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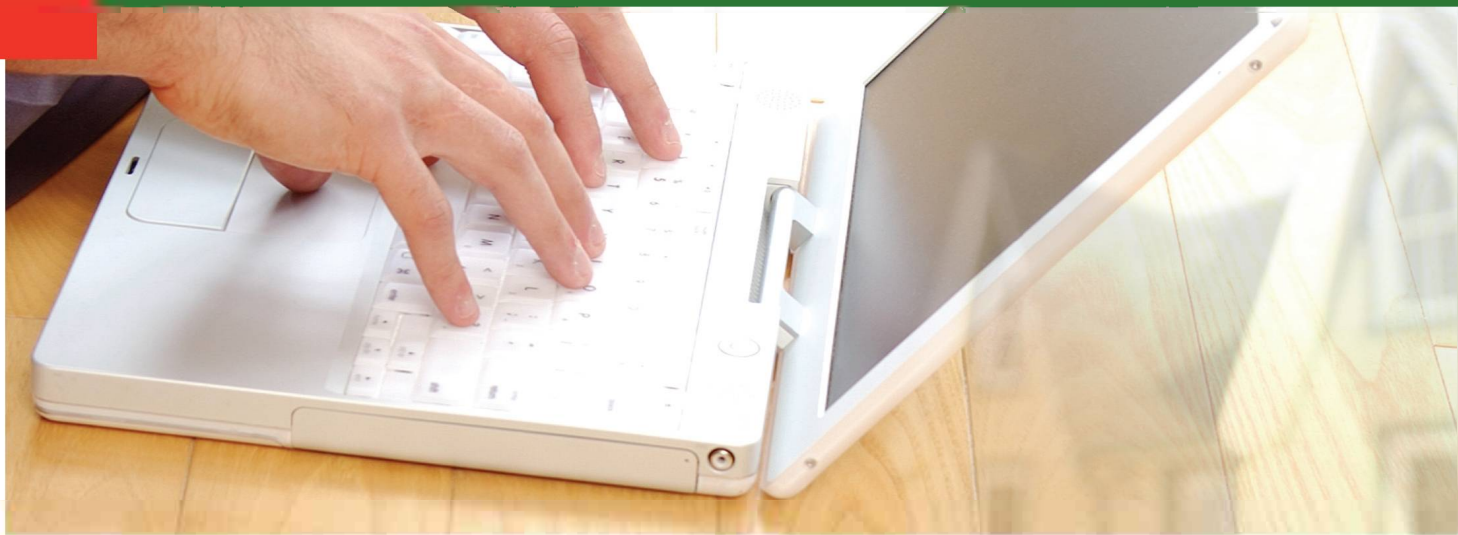
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RESEARCH REPORT

External Research Program



Property Insurance On-Reserve:
Present Arrangements, and Innovations
to Reduce the Cost



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Property Insurance On-Reserve: Present Arrangements, and Innovations to Reduce the Cost

FINAL REPORT

**Prepared for
Canada Mortgage and Housing Corporation
By**

Tony Wellman

Survey conducted by BomCor Associates

May, 2000

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Canada Mortgage and Housing Corporation under the terms of the
External Research Program. The views expressed are those of the
author and do not represent the official views of the Corporation."**

Property Insurance on Reserve: Present Arrangements,
and Innovations to Reduce the Cost

Tony Wellman

Survey conducted by BomCor Associates, Ohsweken, Ontario
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Thank you to those Band Officials who participated in the survey, and to
others who provided information.

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RÉSUMÉ

Les Premières nations se plaignent depuis longtemps de devoir payer cher pour bénéficier d'une assurance, laquelle, dans le passé, a parfois été difficile à obtenir. Le présent document vise à étudier comment les Premières nations s'organisent actuellement pour s'assurer, et à exposer certaines des innovations entreprises aux niveaux local, régional et national pour aider à réduire les coûts.

L'étude s'est principalement fondée sur une enquête menée auprès de 116 Premières nations, qui ont été interrogées sur leurs programmes d'assurance.

L'enquête a démontré que la grande majorité des Premières nations obtiennent leur assurance de la façon traditionnelle, par l'entremise d'un courtier local. Cependant, des changements se produisent actuellement dans le marché. L'une des nouveautés est l'apparition de plusieurs initiatives d'autoassurance par les Premières nations. Cette innovation reflète un intérêt croissant pour des mécanismes d'assurance non traditionnels dans l'ensemble du marché. L'autoassurance, comme le mot l'indique, veut dire qu'une entité ou un groupe d'entités (par ex. les Premières nations) couvre les risques, ou une partie des risques courus, à même ses propres ressources grâce à des fonds mis de côté à cette fin.

L'étude signale deux initiatives structurées d'autoassurance par les Premières nations. L'une d'elles est le First Nations Insurance Pool (fonds d'assurance des Premières nations) créé par la firme North Central Insurance Brokers (courtiers d'assurance du centre-nord), et qui comptait, en décembre 1999, plus de 40 propriétaires membres venant de la Saskatchewan, du Manitoba et de l'Alberta, et travaillait alors à étendre ses activités au-delà des Prairies. L'autre initiative est celle du Cree Nation Insurance Program (programme d'assurance de la nation crie), qui est un fonds d'assurance pour les neuf communautés crie de la Baie James situées dans le Nord québécois. Dans les deux initiatives, une partie des primes versées par les communautés membres va dans un fonds pour régler les demandes, et une autre partie est versée à un assureur conventionnel qui couvrira le coût des pertes au-delà d'un certain montant.

Outre ces initiatives plus structurées, au moins une Première nation utilise une méthode assez rudimentaire d'autoassurance en mettant ses fonds de côté, dans une « réserve ».

Il ne s'agit pas là des seules nouvelles initiatives d'assurance des Premières nations. Une autre initiative, l'AFN Insurance Brokers (courtiers d'assurance de l'APN), a été créée à la suite d'une entente entre Rhodes and Williams, un courtier ayant son siège social dans l'Est ontarien, et l'Assemblée des Premières nations. L'AFN Insurance Brokers offrira de l'assurance habitation aux Premières nations partout au Canada.

En plus des initiatives menées par les Premières nations, d'autres intervenants se réajustent afin d'acquérir une plus grande part du marché. Les principaux intervenants non autochtones sont les grands courtiers nationaux et provinciaux qui offrent des programmes de garantie globale pour les biens résidentiels et non résidentiels des Premières nations.

Au chapitre de la couverture d'assurance, l'enquête a révélé que, bien que cela soit requis, toutes les bandes où l'on trouve des logements SCHL ont assuré ces logements, mais 36 % de toutes les bandes sondées n'avaient pas assuré les logements n'appartenant pas à la SCHL. De ces Premières nations n'ayant pas assuré les logements, 76 % ont donné comme raison soit l'absence de budget ou de fonds, soit les coûts trop élevés. Les Premières nations qui estimaient que leurs primes d'assurance étaient particulièrement élevées attribuaient cette situation aux récents incendies dans les réserves, au manque de prises d'eau ou à l'utilisation de poêles à bois.

Plusieurs Premières nations ont parlé d'un choix accru dans le marché de l'assurance par rapport aux années passées. Les Premières nations profitaient de cette situation en comparant les prix, c'est-à-dire en s'adressant à plusieurs courtiers pour bénéficier de la meilleure aubaine. Plus de 50 % des Premières nations semblent avoir changé de courtiers au cours des trois dernières années. Des primes moins élevées et une couverture accrue sont les avantages ainsi obtenus, et certaines Premières nations ont ajouté qu'elles préféraient traiter avec une entreprise appartenant à des Autochtones.

Beaucoup de Premières nations n'étaient pas en mesure de préciser ou préféraient taire le montant qu'ils payaient pour l'assurance, mais pour ceux qui ont donné un certain montant (39 Premières nations), la prime moyenne était de 360 \$. De ces 39 Premières nations, huit ont indiqué qu'elles payaient 450 \$ ou plus par logement, et de ce nombre, trois ont indiqué qu'elles payaient 500 \$ ou plus. Huit Premières nations payaient moins de 300 \$.

Des nouvelles initiatives mentionnées plus haut, le NCI First Nations Insurance Pool et l'AFN Insurance Brokers sont celles qui pourraient influencer le plus sur le secteur de l'assurance des Premières nations. L'arrivée de ces initiatives fait suite à de nombreuses années de discussion sur la nécessité d'avoir des sociétés d'assurance appartenant à des Autochtones et dirigées par ceux-ci.

Pour réussir, les sociétés d'assurance des Premières nations doivent :

- veiller à offrir de l'assurance habitation aux Premières nations;
- permettre d'obtenir des coûts d'assurance raisonnables;
- créer des occasions d'emploi et d'affaires pour les Premières nations;
- s'assurer que les profits bénéficient aux populations autochtones;
- permettre une meilleure orientation des initiatives de sécurité-incendie vers les problèmes dans les réserves;
- voir à ce que la couverture soit adaptée aux besoins des Premières nations.

Le NCI Pool et l'AFN cherchent tous deux à devenir *les* assureurs nationaux des Premières nations. Cependant, les circonstances au Canada, alors que des organismes autochtones se lancent sérieusement dans le domaine de l'assurance, diffèrent beaucoup de celles qui entourent la formation d'Amerind, le consortium de partage des risques d'assurance appartenant à des commissions indiennes du logement aux É.-U.

Amerind a comblé un vide créé alors que des commissions indiennes du logement risquaient de se retrouver sans assurance, parce que le HUD, l'agence américaine du logement qui s'occupait habituellement de l'assurance, ne parvenait pas à négocier un contrat acceptable. Étant donné l'urgence de la situation, l'appui et l'encouragement du gouvernement, ainsi que les circonstances et le dilemme communs auxquels toutes les commissions indiennes du logement devaient faire face, on a créé un fonds national d'assurance formé de la majorité des commissions indiennes du logement.

Au Canada, il faudra plus de temps aux peuples et aux organismes autochtones pour répondre de mieux en mieux à leurs besoins d'assurance habitation. La situation très concurrentielle de l'industrie, l'habitude du marchandage et les contraintes financières des Premières nations signifient que les nouvelles initiatives dirigées par les Premières nations devront offrir et maintenir des prix faibles et stables ainsi qu'un excellent service si elles veulent prospérer et conserver leurs membres ou leurs clients.



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EXECUTIVE SUMMARY

First Nations have long argued that they pay a high price for insurance, which in the past has at times been difficult to obtain. This paper is designed to explore how First Nations presently go about arranging insurance, and to identify some of the innovations underway at the community, regional and national level to help reduce the cost

The main vehicle for the study was a survey of 116 First Nations. They were asked a set of questions concerning their insurance arrangements.

The survey showed that the vast majority of First Nations arrange their insurance in the traditional way through a local broker. However, changes are occurring in the market. One development is the advent of several First Nations driven “self-insurance” initiatives. This development mirrors an increasing interest in such non-traditional insurance mechanisms in the insurance market as a whole. Self insurance, as the term implies, involves an entity or group of entities (e.g. First Nations) covering the risks, or a portion of the risks it faces out of its/their own resources through funds set aside for that purpose.

