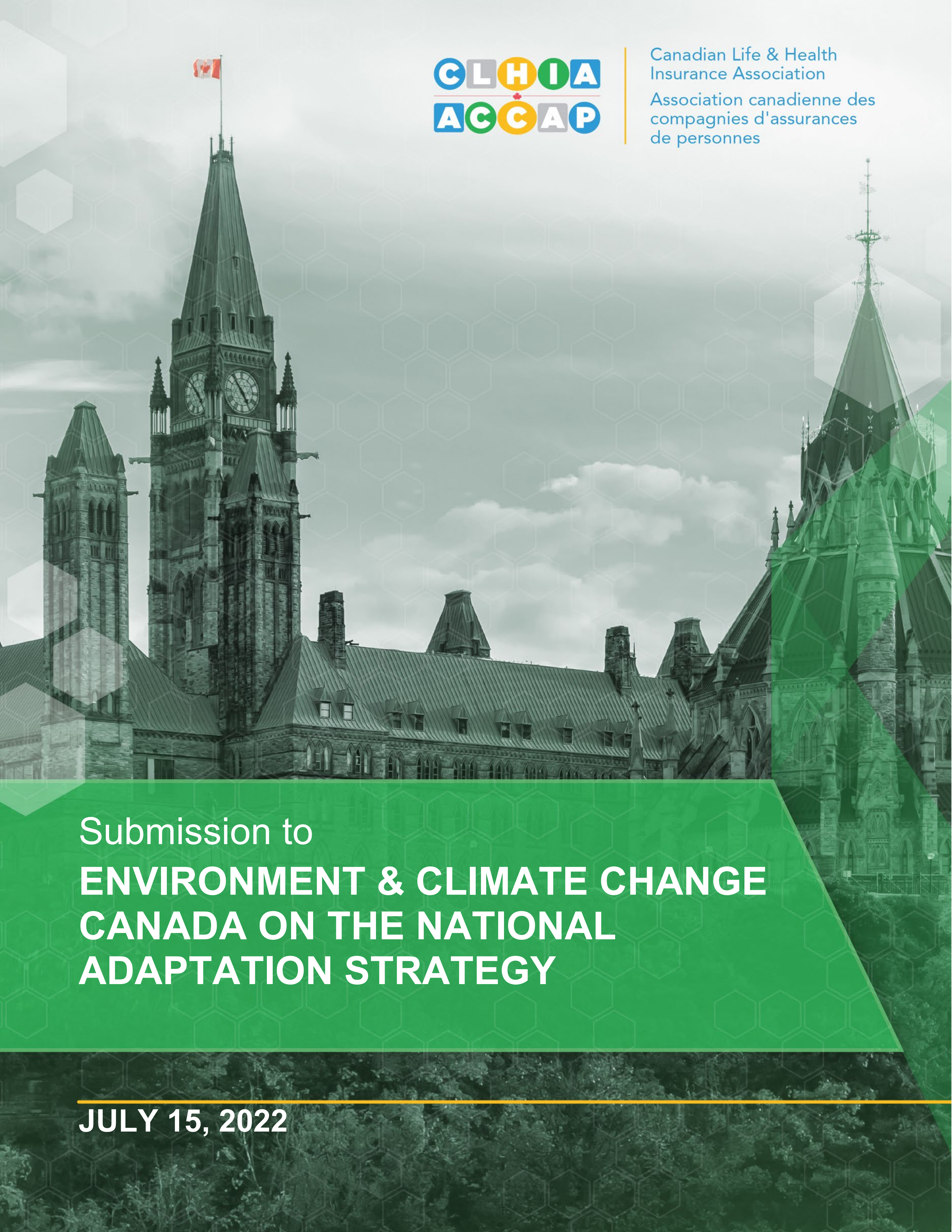
Canadian Life & Health Insurance Association
Association canadienne des compagnies d'assurances de personnes



Submission to

ENVIRONMENT & CLIMATE CHANGE CANADA ON THE NATIONAL ADAPTATION STRATEGY

JULY 15, 2022

EXECUTIVE SUMMARY

- **Infrastructure:** We recommend that the federal government pass the delayed regulations from Budget 2018 that are critical to allowing greater private sector investment in sustainable and resiliency-building infrastructure; develop a publicly available pipeline of sustainable and climate-resilient infrastructure projects being built by all levels of government; and structure projects to attract long-term investors.

