



JULY 2024

Consultation Summary Report

NATURAL CATASTROPHES AND CLIMATE- RELATED RISKS

BCFSA

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Contents

Executive Summary	1
Introduction	3
Background	3
Consultation Process Overview	5
Summary of Feedback & Key Elements of BCFSA’s Approach	6
Key Takeaways	6
BCFSA Response and Areas of Focus	7
Enhancing Climate Risk Governance	8
Targeted Timeline for Key Areas of Focus	8
Addressing Physical Risk	8
Improving Consumer Awareness	9
Monitoring Insurance Availability	9
Whole-of-Society Initiatives	9
Conclusion and Next Steps	10
Appendix A: Stakeholder Group Meetings	11
Stakeholder Group Meetings	11
Appendix B: Segment Specific Feedback & Next Steps	12
Credit Unions	12
Insurance Companies	14
Pensions	16
Real Estate Services, Mortgage Brokers and Real Estate Development Marketing	18
Trust Companies	20

Executive Summary

In July 2023, B.C. Financial Services Authority (“BCFSA”) released a discussion paper titled, ‘Natural Catastrophes and Climate-related Risks: Managing Uncertainty and Building Resilience in the B.C. Financial Services Sector.’

The paper outlined how natural catastrophes and climate-related risks (“NCCR”) impacts each of the segments BCFSA regulates and poses a material risk to the financial services sector and to consumers in British Columbia (“B.C.”). The risks and impacts to the financial services sector are driven by B.C.’s significant exposure to natural hazards, including flooding, heat waves, wildfires, wind, winter storms, and earthquakes. The level of risk is expected to increase with the growing frequency and severity of natural catastrophes resulting from climate change.

In the discussion paper, BCFSA proposed a risk-based and integrated approach to NCCR that increases the resilience of the financial services sector and consumers.

The proposed approach had two pillars:

- ⇒ Ensuring financial services providers identify, measure, and manage NCCR.
- ⇒ Ensuring that financial services providers disclose NCCR data and information to customers.

While the paper outlined guidance and regulatory interventions that BCFSA could explore, it also highlighted the need for BCFSA and the financial services sector to be part of a whole-of-society approach to building resilience. Specific attention was drawn to commercial and residential real estate as an area where BCFSA and the financial

services sector can help ensure consumers are protected. These actions recognize the impact of housing on the B.C. economy, the significant exposure of the province to multiple natural hazards, and the nature of the entities and individuals BCFSA regulates.

Following the release of the discussion paper, BCFSA consulted interested stakeholders and members of the public over a period of five months, providing opportunities to provide feedback through a number of different channels. In total, BCFSA received approximately 300 submissions as well as additional feedback on segment-specific issues through meetings with industry associations and other stakeholders, as requested.

Overall, respondents voiced support for BCFSA’s position that financial institutions and pension plans need to identify, measure, manage, and disclose NCCR to both their business and their customers, clients, and/or beneficiaries. Some concerns were raised regarding the ability of these entities to accurately identify and measure NCCR, given both current challenges with climate-related data availability and quality as well as uncertainty related to the impact of climate change over time. This was consistent with feedback received from real estate licensees and mortgage brokers, who also flagged that they should not be expected to have NCCR related expertise. Given these challenges, some regulated entities and individuals are hesitant to move too quickly in fear of getting things wrong. This is especially true if outputs are informing asset allocations, lending decisions, disclosure statements, and advice given to customers or clients.

Feedback from several segments raised concerns regarding the impact of NCCR on future insurance availability and affordability. This feedback highlighted the importance of insurance in enabling economic activity as it protects homeowners, businesses, and lenders from potential financial losses. As losses continue to rise with more frequent and severe climate-related events, insurance may become both more expensive and less available, especially in high-risk areas. Respondents raised concerns that certain prudential expectations or regulatory interventions could further limit access to insurance in high-risk areas at the same time as insurers are adjusting their product offerings and their pricing to manage their NCCR exposure.