The study identifies two structured First Nations self insurance initiatives. One is the First Nations Insurance Pool initiated by North Central Insurance Brokers, which as of December, 1999 had over 40 owner members, from Saskatchewan, Manitoba and Alberta, and was in the process of expanding beyond the Prairies. The other structured initiative is that of the Cree Nation Insurance Program which is an insurance pool for the nine James Bay Cree Communities in Northern Quebec. Under both initiatives, premiums provided by member communities go partly into a pool to meet claims, and partly to a traditional insurer to meet the cost of losses above a given amount.

In addition to these more structured initiatives, at least one First Nation Community is self insuring in a fairly rudimentary way by setting its funds aside in an insurance “pot”.

These are not the only new First Nations insurance initiatives. Another is AFN Insurance Brokers, formed as a result of an agreement between Rhodes and Williams, an Eastern Ontario based broker, and the Assembly of First Nations. AFN insurance Brokers will be offering dwelling insurance to First Nations across Canada.

Aside from the First Nation driven initiatives, other actors are shifting gears to compete more effectively in the market. Major non- First Nation participants in the market are the large national and provincial brokers which are offering programs of blanket coverage for Band residential and non-residential assets.

In terms of insurance coverage, the survey revealed that, while as required, all bands with CHMC units insured these units, 36% of all bands surveyed did not have insurance on non-CMHC band dwellings. Of those First Nations without insurance on band dwellings, 76% gave the reason as either no budget/no funds or “high cost”. First Nations who felt that their own cost of insurance was particularly high attributed it typically to recent fires on the reserve, lack of water hydrants, or the use of woodstoves.

Several First Nations referred to an increase in choice in the insurance market compared to the past. First Nations were taking advantage of this by shopping around, i.e. tendering with several brokers to get the best deal. Over 50% appear to have changed brokers in the last 3 years. Lower premiums, and better coverage were cited as the benefits achieved by switching, although a few gave as an additional reason that they preferred to deal with a native owned supplier.

While many were unable to, or preferred not to quote what they were paying for insurance, the average for those that did give some indication (39 First Nations) was \$360. Of these, 8 indicated that they were paying \$450 per unit or more, and of these, 3 said they were paying \$500 or more. Eight were paying less than \$300.

Of the new initiatives referred to above, the ones that could potentially have most impact on the First Nations Insurance Sector are the NCI First Nations Insurance Pool and the AFN Insurance Brokers. The advent of these initiatives follows many years of discussion on the need for a First Nations controlled and owned insurance involvement.

Successful First Nations insurance entities would:

- Ensure the availability of property insurance for First Nations
- Provide access to reasonable cost insurance
- Generate First Nations' employment and business opportunities
- Ensure that profits flow to the benefit of First Nations people
- Enable better focusing of fire safety initiatives relevant to on-reserve problems
- Ensure that coverage is tailored to the needs of First Nations.

Both the NCI Pool and AFN are seeking to become *the* national First Nations insurers. However, the circumstances in Canada as First Nations organizations enter the insurance field in earnest is very different from those surrounding the formation of Amerind, the insurance risk sharing pool owned by Indian Housing Authorities in the U.S.

Amerind filled a vacuum created when Indian housing authorities found themselves on the verge of being without insurance, because HUD, the U.S. housing agency who traditionally arranged insurance was unable to negotiate an acceptable contract. Urgency, government support and encouragement, and the common circumstances and dilemma of all Indian housing authorities led to the creation of a national insurance pool made up of the majority of Indian Housing Authorities.

In Canada, the growth in servicing of Band dwelling insurance needs by First Nations peoples and organizations will be a slower process. The highly competitive state of the industry, the habit of shopping around, and the financial constraints of First Nations will mean that the new First Nation owned initiatives will have to offer and maintain low and stable prices, and excellent service to grow and keep their member/customers.

1. BACKGROUND

First Nations have long argued that they pay a high price for insurance, which in the past has at times been difficult to obtain. This project's focus has been to explore the ways different First Nations across the country are approaching the matter of obtaining property insurance, and to document and categorize these approaches, identifying the extent to which they have resulted in premium savings. The document will be used to disseminate information on options to reserves across the country.

Dwelling Insurance is provided by the Property and Casualty (P&C) insurance industry, a huge industry in Canada with total assets of approximately \$60 billion, and total insurance sales of close to \$20 billion. Property insurance accounts for over a third of P&C output, second in importance only to automobile insurance.

While some property insurance is sold direct, it is predominantly sold through independent brokers. Their task is to seek out the best arrangements for the client from the insurance companies with which they deal.

Insurance is priced on the basis of risk characteristics, i.e. geographical location, proximity to hydrants and fire fighting facilities, fire risk as demonstrated in the past history of fires in the area, as well as other factors such as type of heating in the dwelling.

Insurance is mandatory and an eligible expense in the determination of subsidies for dwellings assisted by CMHC. DIAND has never provided funding for dwelling insurance. Under DIAND's revamped program (unlike under the old rules), DIAND funding to First Nations can be used for operating expenses including insurance costs.

Historically, DIAND has not required that insurance be obtained for units financed using its capital funding. However, under the new program, those First Nations wishing to take advantage of incremental funding must allocate funds for insurance in their multi-year housing plan.

2. RECENT LITERATURE

Previous literature on this topic has been inspired by concerns on the part of First Nations at the high cost of insurance, which has prompted government to support research, or by brokers seeking to assist First Nations and market their services in establishing more effective arrangements.

Major papers produced in recent years are:

1. First Nations Guide to the Purchase of Insurance, Charles Hill
2. Conceptual Report on First Nations Insurance, Marsh and McLennan

3. Risk Management and Insurance in Aboriginal Communities, Paul Wilkinson and Alan Paiement

3. First Nations Guide to the Purchase of Insurance, Charles W. Hill, AFN, 1996

This document was prepared in 1996 by Charles Hill for the Assembly of First Nations. It was designed to “present basic information about the insurance industry and develop a list of points First Nations can use in seeking insurance at reduced cost”.

Charles Hill’s paper:

- explained basic insurance terms and functions,
- discussed the various industry organizations, including the regulators and their roles, and Fire Safety Organizations
- identified reasons for high insurance costs
- suggested actions that might be taken by First Nations to reduce premiums

The paper suggested the following as reasons for insurance costs being high:

- *High fire loss risk*: i.e. insufficient fire protection service, water hydrants, poor fire prevention practices, poor quality construction, isolation, remoteness
- *Perceptions of insurance companies*: ignorance, discrimination, poorly conducted evaluations
- *Uninformed dealings with insurance companies/brokers*: e.g. lack of tendering, large number of small claims, setting of deductible.

The paper recommended the following actions to reduce insurance costs:

- Improve communications with insurance companies
- Limit small claims
- Review deductible
- Train community/staff on fire safety
- Upgrade Fire prevention equipment/facilities
- Risk management by outside assessors or trained First Nations personnel
- Tendering for insurance
- Alternatives to the purchase of individual policies, i.e. group purchase, community based insurance, blanket policies covering all band assets
- Improve information on housing, i.e. through a database.

4. Marsh and McLennan, Insurance Program Conceptual Report, May 1993

The Marsh and McLennan paper was presented to AFN as a proposal for First Nations to establish a mechanism to obtain insurance as a group.

The paper proposed options for different arrangements which would take advantage of group action.

The report looked at

- The benefits that could be achieved through setting up a First Nations Insurance Program
- How such a program should be structured
- Who should co-ordinate the project analysis and what role AFN should contribute
- Timing

The alternatives examined were:

1. sponsored plan
2. group funded deductible plan
3. reciprocal insurance arrangement
4. captive insurance

Marsh and McLennan presented the options as a set of progressively more complex arrangements, involving First Nations in increasing control over their insurance coverage.

The paper was a conceptual report only, designed to lead to further research to enable a decision to be made on the appropriate program structure. Marsh and McLennan estimated that savings of 25% of premiums could be obtained.

The various options are discussed further in section 4, *“Innovations in Property Insurance”*.

5. Risk Management and Insurance in Aboriginal Communities, Paul Wilkinson and Alan Paiement, February, 1999

This report, commissioned by CMHC, through presenting two case studies, looked at the potential for cost savings in insurance, through a structured competitive bidding process, while at the same time undertaking initiatives to limit risks, and defining precisely the insurance really required, including deductibles.

Specifically, the paper looked at the experience of two Aboriginal communities that used an independent risk management professional to assist themselves in obtaining insurance.

The communities obtained substantial cost savings through the process.

The paper outlines nine steps:

- Identification and analysis of risks, .
- Analysis of preventive measures,
- Developing a coverage plan, i.e. identifying the optimum protection for the organization,
- Selecting brokers and allocating markets (a single insurance company corresponding to the brokers preference is allocated to each broker),
- Preparation of the terms of reference to be given to the brokers,
- Analysis of the bids,
- Awarding the contract,
- Follow up, to check for errors and omissions and subsequently to check the performance of the company in settling claims,
- Review, i.e., repeating the process of issuing a call for bids every 3 or 4 years.

The paper suggested two “lessons” that could be learned from the case studies. These were (i) the importance of correcting the perception that risks are high, and (ii) that while the insurance market is competitive in theory, it take an effort to make it competitive in practice.

3. THE SURVEY

SURVEY CONTENT

A set of questions were developed to explore the following:

- i. The extent to which First Nations had insurance on their dwellings,
- ii. If they did not have insurance, the reasons why,
- iii. How the insurance was arranged (this was to identify any special arrangements that could be explored subsequently in more detail),
- iv. Whether the arrangements had been changed in the last few years,
- v. What benefits had been achieved where the arrangements had been changed,
- vi. Whether the dwellings were insured for full replacement value,
- vii. The rate that was being paid for insurance,
- viii. The type of assistance/advice being received from the broker,
- ix. Whether the First Nation would like more assistance, and of what type.

After each question, First Nations were asked for any additional comments. At the end of the questionnaire, they were asked for any general comments.

ADMINISTRATION OF THE SURVEY

The survey was carried out over a 4 week period in August/September 1999. The target was:

- A 1 in 5 sample of reserves
- A distribution by province roughly reflecting the number of reserves, subject to achieving a minimum of 10 responses per province¹, to enable comparisons.

The reserves were selected from the *DIAND Band Address and Chief Report* of May, 1999. This report contains the name of the Chief, the address of the reserve and the phone and fax number.

The survey was administered by phone. The person answering the phone was asked to identify who would be best equipped to answer the questions.

Where after several follow up calls/referrals, we appeared to be no closer to locating someone able or willing to answer the questions, another reserve was substituted. In all, over 400 calls were made to obtain the 118 responses. The geographical distribution of responses is shown below:

¹ Except in the Atlantic where there are only 31 First Nations in total

DISTRIBUTION OF SAMPLE BY REGION/PROVINCE			
Province/region	Sample	Total First Nations in province/region	Sample %
Atlantic	10	31	32%
Quebec	11	39	28%
Ontario	25	126	20%
Manitoba	15	61	25%
Saskatchewan	18	70	26%
Alberta	11	43	26%
BC	26	205	13%
TOTAL	116	575	20%

POSITIONS OF RESPONDENTS

Most of those answering the questions were housing officials. Chiefs, Band Managers and Band Councilors were also well represented among respondents.