- **Health and Wellbeing:** We recommend the development of data sharing mechanisms with the private sector concerning the impacts of climate change on public health.

- **Economy:** Canadian life and health insurers support the development of Canadian disclosure standards for climate-related risks and opportunities that are aligned with global disclosure standards.

OVERVIEW

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to Environment and Climate Change Canada in response to its discussion paper *Preparing for Climate Change: Canada's National Adaptation Strategy*.

The CLHIA is the national trade association for life and health insurers in Canada. Our members account for 99 per cent of Canada's life and health insurance business. The industry provides a wide range of financial security products such as life insurance, annuities, and supplementary health insurance.

$8.2 billion in tax contributions

$1.3 billion in corporate income tax
$1.3 billion in payroll and other taxes
$1.7 billion in premium tax
$3.9 billion in retail sales tax

Investing in Canadians

$1 trillion in total invested assets
91% held in long-term investments

Protecting **29 million Canadians**

26 million with drug, dental and other health benefits
22 million with life insurance averaging $228,000 per insured
12 million with disability income protection

$97 billion in payments to Canadians

$46 billion in annuities
$37 billion in health and disability claims
$14 billion in life insurance policies

Insurers play a key role as an assessor, manager and underwriter of risk, including climate-related risks. The most significant contribution that (re)insurers can make regarding climate-related risks is through risk-based pricing that provides incentives, disincentives and other economic signals.

GENERAL COMMENTS

Canadian life and health insurers support all governments taking steps to reduce, mitigate and adapt to the risks of climate change. The effects of climate change— more frequent and severe storms, flooding, drought and forest fires—has a more immediate impact on property and casualty insurers. However, life and health insurers are closely watching the impact of climate change on mortality and morbidity, public health, peoples' livelihoods and inequality. Managing climate-related risks is an area of significant and growing concern to the life and health insurance industry and we see it as our responsibility to support an orderly transition to a lower carbon future.

The life and health insurance industry is currently participating in the Office of the Superintendent of Financial Institutions' (OSFI) consultation on Draft Guidance B-15: Climate Risk Management. We encourage the federal government to work with the federal regulator to ensure consistency in any climate related guidance.

The National Adaptation Strategy is an opportunity for the federal government to consider how the physical impacts from climate change may also lead to a broad range of socioeconomic and geopolitical impacts. These impacts will also impact the Canadian economy, infrastructure requirements, and the health of Canadians.

The life and health insurance industry would like to propose two additional Guiding Principles for the National Adaptation Strategy:

1. **"Adaptation actions will safeguard the public health of Canadians"**

It is critical that public health is considered central to the Adaptation Strategy because public health challenges are relevant to many of the Strategy's goals and systems. The Health and Wellness system should also be retained in order to ensure that the complex impacts of climate change on the health and wellness of Canadians are mitigated. One example of the how public health is considered in other streams of the National Adaptation Strategy is that a recommended objective of the Disaster Resilience stream is to "eliminate preventable deaths from extreme weather events".

2. **"Close collaboration with a wide range of stakeholders, including the private sector, on program development and data sharing."**

This will ensure that the government leverages expertise across Canada to develop a common understanding of the complex climate-related challenges we face.

Below you will find detailed comments in relation to priorities of the National Adaptation Strategy which are relevant to our industry.

INFRASTRUCTURE

The nature of Canadian life and health insurance products − routinely lasting more than 50 years − results in predictable, long-term, liabilities. As such, life insurers are ideal financial partners for long-term infrastructure projects, including public-private partnerships (P3). This nature of life insurance means the industry is an important and stable investor in long-term assets.

Infrastructure investment is vitally important to help Canada reduce, mitigate and adapt to the risks of climate change. For example, it is estimated that Canadian municipalities need to spend $5.3 billion per year to avoid the worst impacts of climate change and studies have shown that investments in resilient infrastructure have a return on investment of $6 in future averted losses for every $1 spent proactively (Catastrophe Indices and Quantification Inc. and Insurance Bureau of Canada, 2022).

Infrastructure investment is also crucial to maximizing economic development and prosperity throughout Canada as we compete to grow in a challenging economy and recover from the economic impacts of COVID-19. In July 2021 the industry shared our views with the Government of Canada in response to its first public engagement on a National Infrastructure Assessment.