Respondents also cited a general lack of awareness and understanding of NCCR, both within the financial services sector and among consumers. Finally, feedback validated that BCFSA should play an active role in “convening conversations” with government, other regulators, regulated entities, licensees, and the public to ensure an effective whole-of-society approach to NCCR.

In response, BCFSA has developed a phased, risk-based, and proportionate approach with the objective of increasing the resilience of both financial services providers and consumers in the face of NCCR. The approach builds on the two pillars from the discussion paper and includes four priority areas of focus:

1. **Enhancing Climate Risk Governance:** Building resilience requires financial services providers, especially at the board and senior management level, to understand how NCCR affects their business and their customers, and to use that understanding to inform their decision making and their strategies. BCFSA will explore opportunities to deliver training, education, and resources to strengthen climate risk governance in financial institutions and pension plans.
2. **Addressing Physical Risk:** BCFSA’s approach will prioritize managing physical risk initially, reflecting the exposure of B.C. financial services providers and consumers to a range of natural hazards. Specifically, BCFSA will focus on building capacity within the credit union segment to identify, measure, and manage current physical risk exposure while considering how climate change may affect that exposure over time.
3. **Improving Consumer Awareness:** There is work underway at the national and provincial levels to develop property risk scores, hazard maps, sustainability standards, and national insurance programs. BCFSA is supporting the development of these initiatives to ensure these tools or products can be used by BCFSA-regulated entities and licensees. BCFSA will work with financial services providers, beginning with insurers, to ensure NCCR information is effectively communicated.
4. **Monitoring Insurance Availability:** As climate-related extreme weather events increase, insurers may raise the rates they charge, and in some places may stop providing coverage. While these decisions by insurers may be prudent approaches to managing risk, they may have a disproportionate impact on some groups in B.C. BCFSA is exploring ways to better monitor insurance market trends to better understand this issue and to inform discussions with industry and governments.

Introduction

BACKGROUND

In July 2023, B.C. Financial Services Authority (“BCFSA”) released a discussion paper titled, *‘Natural Catastrophes and Climate-related Risks: Managing Uncertainty and Building Resilience in the B.C. Financial Services Sector.’*

The discussion paper outlined that natural catastrophes and climate-related risks (“NCCR”) impacts each of the segments that BCFSA regulates and poses a material risk to the financial services sector, and to consumers in British Columbia (“B.C.”).

BCFSA’s mission is to instil confidence in the financial services sector by focussing on the safety and soundness of regulated entities and protecting consumers. In keeping with that mission, the discussion paper articulated that BCFSA should act to ensure the entities and individuals it regulates exercise prudent risk management, and that they help ensure consumers are protected and continue to be treated fairly.

Given this assessment, BCFSA outlined its proposed approach to NCCR and invited regulated entities and individuals, stakeholders, and members of the public to read the discussion paper and provide their feedback on a series of discussion questions.

The proposed approach had two pillars:

1. Ensuring that financial services providers identify, measure, and manage NCCR; and
2. Ensuring that financial service providers disclose NCCR data and information to customers.



In developing its proposed approach, BCFSA outlined the following considerations relevant for the B.C. financial services sector:

- B.C. is significantly exposed to natural hazards, including wildfires, flooding, and earthquakes. Climate-related events (e.g., wildfires and flooding) are becoming more frequent and severe (a 1 in 500-year event could soon be a 1 in 100-year event and a low-risk area could become a high-risk area).
- Commercial and residential real estate plays an outsized role in the B.C. economy. Natural catastrophe(s) that result in significant damages for real estate could have material impact on the broader economy.
- Insurance plays a key role in enabling economic activity as it protects both homeowners/businesses as well lenders from potential financial losses. As losses continue to rise with more frequent and severe climate-related events, insurance may become both more expensive and less available, especially in high-risk areas.
- B.C. financial institutions (provincially regulated financial institutions or “PRFIs”) are smaller and more regionally focused (i.e., concentrated) than federally regulated financial institutions (“FRFIs”). They may also have less internal capacity and resources than FRFIs.
- PRFIs are generally less exposed to transition risk than FRFIs. Their lending and investment portfolios tend to be more focused on residential lending and loans to small businesses. B.C. insurers primarily insure homeowners and small businesses rather than large commercial businesses/properties.
- BCFSA is the only regulator in Canada that oversees financial services for real estate throughout the product life cycle, which provides a unique opportunity to take a holistic approach.