Most common respondents

Housing Coordinator/Manager etc.	46	Chief	7
Band Councilor	14	Bookkeeper	5
Band Manager	11	Financial Controller	4

The Questionnaire, details on the administration of the survey, and the representation by province are detailed in Appendix A.

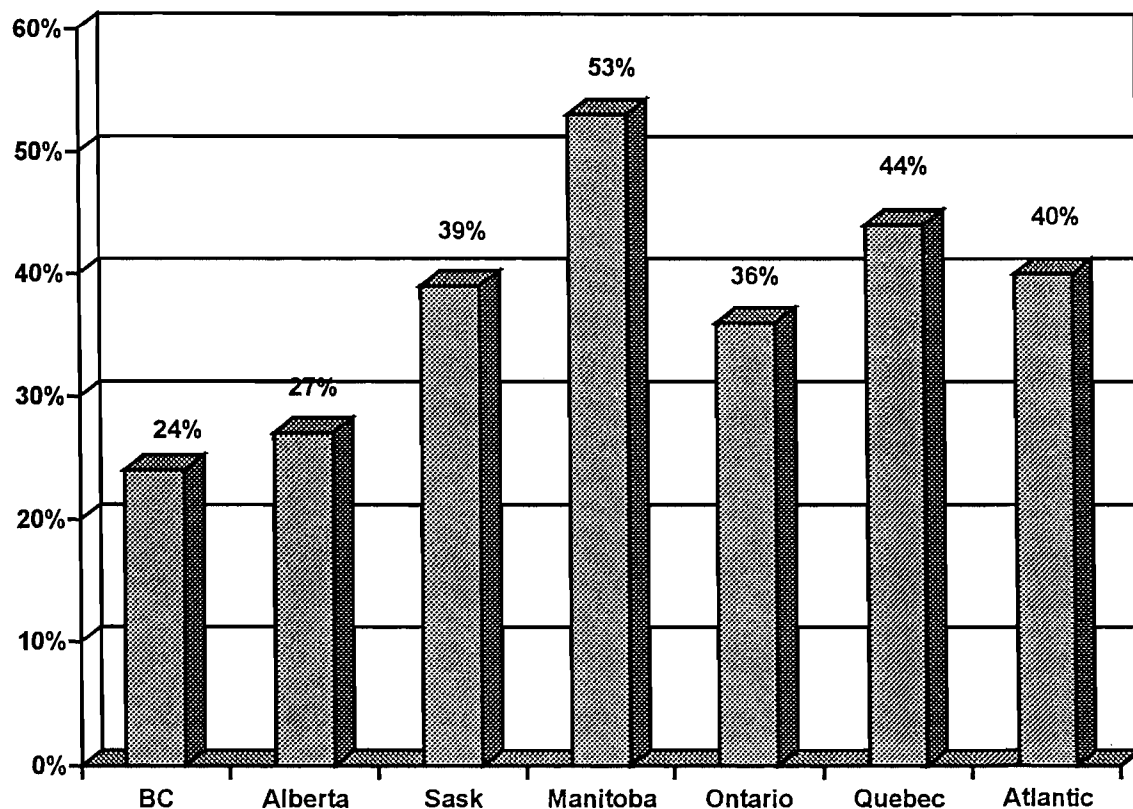
Do You Have Property Insurance On Your Band Owned Dwellings?

Since insurance is mandatory on CMHC subsidized units, our interest in this question is the extent to which First Nations have insurance on non-CMHC Band owned dwellings.

Overall, 36% (41) of the 113 First Nations who had (non CMHC) band owned dwellings indicated that they did not have property insurance on these dwellings. Of the remaining 64% (72) that did have property insurance on non-CMHC band owned dwellings, 3 indicated that they had a few older units in very poor condition which were not insured.

First Nations in Manitoba were least likely to have insurance.

Percentage Without Insurance on Band Dwellings

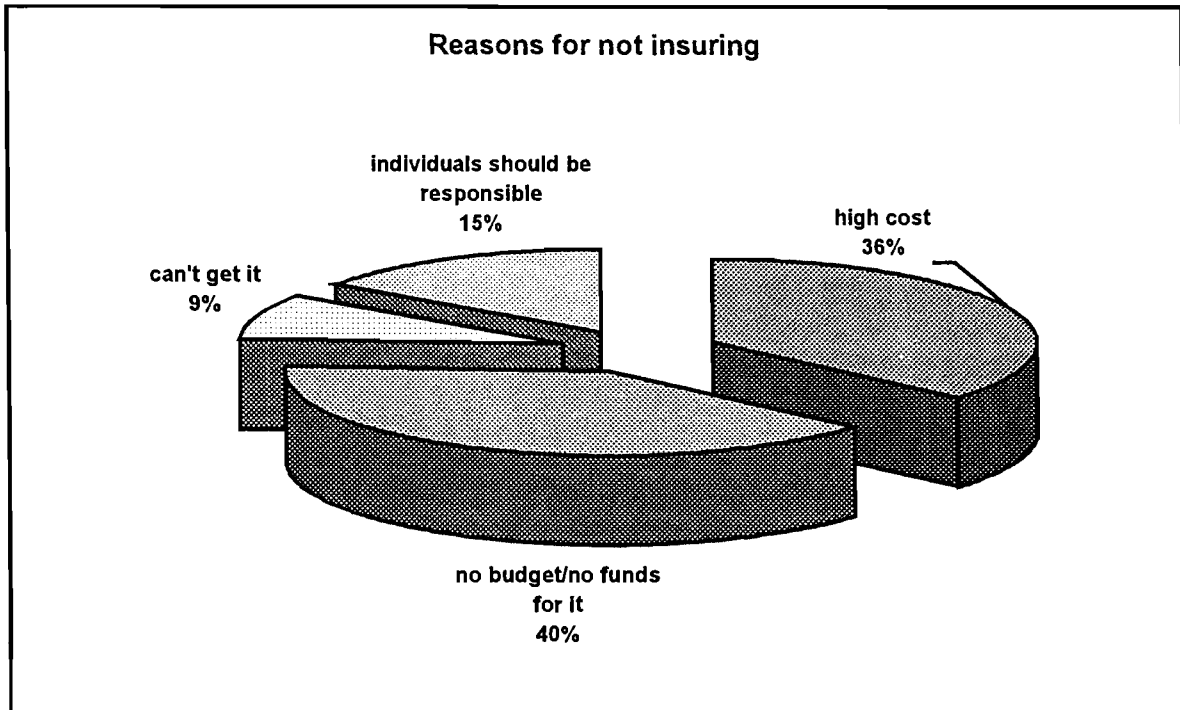


The breakdown of responses was as follows

	No.	%
Total without insurance on (non-CMHC) Band owned dwellings	41	36%
Total with insurance on (non-CMHC) Band owned dwellings (includes 3 with older units not insured)	72	64%
Total with (non CMHC) band owned dwellings	113	100%

Reasons Given For Not Insuring Band Owned Dwellings

Of those who did not insure the band dwellings, the majority gave as reasons that it was “too expensive” or that there was “no budget” for it.



In total, 76% of respondents cited cost either directly or indirectly.

In 15% of the First Nations who did not insure their Band owned dwellings, the view was that those living in the house should be responsible for the insurance. Officials indicated that they were encouraging this as part of an overall effort to make residents take responsibility for care and maintenance of the band owned homes.

Only 9% of those without insurance indicated that they could not get it, but even in these cases, two of them qualified the response by adding that the insurance was too expensive, suggesting that it was available, albeit at a high price.

As indicated, for several reserves, respondents indicated that while most dwellings were insured, a few old ones weren't because they were in very poor condition.

Band Perceptions as to why their Insurance Cost is High

Some First Nations without insurance, and others with insurance indicated that their insurance cost was high because of special circumstances relating to their reserve.

Reasons given were:

Recent fires on the reserve

While questions about fires were not specifically asked, nine of the First Nations indicated that they had fires in recent years, and that this had contributed to making their insurance premiums very high. Five of these reserves had had more than one fire recently, with two of these having 3 fires.

Use of woodstoves

Eight First Nations attributed the high cost of insurance for them to the fact that woodstoves were used on the reserve. A few reserves indicated that they felt that this was unfair because Band members knew how to use woodstoves properly.

Lack of water hydrants

Four First Nations indicated that the absence of water hydrants made their insurance very costly. Several reserves indicated that they had recently installed more hydrants, or were planning to do so, and that they hoped that this would bring their premiums down.

Other reasons suggested for high premiums

Other reasons suggested by First Nations for the high cost of their own insurance were their lack of fire trucks, their relative isolation, or the fact that their houses were not up to standard.

Insurance Arrangements

All First Nations who said they had dwellings insured (whether just CMHC units or all Band dwellings) were asked about the arrangements for this insurance. Primarily, we were exploring how many were involved in alternative insurance arrangements.

First Nations were asked whether they arranged their insurance through a local broker, through a national brokerage, or had some form of alternative arrangements, e.g., a self insurance type arrangement.

Of the 86 Respondents to this question, we found 9 (or just over 10%) who had arrangements that were neither through a local nor through a national broker, i.e. were non-traditional type insurance arrangements. Six of these were with the North Central First Nations Insurance Pool, 2 with the Regional Cree Insurance Program, and one had established an insurance “pot” to draw from in the event of a fire.

TYPE OF ARRANGEMENT	No of FNs
Alternative:	
North Central Insurance Pool	6
Cree Nation Insurance	2
Self Insurance fund set up (one Quebec First Nation)	1
Through local broker	73
(No. indicating it was a First Nations brokerage)	(2)
Direct to national broker	4
Total FNs responding to question	86

Of the others, 73 said they arranged their insurance through a local broker. Of these, two indicated that it was through a First Nations owned brokerage (First Nations Insurance in Ontario). Some of these local brokers may however have been arranging the insurance through the packages offered by the national or provincial brokers (Aon Reed Stenhouse, Marsh and McLennan, Frank Cowan etc.

One of the local brokers (Municipal Insurance) in Sturgeon Falls arranged the insurance through ROMA (the Rural Ontario Municipalities Association). ROMA is discussed later in the paper.

In B.C., half of the respondents indicating a local brokerage dealt through one of the Brokers Associated with Barton, the large provincial brokerage in British Columbia.

