

DRAFT Op-Ed

To be pitched to media

For Approval by the CAFII Board

The Unseen Risk: Why Canadian Homeowners Are Falling Short on Insurance

By Keith Martin, Executive Director of the Canadian Association of Financial Institutions in Insurance (CAFII)

A troubling trend has surfaced in the Canadian homeownership landscape, posing a significant risk to many families' financial stability: an alarming number of homeowners are either uninsured or underinsured when it comes to life and health insurance. According to recent research conducted by LIMRA on behalf of the Canadian Association of Financial Institutions in Insurance (CAFII), a staggering 80% of Canadian homeowners surveyed fall into these categories. This statistic is representative of many Canadian families who may be at significant financial risk due to unforeseen circumstances.

The implications of this insurance gap could be severe. Without adequate life and health insurance coverage, families could face immense financial strain if an unexpected covered event were to occur, such as disability, critical illness, or the untimely death of any household income earners. This financial strain could result in negative impacts to families' current financial health and long-term stability, making it challenging to manage debts, maintain their standard of living, or plan for the future.

Consider a Canadian family with a mortgage of \$300,000. If the primary income earner was to pass away unexpectedly without adequate insurance, the surviving family members may need to use their savings to cover monthly mortgage payments and in worse-case scenarios, they may not have sufficient savings to service their debts which could result in the loss of their home.

In contrast, if the same family had a credit protection insurance (CPI) policy for their \$300,000 mortgage covering the primary income earner, the CPI could reduce or pay off the remaining mortgage balance in the event of their death, up to the policy limit. This means the surviving family members could maintain their standard of living and potentially avoid the devastating consequences of being underinsured.

The important role of credit protection insurance (CPI) is undeniable, especially for low-income homeowners who are disproportionately affected. Nearly half of these homeowners are uninsured, and among those who are insured, 75% are underinsured, with policies covering less than seven to ten times their income—as defined by the Financial Consumer Agency of Canada. Our study, which surveyed over 1,175 Canadian homeowners across various income brackets, revealed significant disparities in insurance coverage. While 55% of homeowners with a mortgage, home equity line of credit or both have some form of CPI, low-income homeowners have significantly fewer CPI products. This gap highlights an opportunity to educate more homeowners on the benefits of CPI and the role it plays as part of a family's overall financial plan to help ensure future security.

Moreover, the survey uncovered that many low-income homeowners do not seek financial advice. Exacerbating the issue, approximately 38% indicated they neither have nor wanted a financial professional to provide them with advice. Financial attitudes and concerns are another insightful aspect of the research. Among low-income homeowners, 48% reported being somewhat or not at all financially knowledgeable, and 53% are primarily concerned with paying monthly bills, while 44% worry about having enough money for comfortable retirement.

The urgency of addressing this issue has never been clearer. Recent parliamentary discussions about improving financial literacy and access to insurance products underscore the need for decisive action. The government's focus on enhancing financial inclusion, as highlighted in the recent 2024 budget, aligns with our study's findings and presents an opportune moment for financial institutions and policymakers to collaborate on closing the insurance gap by:

- Improving awareness of the importance of adequate insurance coverage.
- Launching educational campaigns that target vulnerable households, emphasizing the benefits of both traditional life insurance and CPI.
- Providing accessible and affordable financial advice to ensure all homeowners are making more informed decisions.

Insurance providers can also play a part in closing the insurance gap by continuing to develop more inclusive products tailored to the needs of low-income homeowners. Simplified application processes and flexible payment options could make insurance more accessible to this underserved market.

Effective government regulations are vital for safeguarding homeowners, but they must be crafted to protect consumers without stifling access to essential insurance. Overly restrictive regulations risk deterring people from securing the coverage they need, leaving them vulnerable to financial hardships. The goal should be to create smart, streamlined regulations that empower, rather than inhibit, the purchase of adequate insurance. By doing so, governments can ensure widespread financial protection without unintended consequences.

Closing the insurance gap is critical to ensure families have the knowledge they need to make informed decisions about the CPI needs in times of adversity. As we move forward, it is imperative that we take decisive action to support Canadian homeowners in securing their financial futures.