Based on feedback from the discussion paper, BCFSA has refined its approach to NCCR to focus on priority areas and will continue to engage industry stakeholders as it implements its approach in each segment. Subsequent consultations will be held on any specific regulatory guidance.

Consultation Process Overview

On June 12, 2023, BCFSA introduced its proposed approach to NCCR at the Financial Services Sector Forum with a panel discussion titled "Future Proofing: What Does a Climate Ready Financial Sector Look Like?" featuring Kathryn Bakos (Managing Director, Intact Centre on Climate Adaptation) and Chris Chopik (Climate Foresight Strategist).

JUNE 2023

Hosted BCFSA sector event with NCCR as a key theme.



SEPTEMBER 2023

Hosted a virtual information session on key elements of the NCCR discussion paper.



JULY 2023

Released NCCR discussion paper and launched sector-wide consultation.

FALL 2023

Conducted targeted engagement with key stakeholder groups.



DECEMBER 2023

Closed formal consultation period.

JAN-MAY 2024

Reviewed consultation feedback and developed revised NCCR approach.



SUMMER 2024

Released Consultation Summary Report with high-level approach and next steps (consultation on specific regulatory actions and instruments will follow).

Summary of Feedback & Key Elements of BCFSA's Approach

BCFSA received 275 responses to the online consultation feedback form and 24 email submissions. This was supplemented by verbal feedback provided during targeted engagement sessions throughout the fall and winter of 2023. For detailed segment-specific feedback and BCFSA's responses, refer to [Appendix B](#).



KEY TAKEAWAYS

Overall, feedback from the consultation supported BCFSA's position that financial services providers should identify, measure, manage, and disclose NCCR to both their business and consumers. Some respondents emphasized the need for a proportional and phased approach to recognize the challenges these entities may face in addressing NCCR as well as the nature of their business.

BCFSA heard that:

- Many financial institutions and pension plan administrators are concerned with their ability to identify and measure (or estimate) NCCR;
- There is a lack of climate risk expertise and awareness within organizations at the board and senior management levels;
- Consumers, especially homeowners and small businesses, are highly exposed to natural hazards, including flooding, wildfires, and earthquakes. However, consumers' awareness of their exposure to natural hazards is often low, as is their understanding of how that exposure could affect them financially;
- Data to support consumer awareness of NCCR and financial risks is not always readily available, accessible, or high quality;
- Given data availability and reliability challenges, some respondents are concerned they are not yet adequately prepared to provide tailored information and advice to consumers;
- BCFSA should play an active role in dialoguing with government, other regulators, and the public to help ensure the financial services sector is considered in the development of public policy. This can help ensure an effective whole-of-society approach to NCCR that balances prudential considerations with consumer protection and other societal objectives;
- The impact of NCCR on insurance price and availability was an area of concern highlighted by multiple stakeholders;
- While insurance can help protect consumers financially from NCCR-related losses, as well as reduce the risk to lenders, property and community level adaptation is required to reduce the risk of financial loss before an event occurs; insurance is there to cover the remaining risk; and
- All financial services providers can play a role in helping communicate NCCR exposure and potential options for reducing that exposure to consumers.

BCFSA RESPONSE AND AREAS OF FOCUS

Based on the feedback received during consultation, BCFSA has refined its future regulatory approach, including clarifying its objective, role, and priorities with respect to NCCR.

The long-term objective of BCFSA's approach is to increase the resilience of both financial services providers and consumers in the face of NCCR.



