Canadian Institute of Actuaries | Institut canadien des actuaires

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Office of the Superintendent of Financial Institutions (OSFI)
Climate Risk Returns
ClimateRiskReturn-ReleveRisquesClimatiques@osfi-bsif.gc.ca

Subject: Draft Climate Risk Returns for Federally Regulated Financial Institutions

The Canadian Institute of Actuaries (CIA) would like to acknowledge OSFI's proactiveness in the collection of industry data with regards to climate-related risks, and we thank you for giving stakeholders the opportunity to provide feedback on the proposed framework. We believe this is a great step forward and we hope our comments, contained in the following sections, will be helpful in achieving OSFI's goals in responding to climate-related risks.

In the Draft Business Specifications for the Climate-Related Risk Returns for Insurers, the purpose indicates that IC2 returns will enable the quantification of potential transition risk exposures through the collection of data on absolute greenhouse gas (GHG) emissions. Although we recognize that GHG emissions might be an acceptable workaround at this point in time, we want to point out that it is far from perfect, both from an underwriting (P&C) and an investment perspective.

Indeed, investing in some traditionally high-emitting sectors might be key to transitioning to a low-carbon economy, which could help to lower transition risk for investors. Besides, GHG emissions data are backward-looking. It is certainly important that insurers start and/or continue collecting emissions data. However, transition risk exposures would be assessed more accurately with, for instance, sector-specific risk indicators developed based on research. Nevertheless, if OSFI has any views on how transition risks may be assessed in the future, it would be helpful if these views may be shared, so insurers can prepare and plan accordingly.

The Draft Business Specifications state that the returns will apply to all insurers. However, our understanding is that the IC1 return, as it's currently structured, does not apply to life and health insurers. Consequently, the potential and realized physical risks exposures for these insurers are not assessed.

Although potential impacts of physical risk on their liabilities (e.g., mortality and morbidity) may be hard to quantify due to data and modelling limitations, we believe that potential impacts on investments (e.g., property damages, supply chain disruption, etc.) could be significant and somehow measurable. Hence, we believe OSFI should specify its expectations in that regard with respect to the applicability of IC1 to life and health insurers.

With respect to the timeline as noted under the implementation date section of the Draft Business Specifications, while we recognize the urgency of action, we have some concerns regarding the capacity of some insurers to meet the year-end 2024 requirements. Our concerns include, but are not limited to, qualified resources, data challenges (see next section), climate models and governance framework.

In addition, there seem to be some inconsistencies between due dates for Climate-Related Risk Returns and Guideline B-15 disclosure requirements. For instance, for a non IAIG insurer, the IC2 Return would require that entity to report on Scope 3 emissions two years ahead of the expected disclosure date as per Guideline B-15 (2024 versus 2026). To help insurers better prepare and plan, we believe OSFI should provide clarification on the timing expectations between the Climate-Related Risk Returns and Guideline B-15.

As we alluded to above, data availability and quality will likely be a challenge for many insurers, especially for smaller insurers as they may lack human and/or financial resources. OSFI often refers to the 'best effort basis' when it comes to regulatory requirements, but not here. Below are examples that are specific to IC1 and IC2 and that we believe OSFI should keep in mind when collecting and interpreting industry data, as well as for future improvements.

- **IC1** – 'Other Climate Related' is broadly defined and could lead to significant differences in reported data from one entity to another, hence potentially affecting the quality, comparability, consolidation and interpretability. Further precision in terms of expectations could be valuable.

- **IC1** – Many P&C insurers rely on reinsurance brokers for catastrophe modelling and probable maximum loss (PML) generation. Given brokers still mostly work with 'traditional' models, we are concerned that the required information for climate-conditioned perils may simply not be available for a number of P&C insurers in the Canadian industry. Clarifying expectations for those specific cases would be beneficial. Moreover, the models run by brokers often have limitations on the use of the results. This will limit data availability for many insurers.

- **IC2** – Scope 3 emissions disclosure standards are still at early stages and do not cover all asset or insurance classes, which makes data availability and quality a challenge in different sectors and lines of business, creating hurdles for many insurers that may not have resources to work through this.

We are interested in knowing if and how the climate-related risks data collected by OSFI from these returns will be made publicly available – OSFI already does for other returns. We would strongly encourage this, as we believe it would help further accelerate and improve the Canadian insurance industry's understanding and proficiency in the climate risks and opportunities areas. We would welcome additional information in that regard as part of the returns filing instructions.

We applaud OSFI's efforts in climate-related data collection to facilitate climate-related risk disclosure. However, we do believe there needs to be clearer guidance on how this relates to Guideline B-15, as well as clarification of the definition of data requirements. The collection of climate-related risk data is a step towards the right direction, we look forward to continuing to collaborate with OSFI on this journey.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, FCIA, Actuary, Communications and Public Affairs, at 613-236-8196 ext. 119 or chris.fievoli@cia-ica.ca.

Sincerely,

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President, Canadian Institute of Actuaries

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