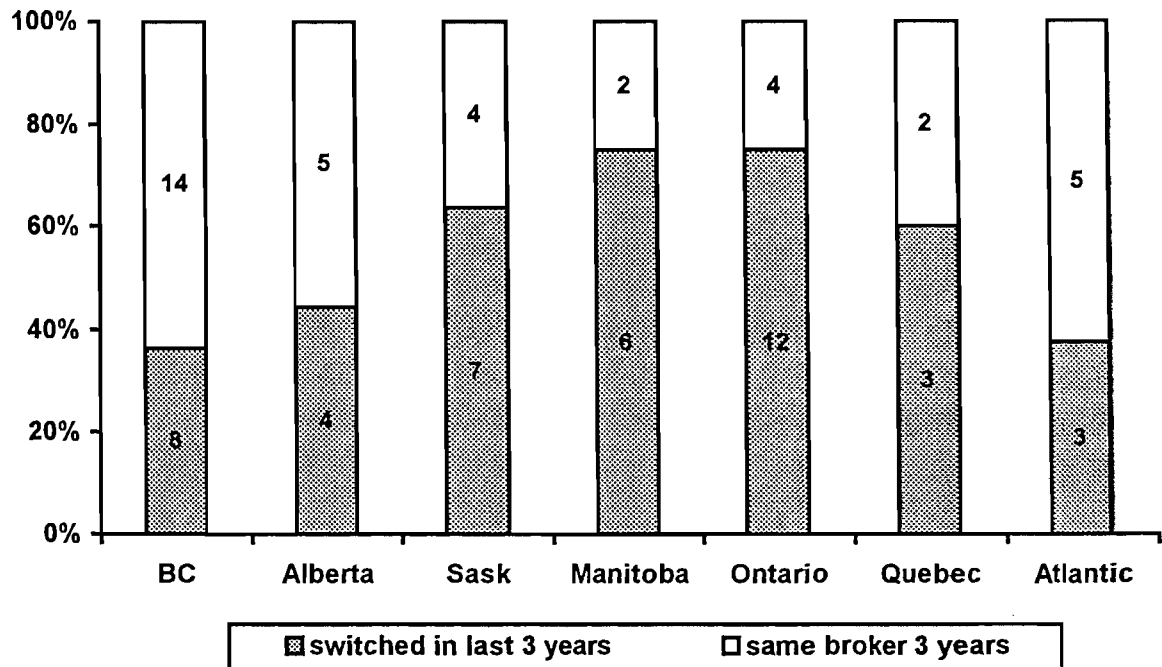
Finally, 4 respondents indicated that they dealt directly with a national brokerage company (e.g. Aon, Marsh and McLennan etc.)

Shopping Around for Insurance

Of the 79 First Nations that gave information on this, 43 (or 54%) had changed brokers in the last 3 years. The other 46% had had the same broker for three years or more. Some had had the same broker for over 10 years.

The chart below shows the number switching/not switching by province, and enables one to compare the percentages by province.

Shopping Around - Comparison by Province



While for many provinces, the numbers are a little small to use in making generalizations by province, there are clearly some differences. Thus, for example with regard to Ontario and B.C., where the sample is sufficiently large, B.C First Nations clearly have a lower incidence of switching in recent years.

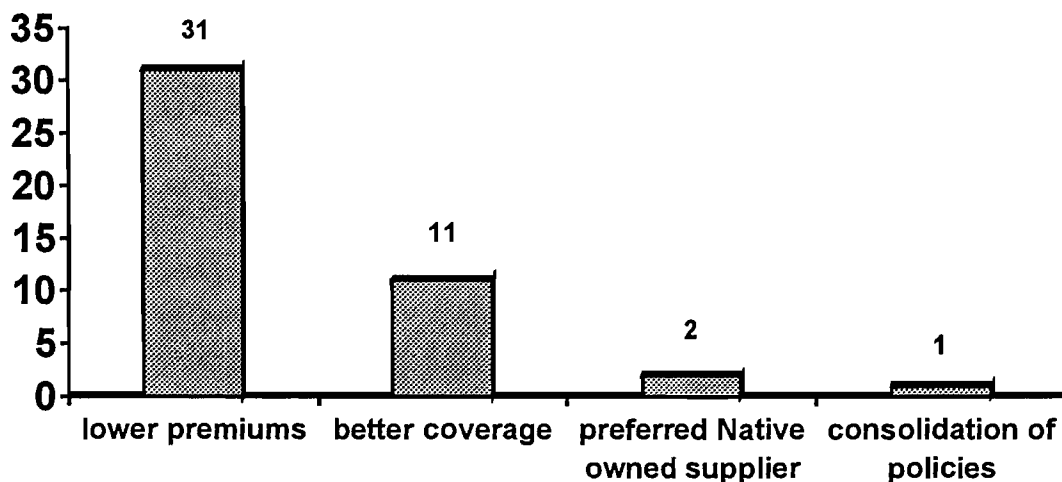
This could be explained by (a) more satisfaction with existing arrangements in B.C. than in Ontario, (b) less competition for First Nations business in B.C., (c) less resistance to changing the arrangements in Ontario First Nations.

Reasons for switching

First Nations that switched companies achieved lower rates by doing it. Of the 36 respondents giving reasons for switching, 31 mentioned lower premiums. Eleven mentioned better coverage. Two indicated that an important prime motivation in switching was the fact that the new insurance supplier was native owned.

One First Nation indicated that the reason was consolidation. This First Nation previously had 26 different policies, all with different clauses and renewal dates.

Reasons for Switching
(more than one reason could be indicated)



Only four respondents were willing or able to indicate the savings achieved by switching. For these, savings quoted ranged from 20% to 35%.

Most of those who switched indicated that they took quotes every two or three years

Reasons for staying with the same broker

Of the 36 that indicated that they had not changed, 11 indicated that they felt that the premiums they were being charged were low.

The few respondents that volunteered other reasons for staying with the same broker used words such as “friendly”, “helpful” “one-on-one service” “personal service”.

If Your Homes are Insured, is it for Full Replacement Value?

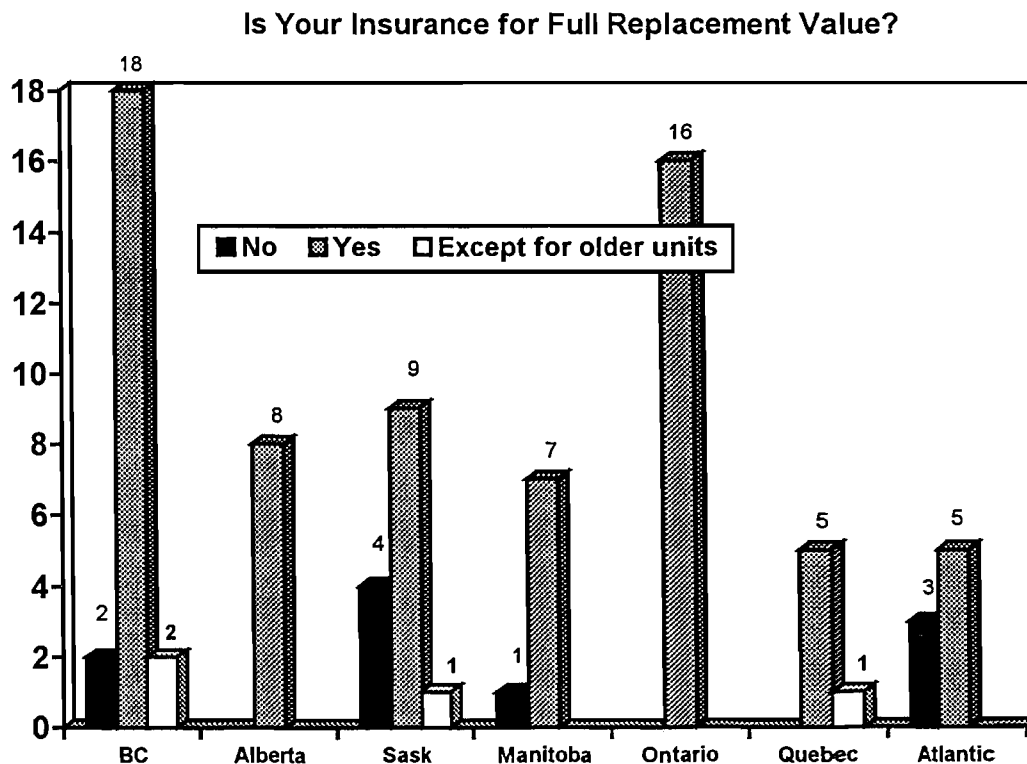
Given that the incidence of units in poor condition is high on reserve, we wished to explore whether all First Nations were able to obtain full replacement coverage.

Out of the 82 who answered this question (includes those who just insured their CMHC homes), 10 (12%) indicated that they did not have full replacement insurance. A further 4 (5%) indicated that they had been unable to obtain full replacement insurance on a few of their older homes.

All those in Alberta and Ontario with insurance indicated that they had full replacement value for all units. Insurance for less than full replacement value seems more common in the Atlantic and Saskatchewan.

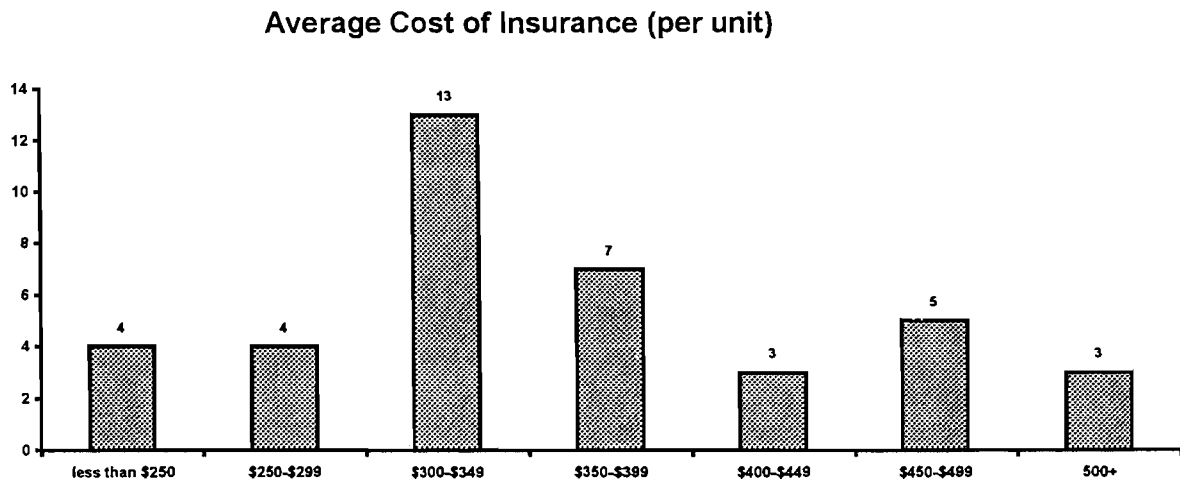
One First Nation that was in the process of a claim, said that they had believed that they had full replacement value insurance, but were now doubtful that they were going to get it.

Many First Nations were emphatic that they would definitely not consider insurance for less than full replacement value, since this would not leave them sufficient funds to provide replacement accommodation in the event of a fire.



What Are You Paying for Insurance?

Many respondents did not know how much they were paying for insurance, or did not wish to disclose it. In total 39 respondents gave information on the premium. While the interview guide called for a rate per \$1000, most preferred to give an approximate *dollar* premium. For the purposes of the chart below, where numbers were quoted as a rate per \$1000, we have estimated the premium based on a replacement value of \$110,000.



As the chart shows, one third of the premiums were in the \$300-\$349 (per unit) range, and just over one half were between \$300 and \$399.