Resilience refers to the capacity to withstand or to recover quickly from difficulties. For BCFSA's proposed regulatory approach, this means:

- Ensuring the operational resilience (i.e., the ability to deliver critical operations through a temporary disruption) of financial institutions and the ability of both BCFSA and financial institutions to respond swiftly and efficiently to a natural catastrophe;
- Ensuring that financial services providers understand the impact of NCCR on their strategy and business model, and can respond to plausible but severe climate scenarios; and
- Consumers' resilience is enhanced by ensuring consumers have access to information, advice, and financial products and services that can help them make good financial decisions and provide financial protection. This approach goes beyond compliance and encourages financial services providers to prioritize the fair treatment of the consumers they serve and to put the best interest of consumers first.

As an integrated regulator with responsibility for financial services for real estate throughout the product life cycle, specific attention will be given to commercial and residential real estate as an area where BCFSA and the financial services sector can help ensure consumers have the information and advice required to make informed decisions based on their NCCR exposure. This approach also recognizes real estate's outsized role in the B.C. economy, the significant exposure of the province to multiple natural hazards, and the nature of the entities and individuals BCFSA regulates.

BCFSA's role with respect to NCCR includes:

- Identifying emerging risks and providing regulatory guidance on NCCR identification, governance, strategy, risk management, and disclosures;
- Providing advice to government on NCCR issues that affect the financial services sector and consumers, and actively participating in public sector resilience initiatives; and
- Supporting consumer awareness by working with the financial services sector to increase personalized information and advice for consumers that they can use to make informed decisions to manage their financial risk exposure to NCCR.

Based on the consultation feedback, BCFSA has identified four priority areas of focus: **governance; physical risk; consumer awareness; and insurance availability**. These priority areas are complemented by whole-of-society resilience initiatives where BCFSA may play a supporting role, as well as segment-specific next steps.

Enhancing Climate Risk Governance

The first area of focus is climate risk governance, which recognizes that boards and senior management need to be equipped with the right tools and information to make the best possible decisions for the long-term resilience of their organizations. BCFSA plans to work with financial services providers to build capacity at the board and senior management level to understand how NCCR affects their business and their customers, clients, or beneficiaries both now and in the future. Ensuring NCCR knowledge and expertise at the top can inform decision making and strategic planning, improving the resilience of financial services providers to both physical and transition risks.

BCFSA expects financial institutions and pension plans to have appropriate governance and accountability structures in place to manage NCCR and will ensure this is covered in relevant NCCR guidance that BCFSA publishes or adopts. In addition to establishing governance-related expectations, BCFSA will explore training and education opportunities to strengthen NCCR governance in financial institutions and pension plans. BCFSA will also continue to advance education and resources on NCCR to real estate licensees and mortgage brokers (including private lenders), directly.

Addressing Physical Risk

BCFSA's approach will prioritize physical risk, (Including both climate-related physical events and earthquakes; see [BCFSA's 2023 Discussion Paper](#)) reflecting the exposure of B.C. financial services providers and consumers to a range of natural hazards. Specifically, BCFSA will focus on building capacity within the credit union segment to identify, measure, and manage current physical risk exposure. In the longer term there can be consideration as to how climate change may affect that exposure.



As a first step, BCFSA will work with the credit union segment to enhance current physical risk identification and measurement. Credit unions need to focus on this critical step before estimating future hazard exposure under different climate scenarios. The intent of this work is to ensure credit unions integrate physical risk into internal risk management. Once this foundational work is well underway, BCFSA will consider integrating physical risk into existing guidance, regulatory reporting, and disclosure requirements.

Improving Consumer Awareness

As part of BCFSA’s commitment to consumer resilience, BCFSA will prioritize initiatives that help ensure consumers have the NCCR-related information and advice required to make informed decision, considering their NCCR exposure.

A property risk scoring framework is currently being explored at the national level by Natural Resources Canada. BCFSA will continue to support the development of this framework and provide advice on its establishment and implementation in B.C. as an authoritative source of property-specific risk information for both the financial services sector and consumers. Should a property risk scoring framework be developed, BCFSA will also work with financial services

providers to explore how they can use property risk scores to help explain NCCR to their customers and clients. This will include exploratory work to define responsibilities for different financial sector actors in providing NCCR information and disclosures to consumers;

While the development and implementation of a property risk scoring framework is expected to take time, BCFSA will work with financial services providers, beginning with insurers, to ensure NCCR information is effectively communicated to consumers. This includes continued leadership as co-chair of the joint Canadian Council of Insurance Regulators (“CCIR”) and Canadian Insurance Services Regulatory Organizations (“CISRO”) Natural Catastrophes, Climate Change, and Consumer Awareness Working Group.