As a substantial investor in the Canadian economy, the life and health insurance industry is well positioned to support the transition to a lower carbon economy through investments in sustainable financial products and assets, including clean energy, transportation and resiliency-building infrastructure. Canadian life and health insurers already have $55 billion invested in domestic infrastructure and more than $75 billion invested in products or assets that integrate ESG or sustainability factors.

However, the industry is able and wants to do more, but our capacity to invest more is constrained by the lack of available sustainable assets. Budget 2018 made important changes to the *Insurance Companies Act* that were intended to give Canada's life insurers greater ability to invest in infrastructure. The regulations required to bring these changes into force have been pending for nearly three years. Bringing forward these regulations would encourage greater private sector investments in infrastructure. It makes good economic sense to create the regulatory conditions which promote private sector investment in climate-resilient, sustainable infrastructure projects which can help reduce, mitigate, and adapt to the impacts of climate change.

We support Proposed 2030 objective #2, the development and implementation of a robust framework to guide the allocation of sufficient public and private funds towards low-carbon and climate resilient infrastructure. We would recommend expanding this objective to include business models that encourage private investment in sustainable infrastructure for mitigation.

We recommend that the federal government work with provinces and municipalities to ensure that investments in infrastructure include consideration of resilience to the impacts of extreme weather. This will ensure that homes and commercial properties are able to adequately shelter Canadians from extreme weather events.

We also encourage the federal government to find ways to enable engagement of all levels of government to address this challenge, including municipalities, which currently control 60 per cent of the country's infrastructure.

We recommend the Government of Canada leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects. It can do this by structuring projects to attract long-term investors and passing the delayed regulations from the Budget 2018 that encourage greater private sector investment in infrastructure.

We would also encourage the Government to develop a publicly available project pipeline for climate-resilient infrastructure which are structured as public-private partnerships including any of the following elements: Design, Build, Finance, Maintain, and/or Operate. This list should include projects by all levels of government.

Prudential regulation of insurers ensures a safe and sound insurance market while protecting consumers. Current prudential standards do not consider the unique characteristics of infrastructure as an investment and can deter insurers from making long-term investments, in high-quality infrastructure assets. We recommend that:

- ***Regulators should examine infrastructure as an investment category and, where appropriate, adjust prudential regulatory standards to reflect the lower risk of investments in high-quality infrastructure.***
- ***OSFI review the Life Insurance Capital Adequacy Test (LICAT) for any undue barriers that may be built into the framework—with particular attention given to the treatment of certain private debt assets.***

HEALTH & WELLBEING

In 2020, life and health insurers provided 26 million Canadians with access to a wide range of health services through employer sponsored benefits plans and paid over $37 billion in health and disability insurance benefits. Canadians value their benefits, which provide them access to prescription medicines, vision care, dental care and mental health supports.

Through the COVID-19 pandemic, Canada's life and health insurers have demonstrated their resilience to a major shock to Canadians health and the economy.

CLHIA members have been responsive to the changing needs of both plan sponsors and plan members. Notably, many insurers proactively provided premium reductions and other forms of relief, including premium deferrals to reduce costs for employers and help them get through the economic impacts of lockdowns, when there was a reduction in benefits use for many in-person services.

In addition, Canadian life and health insurers paid $420 million in psychology claims in 2020 – a 25 per cent increase from 2019. We have also been working to improve access for Canadians who have been negatively impacted by the pandemic by supporting alternative options for care including virtual care. We recommend continued collaboration between public and private payers to help ensure mental health care is accessible, high quality and patient focused. While we do not yet have 2021 data, we expect that we will see sustained growth in benefits usage for this category.

Canadian life and health insurers are closely watching the impact of climate change on mortality and morbidity, public health, mental health, peoples' livelihoods and inequality. For example, recent analysis modelled the impact of climate change on Canadian health outcomes and health care costs (Canadian Climate Institute, 2021). It found that climate change will result in a significant increase in health costs by mid-century, even under a low emissions scenario, because of illness and death related to ground-level ozone and reductions in productivity and deaths associated with extreme heat. Further, in February 2022, Health Canada released Health of Canadians in a Changing Climate: Advancing our Knowledge for Action, which assesses the risks of climate change to Canadians—including mental health, infectious disease and air quality—as well as to the health care system. This report confirmed that climate change is already affecting the health of Canadians as a result of extreme heat, wildfire events and the expansion of zoonotic diseases into Canada, such as Lyme disease, with impacts expected grow to temperatures continue to rise.