The average premium was \$358.00. Premiums tended to be lower in the East, with the lowest average premiums in Quebec and Ontario, and the highest in the Prairie Provinces.

Average Premiums for the Sample, by Province	
BC	\$361
Alberta	\$398
Saskatchewan	\$373
Manitoba	\$376
Ontario	\$310
Quebec	\$294
Atlantic	\$335

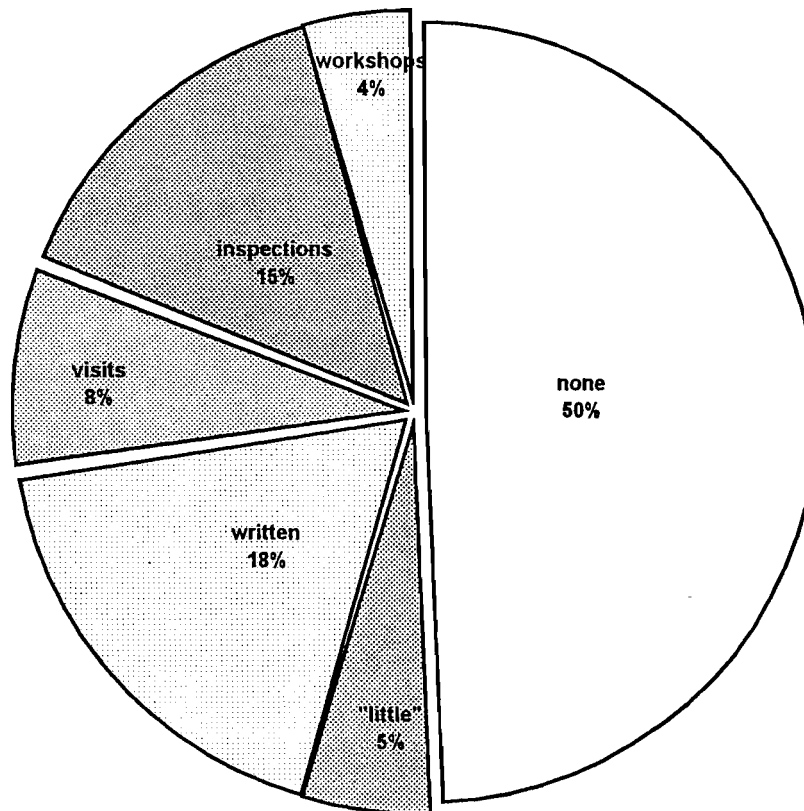
What Kind of Assistance Do You Get From Your Broker?

Half of those responding to this question indicated that they got no assistance from their broker. Another five percent indicated that they got very little assistance.

Eighteen percent indicated that they just obtained written assistance, for some of them just at renewal time, although others seemed favorably impressed at the amount of written assistance received.

The other 27 percent indicated that the assistance they received went beyond written pamphlets. Eight percent referred to occasional or regular visits from the agent. Some of those who referred to the visits were enthusiastic about the good face-to-face relationship with the agent.

Assistance Given By Broker

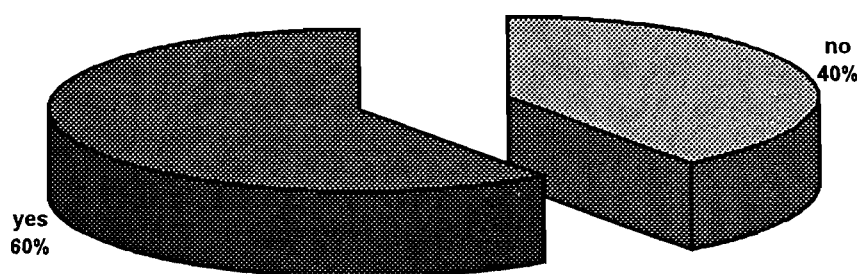


Fifteen percent referred to inspections that were provided or arranged by the agent, some of which were followed by recommendations for improvements in fire safety. The most positive of the First Nations were those that indicated that agents had held workshops for residents on fire safety and home security.

The Perceived Need For More Assistance

Of the 75 respondents answering this question, forty five indicated that they would welcome more assistance from their broker/company.

Would You like More Assistance?



Reasons for not needing assistance	No. of FNs
Inspections/awareness done by own housing staff/community	4
Fire department looks after their needs	6

Few were specific about the type of assistance they would like.

Types of Assistance Identified	No. of FNs
Workshops, help organize public meetings on safety	4
Inspections	1
More advice to homeowners	1
Translation of pamphlets into native language	1

Reasons identified for past fires

Five of those with recent fires commented on the causes. These were as follows:

1. People not safety smart

Three of those with recent experience with fires attributed the incidents to the fact that residents were not “safety smart”. The need for education was emphasized

2. Electrical wiring

A recent fire at one First Nation was attributed to electrical wiring. The First Nation indicated that this has prompted a regime of home inspections on the reserve.

3. Arson

One respondent indicated that recent fires appeared to be due to arson, and that they had been warned that another fire would result in cancellation of insurance.

Fire Safety

Some respondents expressed considerable confidence in the abilities of their fire departments. A few mentioned with pride the performance of their fire departments in national fire fighting championships.

However, a number of respondents acknowledged the inadequacy of their fire fighting equipment.

A few reserves indicated that they had recently, or were in the process of taking steps to improve fire safety. This included purchase of fire equipment, installation of water hydrants, fire extinguishers, and changing smoke detectors, and implementing home inspections.

Perceptions about Insurance Companies

Two reserves indicated dissatisfaction with claims settlement, specifically that accommodation expenses were not paid for the victims of fires while they were awaiting repair/replacement of accommodation.

Four other respondents made negative comments about the commitment of brokers and companies to customers

As indicated earlier, 46% of the First Nations surveyed had stayed with the same company for a number of years, and among this group there was a high degree of satisfaction with the service being provided. This group included some who expressed satisfaction with the promptness and efficiency with which claim had been settled.

Band help to Homeowners in Obtaining Insurance

While the survey focused on First Nation experience relating to insurance on *band-owned* dwellings, several respondents volunteered comments on homeowner insurance.

Several First Nations indicated that they were strongly encouraging homeowners to take out insurance on their homes

One respondent indicated that if homeowners had difficulty getting insurance, the band would arrange it for them (but the homeowner would have to pay the premiums.

Another respondent indicated that they encouraged homeowners to bring in their policies for the housing official to review for them.

Other comments by respondents

Many of those that did not insure band homes felt that funding for insurance should be provided by the government

Seven respondents indicated that they felt that premiums on-reserve were higher than those off-reserve.

Several respondents expressed the view that it was a lot easier to get insurance now than in the past, and that brokers were now actively seeking their business.

SUMMARY OF MAIN SURVEY FINDINGS

A significant proportion of First Nations (36%) do not have insurance on their non-CMHC dwellings. Thus there is a considerable “untapped market” for insurance. The cost of insurance, lack of funds, and the fact that there is no budget for it were given as reasons by 76% of the non-insurers.

Only a few actual innovative insurance arrangements were found. Close to 90 per cent of First Nations had traditional insurance arrangements through a local broker, or insurance arrangements through a large national broker. Of the balance, two fully fledged self insurance type mechanisms were identified. Thus, six of the First Nations surveyed were members of the North Central Insurance Pool, and two were in the Cree Nation Insurance Program. In addition, one First Nation had established their own insurance “pot”

The market appears to have become more competitive in recent years. Over half (53%) of First Nations had changed brokers in the last 3 years. The vast majority (86%) did so to get lower premiums. The increasing willingness to look around clearly creates an opportunity for new initiatives offering cost-effective alternatives.

Insurance costs averaged just over \$350. Costs appeared to be to be highest in the Prairies, and lowest in Ontario and Quebec. Not all First Nations were able to get full replacement insurance on their dwellings. Seventeen percent had less than replacement value on some or all of their units.

Over half of First Nations would like a little more help from their broker with regards to developing ways of improving fire safety. Many said they received no help, others received only leaflets on renewal. First Nations insurance initiatives could provide support in this area.

4. INNOVATION IN PROPERTY INSURANCE

Aside from fire safety improvement, reducing the cost can come from shopping around for insurance (including rigorous tendering such as that identified by Wilkinson and Paiement), and from grouping together to improve bargaining power, or it can come from some of the more innovative ideas that have become increasingly used in recent years in the insurance sector. These involve different forms of self insurance, i.e. taking the matter into one's own hands.

Self insurance is the area which offers the most scope for innovation, and in which there has been the most discussion. Self insurance, a term which is used fairly loosely in the literature, is employed in this document to describe a situation in which an entity or group of entities (e.g. First Nations) covers the risks, or a portion of the risks they face out of their own resources through funds set aside for the purpose.

Theoretically, an individual First Nation could self-insure, without joining with others. For self insurance to be an attractive option however, the expected loss must be reasonably stable, and predictable from year to year, so that the amount that needs to be set aside can be determined within reasonable limits.

For *individual* First Nations because of their small size, self insurance for property would be a risky business. Occurrences of fire would not be stable or predictable. Putting aside a small liquid pool of funds will be of little help if a major fire occurs at the reserve. On the other hand, putting aside a large liquid pool of funds to handle a catastrophic fire ties up valuable funds which could be used to create more housing or meet other community needs.

Self insurance schemes can differ in the following aspects:

- i. The concept (amount of risk that is self insured, and the organizational arrangements)
- ii. eligibility to join (who is it open to?)
- iii. the rules, conditions

The advantages of a self insurance scheme can be:

- Cheaper insurance because the profits are retained by the group
- Insurance that is tailored more closely to the needs of the members
- Better risk management, since it can promote loss reduction measures and build in appropriate incentives
- Coverage for risks not usually insured
- Guaranteed access to insurance

The self insurance concept is consistent with First Nations, aspirations to provide their own services, and run their own affairs, i.e. First Nations control. Profits can be kept within the First Nations sector. Employment at the reserve level can be generated

The concept

A group can decide to be self insured for a portion, or all of its risk. Thus some or all First Nations could get together and decide that rather than pay an insurance company to cover every dollar of any insurance claims, it will cover the first few thousand (or more) of each claim through its own pooled funds. This is a *Risk Sharing Pool*. This approach is being used by the North Central First Nations Insurance Pool (NCI) (discussed later in this document). At the other extreme, a group can decide to assume all except catastrophic risk, and create a *Captive Insurance Company*. An option in between these two is a *Reciprocal Insurance Exchange*.

Risk Sharing Pool

Under this approach, the group of First Nations would take out an insurance policy (from an insurance company) with a large deductible. Part of the premium they would each pay would go to the insurance company, and part would go into a pool, to be used to pay the amount of any claim below that deductible (subject to the First Nation making the claim paying up to its individual deductible amount).

As the group became more familiar with the claims experience they could increase the deductible they purchased with the insurance company, taking a higher proportion of the premium into the pool and assuming more of the risk through the pool.

Under the pooling arrangement, members would agree to pay a one time assessed lump sum if in any period, claims exceed the total premiums.