Monitoring Insurance Availability

As climate-related extreme weather events increase, over time, insurers may raise the rates they charge, and in some places will stop providing coverage. They may have a disproportionate impact on some groups in B.C.

BCFSA will explore data collection to better monitor the insurance market and to inform discussions with government on NCCR-related issues and potential consumer protection gaps.



Whole-of-Society Initiatives

While it is not BCFSA’s role to develop property risk scores, hazard maps, sustainability standards, or national insurance programs, BCFSA will be actively involved in public sector initiatives where appropriate to help ensure outputs from these initiatives contribute to the resilience of the B.C. financial services sector and consumers.

Active involvement includes convening conversations with regulated entities and licensees, governments, regulators, and subject matter experts to increase awareness of different approaches that can be used to increase the resilience of B.C.’s financial services sector and its consumers.

Conclusion and Next Steps

BCFSA thanks those who took the time to participate in the consultation. Based on the consultation feedback, BCFSA has refined its approach to NCCR, clarifying its objectives, roles, and priorities. The four priority areas identified—governance, physical risk, consumer awareness, and insurance availability—will guide BCFSA's efforts. Additionally, BCFSA will support whole-of-society resilience initiatives and develop segment-specific next steps. A phased, risk-based, and proportionate approach will be adopted to enhance the resilience of financial service providers and consumers in British Columbia. This approach aligns with national initiatives and underscores BCFSA's commitment to addressing NCCR through ongoing stakeholder engagement and regulatory measures.

Moving forward, BCFSA plans to execute on the identified key actions within each regulated segment to ensure a comprehensive approach to NCCR. BCFSA will continue to work with government and the financial services sector on whole-of-society resilience initiatives to identify next steps to manage NCCR effectively. BCFSA will engage with industry stakeholders and conduct further consultations on specific regulatory guidance for implementation starting in 2025/26.

Appendix A: Stakeholder Group Meetings

STAKEHOLDER GROUP MEETINGS

As part of its consultation process, BCFSA held targeted engagement meetings with the following stakeholder groups:

Credit Unions

- BlueShore Credit Union;
- Canadian Credit Union Association (“CCUA”);
- Prospera Credit Union; and
- VanCity Credit Union.

Insurance

- BCAA Insurance Company;
- Insurance Bureau of Canada (“IBC”);
- Mutual Fire Insurance Company;
- Optimum West Insurance Company; and
- Pacific Blue Cross.

Pensions

- Aon;
- Association of Canadian Pension Management (“ACPM”);
- BC Municipal Pension Plan;
- Canada Climate Law Initiative; and
- PBI Actuarial Consultants.

Real Estate and Mortgage Brokers

- BC Real Estate Association (“BCREA”);
- Canadian Mortgage Brokers Association of BC (“CMBA-BC”); and
- Mortgage Brokers Institute of British Columbia (“MBIBC”).