We are encouraged by the federal government's consideration of potential impacts from climate change, including new, or worsening, chronic physical and mental health conditions, leading to measurable effects on productivity, mortality and morbidity. A continued increase in average temperatures could lead to an increase in cardiovascular and respiratory illnesses, and changes in the distribution of vector-borne diseases, like Lyme disease.

Our industry supports the proposed 2050 goal of building a climate-resilient and adaptive health sector that has robust and agile systems and services that account for and support the diverse components of well-being.

Canadian life and health insurers want to collaborate with all levels of government to build a fiscally sustainable, climate-resilient and adaptive health sector which provides Canadians with access to high quality health care.

We recommend greater collaboration between all levels of government, health care providers and health insurance companies, to credibly disseminate information necessary for Canadians to understand the health-related risks from climate change.

We also recommend that the federal government work with provinces and municipalities to ensure that local services are adequately resourced to support Canadians during severe weather events. This includes (but is not limited to) ambulance services, warming and cooling centres, check-in programs, and other services that can limit the health impacts of climate change on Canadians.

We recommend the development of data sharing mechanisms with the private sector concerning the impacts of climate change on public health.

ECONOMY

Life and health insurers understand that climate change and the transition to a low-carbon future will have an impact on the economy. We support the proposed 2050 goal that Canada's economy be structured to anticipate, manage and respond to climate change impacts.

We support the development of national standards that help identify, assess, and disclose the financial implications of the physical and transitional risks of climate change as stipulated by the Advisory Table on Strong and Resilient Economy. One way we are already working towards this goal is through the development of climate-related risk disclosures, which will allow all parties (financial services providers and clients/investors) to account for climate-related risks in investment decisions. Our members are both providers of the information to their stakeholders as well as significant users of the information given the substantial investments held by life insurers. Climate-risk disclosures from investee companies will enable insurers to better assess exposure to climate-related risks in their investment portfolios.

Today, many of Canada's life and health insurers voluntarily disclose climate-related risk information in a number of documents including annual and quarterly reports and other regulatory filings; Task Force on Climate-Related Disclosure (TCFD) reports; and Environmental, Social and Governance (ESG) scorecards and reports. This voluntary disclosure helps provide information to investors, analysts and institutional clients and demonstrates the industry's interest in actively engaging in climate-related initiatives. Recently, there has been a trend towards uniformity in voluntary disclosure, coalescing around the recommendations of the TCFD.

In Budget 2022, it was announced that federally regulated financial institutions will be required to publish climate disclosures aligned with the Task Force for Climate-related Financial Disclosure (TCFD) framework using a phased approach starting in 2024. OSFI will also expect financial institutions to collect and assess information on climate risks and emissions from their clients. In May 2022, OSFI released draft *Guideline B15: Climate Risk Management* for public consultation. B-15 provides guidance on climate risk management and climate-related financial disclosure. The CLHIA will be responding.

In addition, the CLHIA also recently responded to a consultation by the Canadian Securities Administrators (CSA) on a proposed National Instrument on the disclosure of climate-related matters.

Finally, discussions are underway about the establishment of a Canadian Sustainability Standards Board in Canada (CSSB) which would be a sister board to the currently existing Canadian Accounting Standards Board. Once established, the CSSB would be charged with developing standards related climate and sustainability related disclosures which would, presumably, be applicable to Canadian reporting issuers.

Canadian life and health insurers support the development of Canadian disclosure standards for climate-related risks and opportunities that are aligned with global disclosure standards. It is important that Canadian firms are not subject to multiple and potentially competing

disclosure regimes. It is important to align disclosure requirements as closely as possible to TCFD. This will provide consistency in Canada and also avoid the need for Canadian issuers to supplement Canadian requirements to meet the expectations of international investors and regulators.

CONCLUSION

Climate change is an important issue. Thank you for providing us with the opportunity to engage on the development of a National Adaptation Strategy. Should you have any questions or wish to discuss further, please don't hesitate to contact Susan Murray, Vice-President, Government Relations and Policy at smurray@clhia.ca or 613-691-6002.

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