Captive Insurance Company:

At the other extreme, where First Nations were assuming all the risk, they could form what is known as a Captive insurance company for this explicit purpose. A captive is an insurance company which is owned by the entity or entities whose risks it is insuring.

For tax and regulatory reasons, a complicated legal arrangement is involved. Under such an arrangement, the group would enter into an insurance contract with a licensed Canadian insurer, called the *front*. The front then reinsures the risk with the captive.

The captive will typically protect itself against calamitous loss by some form of excess loss insurance with an established reinsurer.

The captive approach requires substantial capital requirements, since the “front” needs some guarantee of payment in the form of funds set aside by the captive

Typically, Canadian captives are incorporated in British Columbia (where specific legislation facilitating the operation of captives exists, or off-shore in locations where supportive legislation and tax advantages exist (e.g. Bermuda).

An option which is being marketed in the U.S. is a “Rent-a-Captive”. Under this arrangement, a captive owner offers a division of the captive for the use of another group or company. This allows a company to enjoy the advantages of a captive company without the onerous capital requirements and other costs involved in establishing one.

Insurance Reciprocal

In between these extremes there is the option to establish an Insurance Reciprocal. This has some element of a captive, and some of a simple pool. Like a captive it may assume all except catastrophic risk (which it will obtain reinsurance for).

However, like the Insurance Pool arrangement discussed above, members will agree to a one time assessment if claims exceed premiums taken in by the pool. The rules governing insurance reciprocals are a little less onerous than those governing a captive. They are however subject to specific provincial regulations, and monitored by the Provincial Superintendent’s of Insurance. One of the features of the regulations is a requirement to stay in operation for a certain number of years.

Insurance reciprocals have been increasingly used by municipalities in North America. The largest example in Canada is OMEX (the Ontario municipal insurance exchange).

Eligibility Requirements (Who can join?)

Theoretically a self insurance pool could be local, tribal, regional, or national. Clearly, a pool with a large number of member First Nations provides more effective sharing of risk. It also enables economies of scale in the development of educational materials and initiatives for the members, and gives the pool/reciprocal more clout in dealing with insurers/reinsurers, i.e. it can strike a better deal.

The Rules

Risk sharing pools and reciprocals will have a variety of rules that the members must agree to on joining. These will include such things as:

- Voting rights on matters affecting the pool.
- Equity payments to join the pool (since a new member, by becoming an owner is acquiring a share in the pool’s assets,
- Any relationship between premiums that a First Nation must pay and their claim history
- How the process operates when someone decides to leave the pool.

5. THE ON-RESERVE PROPERTY INSURANCE MARKET, AND THE INNOVATIONS

The survey showed that the vast majority of First Nations arrange their insurance in the traditional way through a local broker. This includes many brokers who have specialized in the First Nation market for many years, e.g. Ranger Insurance in Manitoba, as well as new entrants to the market such as First Nations Insurance in Ontario.

Changes are occurring in the market however. Several self insurance mechanisms along the lines of the types identified in section 3 of this document have emerged. As indicated, respondents to the survey identified 2 major examples. One, the First Nations Insurance Pool of North Central Insurance, focused presently in the Prairies, but presently expanding beyond that, and another specifically regional initiative, the Cree Nation Insurance Program. In addition, at least one First Nation Community is self insuring in a fairly rudimentary way by setting its funds aside in an insurance “pot”.

A new entry to the market is the AFN Insurance Brokers, formed as a result of an agreement between Rhodes and Williams, an Eastern Ontario based broker, and the Assembly of First Nations.

Aside from the First Nation driven initiatives, other actors are shifting gears to compete more effectively in the market.

Major non- First Nation participants in the market are the large national and provincial brokers which are increasingly making their presence felt through municipal type programs, the most significant being Aon, Marsh and McLennan, Barton in British Columbia, and Frank Cowan in Ontario

Another distinct initiative identified in the survey was that of ROMA Insurance, the insurance division of the Rural Ontario Municipalities Association, which arranges property insurance for a number of Ontario First Nations, along with that of its member municipalities.

These initiatives are described in the following pages.

5.1. INITIATIVES OF NON- FIRST NATION ORGANIZATIONS

5.1.1 MUNICIPAL TYPE PROGRAMS BY THE LARGE NATIONAL AND PROVINCIAL BROKERS

Marsh and McLennan were not the only broker looking closely at the Aboriginal market in the early 90's. Lowndes Lambert, a large national broker prepared an insurance proposal for the National Aboriginal Housing Association (NAHA), an organization primarily of off-reserve Aboriginal housing project operators. In developing the

proposal, they proposed that NAHA might subsequently wish to involve other Aboriginal groups, including Tribal Councils.

In 1998, one of the other large brokers approached the First Nations Bank of Canada with a view to partnering in the formation of a national First Nations insurance company.

More recently, as indicated AFN have partnered with Rhodes and Williams, an Eastern Ontario based brokerage.

Several national and other brokers including Aon Reed Stenhouse, Marsh and McLennan, Barton in BC, and Frank Cowan in Ontario have developed specific facilities with Insurers and are offering municipal type programs with blanket coverage of Band assets. Dwellings will typically be covered at the same rate as other band owned dwellings. Typically, the coverage will not extend to the personal property of the occupant who will have to arrange that separately.

They negotiate discounted rates through organizing the First Nations business into a group and using the buying power of the group.

Aon offers a comprehensive “Community Asset and Risk Management Insurance” Scheme. Band owned housing is one component of this. Other components include business and professional liability coverage, casinos, automobile, ferry service. Aon recently opened its First on-reserve branch office, at Six Nations, the largest reserve by population in Canada.

Barton, a large association of independent brokers in BC do business with about 100 First Nations in B.C. Like Aon they have been in the business of providing insurance to First Nations for many years. Based on the comments made, they appear to give priority to personal service, with visits to the reserves they insure.

Presently, Barton are placing their business through a Lloyds of London syndicate which had insurance business with indigenous groups in other countries and came looking specifically for business in the Canadian Aboriginal community.

Pros and cons of large national and provincial brokers:

pros

- Access to major insurers and reinsurers and large size gives them bargaining power to achieve competitive rates

cons

- Limited awareness of Aboriginal sector
- National brokers’ packages have generally not been strong on fire preparedness programs

5.1.2 THE ROMA INSURANCE PROGRAM

ROMA, the Rural Ontario Municipalities Association arranges property insurance for a number of First Nations in Ontario. The insurance is basically the same as that for rural municipalities.

While ROMA has established a reciprocal for liability insurance, they do not put property insurance through the reciprocal. One reason for this is property insurance rates through the traditional market has been very low for the last two years.

Secondly, an official suggested that using a reciprocal for property insurance is more difficult than using it for liability insurance. This is because property insurance payouts are immediate and are thus harder to fund for, whereas liability insurance proceedings can stretch out for years.

Insurance for First Nations is put through the same insurers as their regular municipal insurance in the same package. The insurance provides blanket coverage with all assets at the same rate per \$1000

The entry of ROMA into the First Nations insurance field came about through an approach by DIAND to the ROMA zone broker, Municipal Insurance, in Sturgeon Falls in 1981. The approach was made because First Nations were having difficulty in obtaining insurance. The broker approached the ROMA board who agreed to offer their services to Bands as well as municipalities.

Pros and cons of ROMA Insurance

pros

- Experience in dealing with rural communities/municipalities

cons

- Services/package not specifically geared for First Nations sector

5.2 FIRST NATION INITIATIVES

5.2.1 THE CREE NATION INSURANCE PROGRAM

The Cree Nation Insurance Program is an insurance pool for the nine James Bay Cree communities in Northern Quebec (population 12,000).

The program is administered by the Board of Compensation which looks after monies received from the James Bay Settlement. Policy decisions relating to the Insurance pool are made by an Advisory Board made up of the Directors of Operations of the Communities

The Cree Nation began work on the initiative 4 years ago. The initiative in its present form is based on the plan of action approved by the Board in December, 1996.

The intent has been to evolve towards self insurance for the Cree Nation. Each of the communities pays a premium annually into the pool. Claims are met through the pool. The pool has purchased reinsurance for claims in excess of \$400,000.

The Cree Nation works with a Montreal Brokerage firm in the initiative. To establish the appropriate coverage, the broker, and consultants visited all communities in January 1997 to do an inventory of the requirements.

The program is evaluated each January. As with any insurance pool, a reassessment and injection of additional funds from the communities will be mandated if necessary. To date, no reassessment has been required.

The Cree Nation has indicated that other groups have asked to join. They are assessing this. For 1998/99. The Creeco group (the Cree Regional Economic Development Corporation, a holding company for a number of Cree ventures) was approved to join the plan.

Pros and cons of regional pooling initiative implemented by the Cree Nation

pros:

- Being made up of like communities, the program can be tailored to community needs
- Complete evolution to self insurance will retain profits, and jobs within the community
- Each community can impact policies through the Advisory Board
- Self insurance component gives some insulation from the cycles in the insurance industry as a whole

Cons:

- There is only limited risk pooling since only 12,000 population in area covered.
- Risk of reassessments in bad years

5.2.2 INDIVIDUAL COMMUNITY SELF INSURANCE SCHEMES

One First Nation in Quebec contacted in the survey allocated a proportion of their demonstration funds to establish a self insurance fund for the grandfathered Band owned dwellings (rent free) which are presently uninsured. They have 400 of these.

They presently have \$120,000 in the pot, and will be adding to it each year to build it up to \$250,000 at which point they anticipate that it will be self sustaining from the revenues from investing it. A portion will of necessity be in short term funds.

If the damage or loss is caused by negligence or vandalism by the occupant, then the fund will not pay the damage.

The possibility of establishing a self insurance scheme for the community has also been looked at actively at one Northern Ontario First Nation. A study has been undertaken for the First Nation by a consultant. The possibility of establishing a separate corporation to provide the insurance is being looked at.

Pros and cons of individual community self insurance schemes

pros

- Retains money within the community
- Can tailor to community needs, require contributions from residents, impose conditions on eligibility to claim etc.

cons

- Unlikely to be accepted as adequate by lenders if for loan purposes
- Do not benefit from pooling over a large number of units therefore highly vulnerable to fluctuations in the number of fires
- Temptation to use the money set aside for other purposes instead- new band council may decide there are better uses.

5.2.3 AFN INSURANCE BROKERS

The idea of AFN entering the insurance market in some way has been discussed often over the years. As indicated earlier, 1993 Marsh and McLennan prepared an “Insurance Program Conceptual Report” for AFN in 1993. This report was distributed to all First Nations.

Without a First Nations broker driving the agenda, there was no follow up to this proposal, and the 1996 AFN document *First Nations Guide to the Purchase of Insurance* focused on assisting First Nations in dealing with Insurers.

AFN insurance brokers developed as the result of the initiative of Gil Saunders, a First Nations Insurance Broker with Rhodes and Williams, an Eastern Ontario based brokerage. Saunders presented the idea of a First Nations brokerage to AFN, and to Rhodes and Williams.

A memorandum of understanding between AFN and Rhodes and Williams was signed by National Chief Phil Fontaine on November 26, 1998.