Appendix B: Segment Specific Feedback & Next Steps

CREDIT UNIONS

FEEDBACK

Summary of Issue/Comment	BCFSA Response
BCFSA's approach should be developed collaboratively with credit unions and coordinated with other provincial regulators, as well as OSFI where appropriate, to encourage similar approaches at the national level. This is important for ensuring a strong and competitive credit union segment.	BCFSA agrees that its approach for the segment should be developed collaboratively and will work with credit unions to build capacity, especially on risk identification and measurement. BCFSA also agrees that national alignment at the principle-level can promote competitiveness and will coordinate its approach with other regulators through CUPSA, where possible. However, BCFSA may tailor its guidance to reflect the nature of the B.C. credit union segment as well as BCFSA's integrated mandate for both safety and soundness and market conduct.
B.C credit unions are generally less exposed to transition risk than both banks and lenders in other provinces. Physical risk is often more relevant, given the exposure of residential and commercial borrowers to multiple hazards. The approach should be risk-based and proportional.	BCFSA agrees and has focused its approach initially on physical risk as most B.C. credit unions are highly exposed to natural hazards through their residential lending portfolio. While banks can more easily diversify their geographic exposure to natural hazards, concentration risk is a concern for credit unions with only regional footprints.
BCFSA's approach should be aligned with its other ongoing initiatives (e.g., capital modernization, loan data reporting requirements, etc.).	BCFSA agrees and will consider how best to phase its approach and ensure it is aligned with other BCFSA initiatives. BCFSA will also consider how to integrate NCCR into existing guidance and initiatives, where possible.
Measuring emissions (i.e., transition risk) is resource intensive and may not have a lot of value for credit union members. BCFSA's approach needs to consider both the challenges with measuring transition risk as well as the nature of most credit union business (i.e., often focused on residential lending and lending to small businesses rather than lending to large emissions intensive commercial operations).	BCFSA recognizes that, B.C. credit unions lend mostly to homeowners and small businesses. Often, their largest exposure to transition risk is through the buildings sector due to changes in legislation or consumer preferences that require emissions reductions. These assets are unlikely to be stranded but may require additional financing to switch to net-zero energy sources.

Summary of Issue/Comment	BCFSA Response
<p>BCFSA should consider the impact of NCCR and any regulatory guidance on rural, remote, and Indigenous communities. These communities are often more exposed to both physical and transition risks.</p>	<p>BCFSA's approach expects financial institutions to identify, measure, manage and disclose how physical and transition risk will impact its business and customers. Where financial institutions identify that their business lines are highly exposed to both physical and transition risk, they will need to determine how to manage that risk. BCFSA's approach is bringing attention to NCCR so that all financial institutions, regardless of their exposure can take appropriate measures to manage this risk.</p>
<p>BCFSA should work with government to improve availability and accessibility of NCCR data.</p>	<p>BCFSA recognizes the need for authoritative sources of NCCR data. BCFSA is working with government to improve data availability and accessibility, which can be used by credit unions for internal risk management.</p>
<p>BCFSA should be clear about the role of credit unions in improving consumer awareness, especially on property risk disclosures. Credit unions may be able to validate information but do not have the expertise required to create risk scores and/or profiles.</p>	<p>BCFSA agrees that credit unions are not well positioned to generate property risk scores. However, in the future, property risk scores could be a tool for credit unions to have discussions with their members to ensure that members are making informed decisions about the associated NCCR with a property.</p>

NEXT STEPS

Risk Identification and Measurement Initiative

As referenced in key focus areas, BCFSA will focus on building capacity within the credit union segment to identify, measure, and manage current physical risk exposure. Credit unions need to focus on this critical step before estimating future hazard exposure under different future climate scenarios. Specifically, BCFSA will work with interested credit unions beginning in 2024/25 on potential tools and resources to better identify, measure, and manage NCCR, with an initial focus on current physical risk exposure. This initiative will identify key physical risk metrics, potential data sources, and potential approaches and tools for risk quantification. At an appropriate time in the future, BCFSA and interested credit unions could also explore collaborative approaches to quantifying physical risk under different warming scenarios as well as measuring transition risk.

While BCFSA's initial focus is on ensuring credit unions integrate NCCR into risk management, BCFSA will consider how best to incorporate NCCR into future regulatory guidance, reporting (including BCFSA loan data reporting), and disclosure requirements.

NCCR Guidance for Credit Unions

BCFSA will develop and consult on a credit-union specific NCCR guideline in 2025/26 that is aligned with the principles in OSFI's B-15 Climate Risk Management Guideline. In developing the guideline, BCFSA will consider a phased approach for expectations related to public disclosures, scenario analysis, and/or stress tests. The NCCR guideline will be updated periodically over time to reflect emerging best practices and risks. Separately, BCFSA will consult on Climate Risk Reporting as part of Loan Data Reporting requirements Phase 2 in 2026/27.

