbarnes@miabc.org
604-683-6266