The brokerage intends to offer a wide range of types of policy. As well as First Nation Band asset insurance, it will deal in “employee group benefits, life insurance, travel insurance and investment services”.

The brokerage has emphasized that it will not be taking business from existing First Nation brokers, but that the insurance package they are offering will be available to them to offer as one of their own.

Pros and cons of AFN Insurance Brokers

pros

- Complementary fire preparedness initiatives
- Brokerage run by First Nations organization

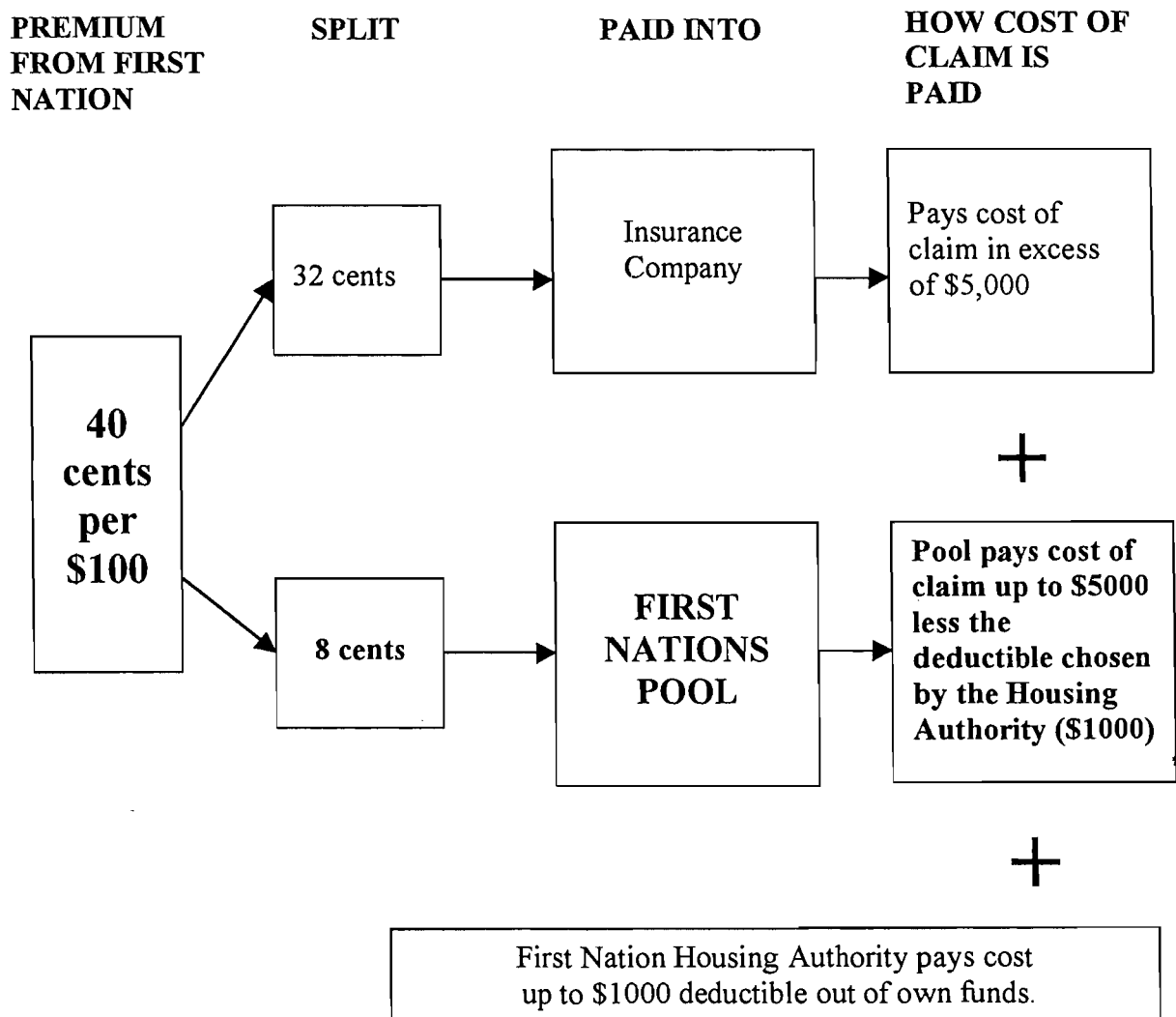
cons

- Possible disadvantages of brokerage linkage with a political group.

5.2.4 FIRST NATIONS HOUSING INSURANCE POOL (North Central Insurance)

Concept:

The pool is open to all First Nation Housing Authorities. Part of the member's insurance premium is paid to purchase an insurance policy with a high deductible (say \$5000) from a regular insurance company. The rest of the premium is paid into the pool. The pool pays the cost of the claim above a deductible (say \$1000) chosen by the Housing Authority. The concept is illustrated in the example below.



Origins:

The pool was originally formed in January, 1998, as an initiative of North Central Insurance Brokers (NCI) Ltd, NCI is a majority Indian owned company based in Saskatchewan, operating on-reserve.

Membership

The Pool is owned by the members. To join, and share in its ownership, new members must put in their share of the equity. Based on present equity in the fund, this means, they must put in an equity per unit of \$25.00 to join.

As of November, 1999, the pool has 41 members, 15 of these are from Saskatchewan, 13 from Manitoba, and 3 from Alberta.

The intent is to expand into other provinces, with the immediate target being Ontario.

Administration

Administered by NCI through a service agreement with the Pool. Members vote on policy issues, with the number of votes per member proportional to their equity in the pool, i.e. the number of housing units they have insured. The Pool has first option to purchase the insurance files from NCI after January 1, 2001, at which time it could assume or reassign administration of the Pool.

Operations

Initially the Pool purchased insurance with a deductible of \$2,500 and assumed the cost of claims below this amount (down to the deductible chosen by the Housing Authority). The intent is to gradually increase the amount of self-insurance, i.e. to increase the share of the risk assumed by the Pool compared to that placed with a regular insurance company. This is being done by increasing the amount of deductible on the insurance purchased from the regular insurance company. Less of the premium is then allocated to this insurance, and more to the pool. As of November 1999, the pool is self insuring up to a \$5,000 deductible.

Aboriginal Employment

NCI has a stated commitment to hiring Aboriginal people. They indicate that 16 out of 24 staff are Aboriginal.

Pros and cons of First Nations Housing Insurance Pool

pros:

- First Nations owned, so savings directly benefit members
- Members determine policy through votes on policy issues
- Awareness of First Nation needs, so policies can be tailored to them

cons:

- Members could potentially face reassessments if losses are high.

6. INDIAN INSURANCE IN THE UNITED STATES: AMERIND RISK MANAGEMENT CORPORATION

Amerind Risk Management Corporation is an insurance risk sharing pool for Indian and Alaskan Housing Authorities in the U.S. It was formed in 1986 and has operated continuously since then, providing insurance coverage to the majority of Native housing authorities in the U.S.

As a successful Indian owned alternative to traditional insurance, AMERIND has been looked to by various First Nations groups and individuals in Canada as a possible model for Canada's First Nations.

Origins of AMERIND

Prior to the formation of AMERIND, Insurance for low income housing units of the Indian Housing Authorities was contracted through the U.S. department of Housing and Urban Development (HUD) who arranged the coverage through a three year master insurance plan. In 1986, HUD were unable to secure the appropriate coverage at a reasonable rate, and invited the National American Indian Housing Council (NAIHC) to come up with an alternative approach involving self funded insurance.

Following consultations made urgent by the pending expiry of the previous insurance contract, NAIHC formed AMERIND, a self insurance pool.

The pool was funded using the monies that participating Indian Housing Authorities had set aside for insurance under the low income program, for the 3 year housing contract (insurance was an eligible cost under the program).

Claims and costs for the first three years came in well below the amount budgeted under the program, leaving a substantial reserve for capital for Amerind.

Membership

AMERIND presently serves close to 200 Indian Housing Authorities and "Tribally Designated Housing Entities". This is the majority of Indian Housing Authorities.

Operations

Amerind is run by a Board of Directors, with elected representatives from each of nine regions.

As well as paying their premium, new members are required to make an initial equity contribution based on the number of covered buildings and their value.

Amerind encourages housing authorities to take a \$500 deductible (higher ones are available). While initially, the annual contribution per unit was based solely on estimated replacement value per unit, the rate charged is now affected by the number of claims made by the authority.

Amerind has reinsurance against catastrophic losses (in excess of \$1 million). Insurance through the pool is not available for off-reservation dwellings, however Amerind has partnered with regular insurers to provide “one-stop shopping” for Indian peoples.

At the end of 1997, after 10 years of operation, Amerind continued to hold a level of reserves in excess of the norm for the industry in relation to annual premiums.

Appeals to Loyalty of Members

Amerind emphasizes common interest of members and responsibility to other members. The message from the Chairman in the 1997 Annual Report reads:

“each time a member has a claim, all other fellow members pay that claim. Therefore each member must recognize and acknowledge its responsibility to fellow Amerind members and minimize the number and cost of each claim”

Fire Prevention

Amerind encourage fire safety. The main elements of their program are

- (i) a fire safety poster contest promoted in schools (kindergarten to grade 8) throughout all regions. The winning poster is printed in a yearly calendar, on posters and fridge magnets.
- (ii) A safety video contest
- (iii) Assistance to housing authorities in establishing safety programs
- (iv) Free literature

HUD special recognition of Amerind

HUD accords special status to AMERIND under its Indian assisted housing program, waiving the requirement for insurance to be acquired on a competitive basis if the insurance is obtained from AMERIND. Guidelines from the National Office of American Indian Programs issued on February 12, 1998 read:

“Insurance must be procured on a competitive basis pursuant to 24 CFR Part 85 unless the recipient purchases the insurance from a non-profit insurance entity owned and controlled by Indian Housing Authority (IHA), and approved by HUD, such as Amerind.”

7. CONCLUSIONS

The survey and research found several innovative approaches to insurance which are providing cost effective solutions tailored to the First Nations environment. The most interesting developments from the point of view of First Nations involvement are clearly those of the First Nations Insurance Pool of North Central Insurance Brokers (NCI) and AFN Insurance Brokers. The advent of these initiatives follows many years of discussion on the need for a First Nations controlled and owned insurance involvement.

The research showed that First Nations are becoming more receptive to seeking out cheaper insurance alternatives. The greater competitiveness of the market has increased awareness that there are choices.

There are a range of factors that are conducive to the success of initiatives designed specifically for on-reserve.

Firstly, there is the fact that First Nations share a common environment in terms of the housing sector. They are subject to a similar set of housing programs, i.e. the DIAND and CMHC programs, and a similar regulatory environment, as well as common funding mechanisms. Virtually all First Nations have a large band owned housing sector. Most suffer from a legacy of insufficiently funded homes, which have deteriorated rapidly.

The uniqueness of their situation compared to that off-reserve, makes “tailored for on-reserve” initiatives appropriate rather than the utilization of insurance arrangements designed for an off-reserve environment.

First Nations aspirations to provide for their own services is consistent with further growth of the First Nations controlled insurance sector. Of the six First Nations that had moved to the First Nations Insurance Pool, two specifically mentioned that an important factor for them was the fact that it was First Nations owned. It is likely that this was a relevant consideration for the others too.