INSURANCE COMPANIES

FEEDBACK

Summary of Issue/Comment	BCFSA Response
<p>BCFSA should adopt B-15 as its NCCR guideline. Any deviation will create compliance challenges for insurers operating in more than one province.</p>	<p>For climate risk, BCFSA will release guidance outlining its expectation for B.C. incorporated insurance companies to follow Chapter 1 of OSFI's B-15 guideline. BCFSA will consider the extent to which it will also follow OSFI on disclosures, reporting requirements, and scenario analysis.</p>
<p>Earthquake should be addressed separately from climate-related risks.</p> <p>Earthquake risk also requires a public response to manage the systemic risk associated with a tail event occurring.</p>	<p>For seismic risk, B.C. incorporated insurers are already expected to follow the principles contained in OSFI's B-9 Earthquake Exposure Sound Practices Guideline.</p> <p>BCFSA remains concerned that a large earthquake poses a systemic risk to the financial system. BCFSA is also concerned that consumers may not have adequate financial protection against earthquake risk.</p>
<p>BCFSA should work on market conduct issues and related expectations at the national level (i.e., through CCIR). Ideally, market conduct issues should also be addressed using existing guidance/guidelines/codes of conduct.</p>	<p>Insurers must adhere to the fair treatment of customers ("FTC") principles in BCFSA's Code of Market Conduct in managing NCCR.</p> <p>Additional market conduct expectations will primarily come out of the work BCFSA is leading at CCIR to define the role of insurers and intermediaries in addressing gaps in consumers' awareness of their exposure to hazards like flood, wildfire, and earthquake, as well as insurance options and coverages.</p>
<p>BCFSA should clearly indicate whether its guidance applies to property & casualty ("P&C") insurance, life & health ("L&H") insurance, or to both industries. L&H (re)insurers and P&C (re)insurers have very different NCCR exposures. For example, physical risks are not expected to have a material impact on the liability side of L&H portfolios in the short to medium term. However, the asset side may be exposed to transition risks.</p>	<p>BCFSA's adoption of B-15 would only affect B.C. incorporated insurers. BCFSA recognizes that P&C insurers and L&H insurers may have different physical and transition risk exposures and will expect an insurer's approach to NCCR management to reflect the nature of their business. This is consistent with Chapter 1 of OSFI's B-15 guideline, which BCFSA will adopt as its prudential guidance for B.C. incorporated insurance companies.</p>

Summary of Issue/Comment	BCFSA Response
BCFSA should play an active role in educating consumers, which includes directly providing NCCR information and working with government to improve the availability and accessibility of authoritative data/information.	BCFSA is exploring its approach with respect to educating consumers about NCCR. BCFSA is also actively dialoguing with government to improve NCCR-related data availability and accessibility for both financial services providers and for consumers.
Measuring emissions is challenging and resource intensive. BCFSA should focus on risks that are most relevant/material for B.C. insurers.	BCFSA is focused on ensuring insurers understand how physical and transition risks affect their business and their customers based on their specific circumstances. This means that an insurer’s approach to NCCR management should reflect the nature of their business.
Most B.C. incorporated insurers rely on external investment managers for NCCR management and have limited internal capacity. External investment managers should be responsible for NCCR analysis, reporting, and disclosure requirements.	BCFSA recognizes that B.C. incorporated insurers may be exposed to transition risk through their investments and that investment professionals are often relied upon to manage this risk. However, insurers are ultimately responsible for understanding how transition risk may affect their business, including their investment portfolio.

NEXT STEPS

Adopt OSFI’s B15 Guideline

BCFSA will adopt Chapter 1 of OSFI’s B-15 Guideline for B.C. incorporated insurance companies. BCFSA will consider different timelines than OSFI for compliance with specific expectations. BCFSA will also explore the extent to which it will align with OSFI on climate risk disclosures, standardized climate scenario exercises, and climate risk returns. This will include consideration of changes to reflect the nature of B.C. insurers’ business and the province’s risk environment as well as different timelines to provide time for B.C. insurers to prepare for these components.

