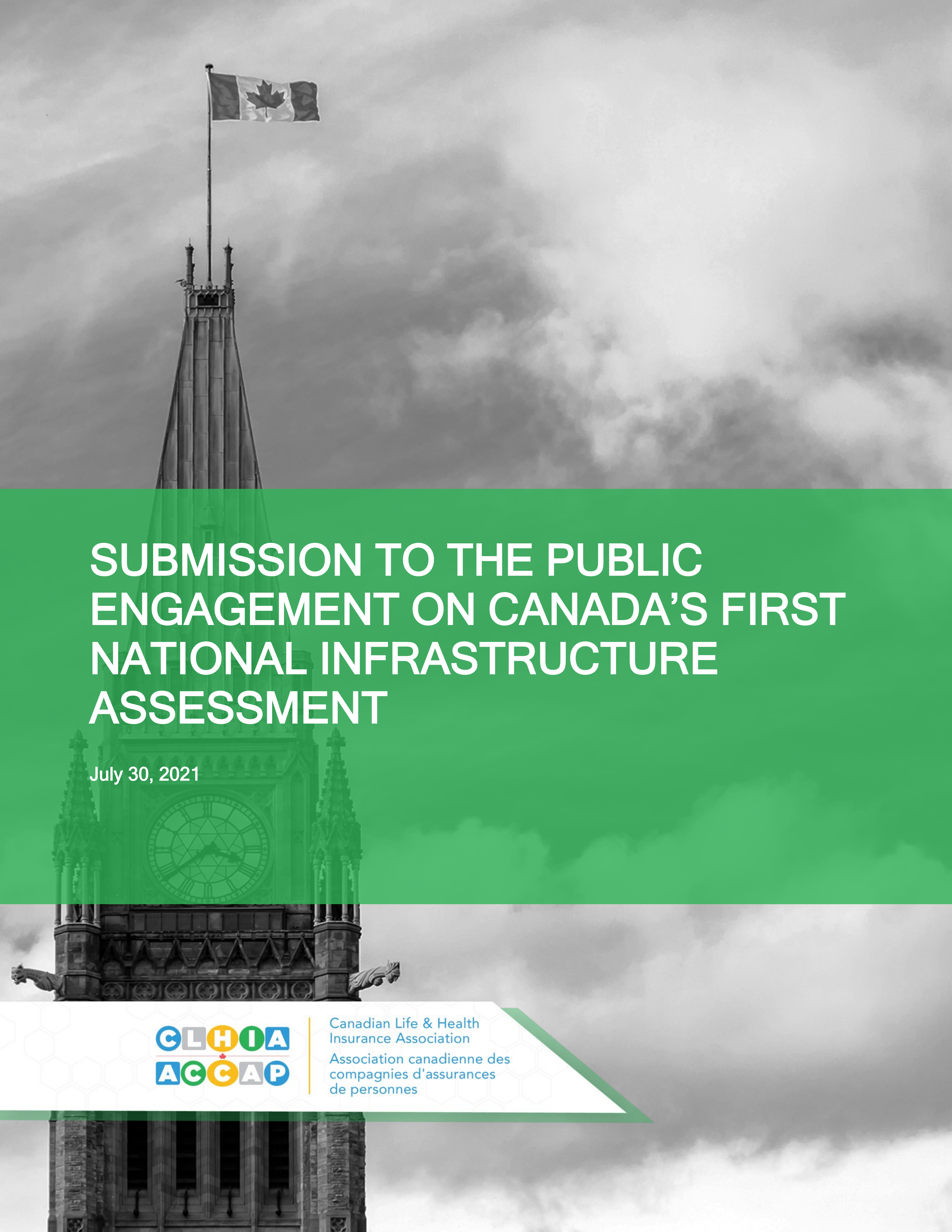

SUBMISSION TO THE PUBLIC ENGAGEMENT ON CANADA'S FIRST NATIONAL INFRASTRUCTURE ASSESSMENT

July 30, 2021

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

OVERVIEW

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to Infrastructure Canada in response to *Building the Canada We Want in 2050: Engagement Paper on the National Infrastructure Assessment*. Our submission will touch on all three priorities identified in the engagement paper.

The life and health insurance industry plays an important role in providing financial security to Canadians, protecting millions of Canadians through a wide variety of life, health and retirement income products. The industry is also a major contributor to the Canadian economy, by employing 157,000 Canadians and providing an important source of stable capital for the federal government through investments and tax contributions.

