

Study of Homeowner Willingness to Pay for Flood Insurance – Canadian Homeowners at Extreme Risk Final Report

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Ce rapport est aussi disponible en français.

Narrative Executive Summary

Research purpose and objectives. Canada experiences large and exponentially growing flood losses. The federal government has at least four policy options to manage losses, plus the do-nothing alternative:

- A. Prohibit construction in floodplains.
- B. Provide subsidies for those with high and extreme risk.
- C. Offer voluntary buy out for homes at extreme risk.
- D. Require buy out for homes at extreme risk.

This research has three objectives:

1. Explore Canadians' willingness to pay for flood insurance if they face extreme risk of flood damage.
2. Examine how opt-in and opt-out purchase mechanisms affect insurance uptake.
3. Assess Canadians' perceptions of property buyouts for homeowners at extreme risk of flooding.

Key findings. The research produced five key findings.

1. Price matters. Most homeowners at extreme flood risk will pay \$1,000 annually for flood insurance, half would pay \$5,000, and one in ten would pay over \$13,000.
2. Awareness matters. Most who know they face extreme risk will buy insurance. If not, few will.
3. Include with basic cover. Take-up is 20% higher if one opts out of flood coverage rather than opts in.
4. Remove disaster financial assistance coverage. Consumers must have no alternative to insurance.
5. Mitigation may be better for extreme risk. Relocation, elevation, and other protection may be preferable to insurance.

Methodology. ICLR commissioned an online survey of 3,000 adult Canadian homeowners' willingness to pay for flood insurance. The study ran in field from July 27, 2023, to August 29, 2023. The 10-minute survey instructed respondents to assume they faced extreme flood risk. Using the Gabor-Granger method, respondents were shown a price scenario and asked whether they would purchase insurance. If they responded yes, they were asked if they would pay a given higher price. If they said no, the subsequent price shown was lower. Survey data were analyzed to produce curves of take-up rate versus price and other conditions such as opt-in versus opt-out framing.

Extrapolation to a broader audience. The survey size is large enough to infer the behavior of any large group of adult Canadian homeowners. The survey sample was approximately 1,000 respondents for opt-in and opt-out cases and approximately 500 respondents for buyout and combined-insurance cases. Associated margins of error are therefore 3.1% and 4.4%, respectively. Results are not weighted by respondent characteristics, but respondent attributes reasonably match the adult Canadian population distribution in income, age, gender, province, and First Nations, Métis, or Inuk identity. The authors make no assertions about its implications for others, such as renters, commercial and institutional property owners, or non-Canadians.

How the study could be used. The authors offer this information to inform government policy decisions about how to manage risk of flooding among the 1% of homeowners at extreme flood risk, especially policies regarding flood insurance, disaster financial assistance, and modifications to reduce flood risk.

Contract value. The cost for this work is \$35,000 plus HST.