The prognosis for market developments in insurance over the next few years may also be conducive to First Nations initiatives. The insurance market is highly cyclical. Prices have declined across the board over the last 4 or 5 years- a very long downcycle for the industry. When the next upswing in prices begins, First Nations with dwelling insurance are likely to step up their shopping around. They will be receptive to looking at any innovations that promise lower premiums.

The shake-up in the industry when the market cycle turns can help the development of a First Nations run insurance sector. It should be noted though that even self-insurance schemes will be only partially insulated from the general market cycle. Any part of their risk that stays with a regular insurer, will push their overall premiums up too.

The inclusion of an insurance component in the planning framework under the revamped DIAND policy should result in more First Nations insuring homes. Funding is obviously

a constraint as far as implementing insurance coverage on existing band homes. At an average of \$350 per home, to insure 20 homes would cost the band \$7000 per year. The tendency for more First Nations to insure their band dwellings may however be slowed if insurance prices rise sharply over the next few years.

The new First Nations insurance initiatives are well positioned to tailor fire education and awareness initiatives to First Nations residents, and to encourage the upgrading of fire equipment and the placing of water hydrants, and other fire prevention and detection devices.

To the extent that they succeed in this, they will be able to not only save lives and reduce property loss, but through minimizing claims, be able to hold down prices and compete effectively against the traditional insurance channels.

The next 10 years thus has the potential to see the First Nations industry as an industry driven and administered by First Nations people.

Successful First Nations insurance entities would:

- Ensure the availability of property insurance for First Nations
- Provide access to reasonable cost insurance
- Generate First Nations' employment and business opportunities
- Ensure that profits flow to the benefit of First Nations people
- Enable better focusing of fire safety initiatives relevant to on-reserve problems
- Ensure that coverage is tailored to the needs of First Nations.

Both the NCI Pool and AFN are seeking to become *the* national First Nations insurance organization. The choice of Rhodes and Williams an Eastern Ontario based broker as a partner to AFN in the AFN Broker initiative, follows approaches by other major brokers in the past to work with AFN in establishing a major First Nations initiative.

The circumstances in Canada as First Nations organizations enter the insurance field in earnest is very different from those surrounding the formation of Amerind in the U.S.

Amerind filled a vacuum created when Indian housing authorities found themselves on the verge of being without insurance, because HUD, the U.S. housing agency who traditionally arranged insurance was unable to negotiate an acceptable contract. Urgency, government support and encouragement, and the common circumstances and dilemma of all Indian housing authorities led to the creation of a national insurance pool made up of the majority of Indian Housing Authorities.

In Canada, the growth in servicing of Band dwelling insurance needs by First Nations peoples and organizations will be a slower process. The highly competitive state of the industry, the habit of shopping around, and the financial constraints of First Nations will mean that the new First Nation owned initiatives will have to offer and maintain low and stable prices, and excellent service to grow and keep their member/customers.

Appropriate training of First Nations people in the requisite skills is essential if First Nations enterprises are to operate effectively, to expand their scope of operation, to provide good service, and to survive. Money can be lost quickly if sales, underwriting, adjusting, claims settlement etc. is not done well.

The insurance industry however has very good potential for employment creation within the First Nations community. This is because it offers a range of skilled positions which have relatively short training periods². Thus, the switch in the insurance field from First Nations being served by non-First Nations personnel, to being served by First Nations people can take place reasonably quickly compared to many industries.

² Those wishing to operate as a broker must meet provincial requirements, which involve passing an exam. Study may be through a short college course or through a correspondence course. There are further examination requirements for more specialized skills, e.g. adjusting.

8. Suggestions for First Nations

The results of the survey, and discussions with brokers and others in the insurance or fire safety field suggest that First Nations can achieve savings in the insurance area, improve the service that they receive from brokers and insurance companies, and can reduce their fire risk.

Drawing from the work carried out under this study, we list below a set of questions and suggestions for First Nations directed both to assist in the process of getting a better deal that closer matches their insurance requirements, and to generally improve fire safety on the reserve.

The questions and suggestions:

1. Are you well prepared in the event of a fire in terms of water hydrants and community fire fighting equipment (or fast access to other communities fire fighting facilities)? A number of First Nations were upgrading their facilities, motivated both by a desire to reduce the fire risk and to reduce their insurance cost.
2. Are individual residents well prepared? How many have smoke detectors and fire extinguishers? Statistics from the Aboriginal Peoples survey (1991) showed that households on-reserve are far less likely to have operating fire alarms than those off-reserve.
3. Look at what your fire risks are, and whether there are ways of reducing them. Are there any high risk factors, or areas? (e.g. flammable substances or fire hazards close to residential properties?)
4. Decide what you need in the way of insurance, i.e. the coverages required, the deductibles you want. What are your priorities? Do you want the same package to cover all Band properties, residential and non-residential? Is there provision in the policy for residents to insure their personal property?
5. “Shop around” to get a better deal on insurance. Over 50% of First Nations have changed brokers in the last 3 years. If you have stayed with the same one, consider doing some comparison shopping. Compare prices, and coverages offered. Will you get replacement insurance coverage on all your units, new and old? Get written tenders from several companies/brokers. Re-tender every few years, if not every year.
6. Make sure that you are comfortable with your broker, and feel that you can work with him or her. Read the policy carefully. If something is not clear, then ask for it to be explained so there are no nasty surprises downstream. A few First nations indicated that on making a claim they found that the coverage was not quite what they had understood that it was, e.g., they had thought that they had replacement value

insurance, but they didn't have it, or they found that the level of assistance for temporary accommodation while awaiting repair was nowhere near adequate.

7. If you feel that assistance and advice in the field of fire safety (e.g., setting up workshops for residents, arranging public information sessions on fire preparedness) would be beneficial, then make it a requirement of the insurance. The survey carried out for this report showed that some First Nations are getting these benefits as part of their insurance package. Common causes of house fires on reserve (see Appendix 1) are arson, child fireplay and vandalism and human carelessness. Public education can help prevent or increase the safeguards against fires from these causes
8. Look at each of the existing possible types of insurance, i.e. local brokers, the larger national and provincial brokers, and the First Nation options discussed in the document if available in your area.
9. Check out whether other First Nations in your area or within your tribal council as a whole are interested in getting together to increase bargaining power. If they are, meet to discuss the options.
10. If there is sufficient interest on the part of other First Nations in your tribal council or region, you may wish to discuss with a broker or risk management professional the possibility of implementing a self insurance type option similar to those discussed in this paper, self insuring a part of the risk with a portion of the funds contributed by members.
11. Encourage homeowners to take out insurance. You may be able to work out a special deal for them with the same broker who handles the insurance on your band residences.
12. Regularly review your coverage, asking whether your needs have changed.

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A wide range of information was reviewed from relevant websites, including those of the Ontario Municipal Insurance Exchange, Amerind, the Cree Nation, HUD and a number of websites of insurance captives, reciprocals etc.

APPENDIX 1: FIRE SAFETY

Whatever mechanisms First Nations use to reduce the cost of dwelling insurance, long term stable and modest premium levels will only be achieved ultimately if the number of fire claims is kept to reasonable levels

The latest available DIAND Fire Loss Report (for 1997) shows that over the last 20 years, on average, the death rate from fires in First Nations Communities has decreased by approximately 7% per year. Even with the decrease in fire deaths, the average annual First Nation fire death rate per 1000 population between 1995 and 1997 at 6.2 persons was still over three and a half times the national average for the previous 10 years (1.68).

The most detailed analysis of fire statistics on reserve is a 1997 study prepared by the Fire Commissioners Office, Alberta³. The study found that *arson/vandalism and child fireplay* were the major causes of dwelling fires, accounting for close to 40 percent of all fires. These accounted for only 16 per cent of home fires in the rest of Alberta. The same study found that only 16 per cent of on-reserve homes in Alberta that experienced fires between 1992 and 1996 had smoke alarms

The most concentrated thrust on-reserve in improving fire safety awareness is likely to be the AFN's is the *Wisdom of the Learn Not to Burn* Program, a behavior based fire safety education curriculum based on the *Learn Not to Burn Program* which developed by the National Fire Safety Association. The *Wisdom of the Learn not to Burn* program takes the original program and tailors it to the on-reserve cultural context. The program is designed to be delivered by teachers with the support of fire safety officers.

Adequacy of the fire service is a key factor both in determining the ability to contain loss from fires and in addition to ensure a reasonable premium. In total, at 430 sites, or 46% of the total, service was either inadequate (164 sites) or there was no service (266 sites).

There has been only marginal improvement in recent years. The percentage adequate increased from 51% to the current rate of just over 53% between 1993 and 1999.

The causes of fires on reserve (arson/vandalism and child fireplay), the low incidence of installed smoke detectors, and the statistics on adequacy of the fire service suggest that there is considerable scope for improving fire safety on reserve.

Fire safety education, investment in fire services, facilities, and fire detection would all contribute to reducing fire losses and fire deaths, which will at the same time permit insurers to offer stable and modest premium levels.

³ *Fire Losses on First Nations Reserves in Alberta*, Mahendra Wijayasingh, PHD, Fire Commissioners Office, Alberta Labour. Reported in "Alberta Fire News", May 1998

APPENDIX 2: THE QUESTIONNAIRE

QUESTIONS ON PROPERTY INSURANCE ON-RESERVE	
Name: Position: First Nation	Phone: Fax: Email
<p>1. Do you have property insurance on your band-owned dwellings? Yes <input type="checkbox"/> No <input type="checkbox"/> <i>(if yes, go to question 3)</i></p> <p>Comments?</p>	
<p>2. If no, why not? Don't feel the need to <input type="checkbox"/> Can't get insurance <input type="checkbox"/> Insurance too expensive <input type="checkbox"/></p> <p>Comments/other reasons?</p> <p><i>(thank for answering questions, end of interview)</i></p>	
<p>3. How is your insurance arranged?</p> <p>Through a local broker <input type="checkbox"/> Through a national broker <input type="checkbox"/> Group/Captive by broker <input type="checkbox"/> Other <input type="checkbox"/></p> <p>If a "group/captive", or "other", please give brief details and provide a contact with whom we can discuss origins and workings of the captive/group through a fuller interview? Comments?</p>	
<p>4. If you entered into new arrangements in the last few years (e.g. captive/group insurance or other), have you realized any of the following benefits as a result?</p> <p>lower premiums <input type="checkbox"/> (by how much (approximately ---%) , better fire protection counseling <input type="checkbox"/> , better coverage (describe) <input type="checkbox"/></p> <p>Comments?</p>	

5. Are your dwellings insured for full replacement value? Yes ☐ No ☐

Comments?

6. What rate do you pay for dwelling insurance? (cents per thousand dollars of value)?

Comments?

7. What type of assistance/advice in fire protection/safety do you get from your broker?

Would you like more assistance from your broker? Yes ☐ No ☐

If so, what kind of assistance?

8. Comments, if any on problems or issues with property insurance? (band or homeowner insurance)