$8.3 billion in tax contributions

$1.5 billion in corporate income tax

$1.3 billion in payroll and other taxes

$1.6 billion in premium tax

$3.9 billion in retail sales and payroll taxes collected

Investing in Canada

$950 billion in total invested assets

92% held in long-term investments

Protecting **29 million Canadians**

26 million with drug, dental and other health benefits

22 million with life insurance averaging $222,000 per insured

12 million with disability income protection

$103 billion in payments to Canadians

$53 billion in annuities

$38 billion in health and disability claims

$12 billion in life insurance policies

The life and health insurance industry is a substantial investor in the Canadian economy, with over $52 billion invested in domestic infrastructure and more than $75 billion invested in sustainable products and assets.

Canadian life and health insurers are supportive of all governments taking steps to reduce, mitigate and adapt to the risks of climate change, including through investment in sustainable and resilient infrastructure. The immediate impact of climate change—more frequent and severe storms, flooding, drought and forest fires—is obvious to property and casualty insurers. However, life and health insurers are closely watching the impact of climate change on public health, peoples' livelihoods and inequality.

With the appropriate regulatory conditions, the industry can act as an important partner to government in addressing climate change, promoting resilience and supporting the transition to a lower carbon economy.

LIFE AND HEALTH INSURERS AS LONG-TERM INVESTORS

The life and health insurance industry strongly supports the Government of Canada establishing a long-term vision for public and private infrastructure investments. Our industry holds $780 billion in domestic assets, 90 per cent of which must be invested over the long term to ensure we can meet our obligations to our customers.

When an individual purchases a life insurance or pension product, insurers often receive premiums for several decades—up to 50+ years—before paying related claims. Insurers invest the premiums they collect to pay future claims and benefits on their policies, as well as cover their operating and capital costs. Because of this, an insurer's investment strategy is heavily influenced by the profile of its liabilities, with insurers seeking to match the term of their liability with their assets. This creates a strong demand for very long-term investments.

This strong demand makes long-run capital investments very important, including investments that drive economic growth like infrastructure and support government investment including government bonds. In fact, the life and health insurance industry plays a key role in supporting economic growth as one of the largest investors in a number of asset classes critical to economic growth, such as corporate bonds, government bonds and commercial mortgages.

Insurers can also play a stabilizing role in the economy. Our members' consistent demand for long-term assets, along with a long-term, conservative investment approach, plays an important counter-cyclical role in times of market stress. In these periods of market stress with significant market volatility—including through the COVID-19 pandemic—insurers receive a continual and steady flow of premiums. This, together with predictable liability outflows, enables insurers to take a long-term view towards investing. Insurers hold and continue to buy assets that are temporarily undervalued during a downturn and sell or avoid assets that are temporarily overvalued during a boom. This helps temper market volatility over business cycles as was evidenced by the industry's role in providing stability during the 2008 financial crisis and offering policyholders support during COVID-19 pandemic.

To enable insurers to maximize their investment potential and contribute to economic growth, the right capital and regulatory measures need to be in place. 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. As such,

- ***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.***
- ***The Office of the Superintendent of Financial Institutions (OSFI) may want to carefully 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.***

LIFE AND HEALTH INSURERS AS INFRASTRUCTURE INVESTORS

World-class infrastructure is vitally important to maximizing economic development and prosperity throughout Canada as we compete in a global economy and ensuring a full economic recovery. There are important infrastructure investments to be made in Canada's public transit, roads, hospitals and schools.

Canadian life insurers are a leading source of long-term financing for infrastructure (re)development and have participated in projects ranging from roadways and public transit to public buildings and wastewater systems. In 2018, life and health insurers had over $52 billion invested in domestic infrastructure. Because life insurers can commit to long-term financing throughout the “design, build, finance, maintain and operate” stages, they are ideal financial partners for public-private partnership (P3) infrastructure projects. The industry is also open to collaborating with the federal government to develop innovative ways of financing infrastructure. Life and health insurers have already reached financial close on a number of infrastructure projects using innovative financing structures both in Canada and internationally. One example of an innovative financing structure is the Innavik Hydro Project in Quebec.

