

## RESIDENTIAL INSURANCE RATING

At TD Insurance Meloche Monnex, we believe that informing our affinity partners and clients on insurance matters that are affecting their policies is not only the right thing to do but an essential step in maintaining our credibility. Below is a summary of issues currently impacting the Canadian residential insurance market.

### HOW ARE PREMIUMS CALCULATED?

The premium for a home insurance policy is based on several factors. For example, for a homeowner, the insurer will consider the type of residence: single-family dwelling, apartment, or multiple-family dwelling. The insurer will also take into account the dimensions of the house, age, materials used in its construction, the heating system and distance from a fire hydrant.

Obviously, the value of the house will enter into the equation. The value will be based on what it would cost to **rebuild**, not the price that was paid or the market value of the building or the land.

The insurer will also take into account the location of the home. Is it situated above a restaurant, or is it located in a neighbourhood that is often targeted by thieves or that has older municipal infrastructures? These factors could increase premiums because of the increased risks involved. To get a good idea of the risk connected to a particular home, an insurer will also look into the type and frequency of claims that have been made in the past few years in the same area.

### WEATHER RELATED CLAIMS

A major trend in the insurance industry these days is the increase of claims related to natural disasters and water damage. The number of natural disasters per year worldwide has more than quadrupled since 1970. Insured losses in 2008 amounted to \$52 Billion worldwide. There is no question that we are facing the same trends across Canada. Water related claims, for example damages caused by sewer back up, overflowing of rain sewers, breaking of municipal water pipes and heavy rain storms used to represent a fraction of total residential claims costs. These types of losses now represent more than half of the claims presented and they are rising every year.

## VALUE OF RESIDENTIAL INSURANCE CLAIMS ON THE RISE

Another significant trend is the increase of reconstruction costs. This is an essential factor to consider when establishing the premium for a residential insurance policy. The higher the reconstruction cost of the property, the more expensive a potential claim may be which translates into higher levels of coverage and an increase in premiums. It is not unusual, depending on a variety of factors that residential insurance costs have increased by 30% to 40% in the last few years despite the economic slowdown. The insurance industry as a whole is still making adjustments on reconstruction values or what some refer to as "insurance to value". These adjustments needed to be realized over a number of years and we evaluate that the recent economic slowdown is not having an impact for the long term. In summary, we believe the long term trend is that residential reconstruction costs will keep increasing in time, which will affect everybody's premium.

## MANAGING POLICY COVERAGE AND PREMIUMS

At TD Insurance Meloche Monnex, we realize people's homes can be their most significant asset and it is therefore critical the value of the property be fully protected in case of damage. It is about ensuring the property will be repaired and put back to its original state if something happens.

Our goal is to make insurance easy for our clients to understand, so they can choose their coverage with confidence. There are many things we can do to help manage insurance coverage and premium. With the introduction of our new residential product earlier this year, our clients have the flexibility to choose the appropriate level of coverage for their needs.

Rest assured that we do everything to keep premiums as affordable as possible by improving our already best in class efficiency. We are confident we will remain competitive as the challenges we are facing are being experienced by the entire industry.

Our licensed analysts are here to assist our clients to answer any concerns or questions they may have about their policy coverage or premiums.



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