Given that the bulk of Canada's $400 billion infrastructure deficit is at the smaller municipal government level, a more nuanced approach is needed to address this specific segment of the country's infrastructure deficit. Active collaboration between all levels of government and the private sector to develop a comprehensive long-term plan to fund and facilitate identified needs at the local level will help speed up bringing projects to market and reduce the infrastructure deficit. Insurers have traditionally partnered with all levels of government to bring forward infrastructure projects and will continue to work towards improved coordination among infrastructure owners and funders.

While we were encouraged by the creation of the Government’s Canada Infrastructure Bank to attract and co-invest with the private sector in infrastructure projects that are in the public interest, we are disappointed that progress has been slow. Canada’s life and health insurers are ready to partner with the Canada Infrastructure Bank (CIB) on critical infrastructure projects. The Government of Canada should consider whether the role of the CIB could be expanded to include consolidating groups of smaller infrastructure projects into pools that would make investment easier for institutional investors.

It would also be beneficial for all participants involved in the construction of federally funded infrastructure if the government developed a frequently updated, publicly available project pipeline similar to those released by Infrastructure Ontario. Insurers need a strong pipeline of Design-Build-Finance-Maintain projects to invest in because these structures provide the long-term predictable revenue streams that match our long-term liabilities. Releasing a long-range plan of identified projects with information about when funding will be released along with proposed timelines would also enhance the ability of all industries to properly allocate resources. Currently, federal infrastructure dollars tend to be released in large and unevenly distributed increments, which strains construction capacity and drives up costs. If funding was smoother and more predictable with a long-range plan of identified projects the cost of building new infrastructure would be reduced.

In addition, 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.

We recommend the government leverage our industry’s investment capacity to expand and accelerate long-term infrastructure projects, allowing Canada to modernize its

infrastructure and make the economy more productive and competitive. We would encourage the Government to develop government policies, such as a publicly available project pipeline for federal Design-Build-Finance-Maintain projects, and bring forward regulations to encourage private investment in infrastructure.

LIFE AND HEALTH INSURERS AS SUSTAINABLE INVESTORS

Significant infrastructure investment is needed to support Canada's transition to a lower carbon economy. As a substantial investor in the Canadian economy, the life and health insurance industry is well positioned to support this transition through its substantial capital available to invest in sustainable infrastructure.

In fact, insurers have already taken steps to increase their investments in products and assets that meet environmental, social and governance (ESG) or sustainability criteria. Canadian life and health insurers already have more than $75 billion invested in products or assets that integrate ESG or sustainability factors.

Beyond investment dollars, several Canadian life and health insurers have publicly supported the Financial Stability Board's (FSB) Task Force for Climate-related Financial Disclosure (TCFD) recommendations, and some are also signatories of the United Nations-supported Principles for Responsible Investment (PRI) and the UN Environment Programme (UNEP) Principles for Sustainable Insurance (PSI). The CLHIA itself also recently became a supporting institution of the PSI alongside with the Insurance Bureau of Canada (IBC) and the International Actuarial Association (IAA).

Canadian life and health insurers are undertaking a variety of actions to increase their investment in products and assets that meet ESG and/or sustainability benchmarks. These include but are not limited to:

- Having a sustainable investment council or external advisory board to assist them with exploring ESG investment opportunities;
- Considering ESG factors in investing practices, either through internal scoring systems or through specialized vendors;
- Issuing green and sustainability bonds to support sustainability projects;
- Investing in government green bonds and/or private sector investment funds with sustainability mandates;
- Investing in resilient and sustainable infrastructure such as green buildings, renewable energy, clean transport infrastructure and sustainable water management; and
- Reviewing their investment portfolio and exploring the option of and/or setting targets for their ESG and/or sustainable investment rate.

When analyzing whether a product or asset meets ESG or sustainability criteria, Canadian life and health insurers may employ strategies such as negative/exclusionary screening, positive/best-in-class screening and norms-based screening. Also, many conduct corporate engagement and shareholder action.

However, the industry is able and wants to do more. Currently, insurers' capacity to invest more is not matched by available sustainable assets.

The industry is available to collaborate with the government on the issue of lack of supply of sustainable assets for investment, such as infrastructure, low-carbon electricity generation, and climate transition projects.

CONCLUSION

The life and health insurance industry supports the Government of Canada creating new opportunities for investment in sustainable, long-term infrastructure assets. 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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