Consumer Awareness Working Group

BCFSA will continue to work at the national level to help ensure customers have the information and advice they need to make informed decisions based on their NCCR exposure. BCFSA currently co-chairs a joint CCIR – CISRO Natural Catastrophes, Climate Change, and Consumer Awareness Working Group, which is working with the property and casualty insurance industry to develop common approaches and best practices to close consumer awareness gaps with respect to NCCR and insurance coverage.

BCFSA will also explore whether any guidance is required on B.C.-specific conduct issues and/or priorities related to NCCR under its Insurer Code of Market Conduct to help ensure consumers are treated fairly. BCFSA will coordinate this work with CCIR to consider market conduct expectations at the national level.

Insurance Market Monitoring

BCFSA does not currently collect data on price and availability of insurance. However, given its oversight role, BCFSA is exploring ways to better monitor the insurance market to proactively identify emerging market conduct issues and risks to consumers. Specifically, BCFSA will consider potential data sources and mechanisms by which it may better identify

regional pressures/availability and affordability challenges related to NCCR. This information can be used by BCFSAs in keeping government policy makers apprised on the state of the market, including potential consumer protection gaps.

Actions by insurers to manage their earthquake exposure, including high deductibles on earthquake endorsements as well as limiting capacity in high-risk areas, could leave a significant number of consumers without adequate protection. BCFSAs will continue to work with different levels of government and the insurance industry to explore how public intervention in the insurance marketplace could result in insurance products for earthquake that better meet customers' needs.

Public Intervention in Earthquake Insurance Market

BCFSAs will continue to work with different levels of government and the insurance industry to explore ways to better address systemic risk concerns and provide insurance products for earthquake that better meet customers' needs.

PENSIONS

FEEDBACK

Summary of Issue/Comment	BCFSA Response
<p>Most plans rely on external investment managers for NCCR management and have limited internal capacity. External investment managers should be responsible for any NCCR analysis, reporting, and disclosure requirements.</p>	<p>BCFSA acknowledges that B.C. plans often rely on external investment managers for NCCR management. However, that does not absolve pension plan administrators of their responsibilities, which include the selection and oversight of investment managers as well as understanding how physical and transition risks affect the plan and its beneficiaries.</p>
<p>Pension plans' investments are diversified geographically and amongst asset types which helps to mitigate physical and transition risk.</p>	<p>BCFSA acknowledges that pension plans' investment portfolios tend to be well diversified but plans still need to understand their risk under different warming scenarios since systemic risk could impact multiple asset classes and regions.</p>
<p>Fiduciary duty already covers NCCR management. However, if BCFSA does consider additional guidance, it should be aligned with CAPSA's Risk Management Guideline.</p>	<p>BCFSA will align its guidance with CAPSA. Legal opinions concerning how fiduciary duty must consider sustainability and climate change are evolving and BCFSA will continue to monitor developments.</p>
<p>The primary risk for beneficiaries is the direct exposure of the plan sponsor or participating employers to physical and transition risk.</p>	<p>BCFSA has no jurisdiction over plan sponsors' management of NCCR. As such, it focuses on the risk management practices of the pension plan administrator.</p>

Summary of Issue/Comment	BCFSA Response
<p>The limitations with scenario analysis and challenges with translating the results into decision useful information must be acknowledged. Pension plans may not have the internal expertise required to conduct scenario analysis or to understand the underlying assumptions and results. Additionally, given uncertainty related to climate change and relatively benign financial impacts from some scenario analysis work conducted to date, it is not clear how conducting scenario analysis can benefit plans.</p>	<p>There is a risk that certain climate-scenario models in financial services are significantly underestimating climate risk. Any model is built using assumptions. Plan administrators are encouraged to review the models they are using to ensure they understand the assumptions and methods, and that they are reasonable. For instance, models that show only benign impacts from a warming climate should be questioned.</p>
<p>Pension plan members are beneficiaries, not consumers choosing between products, which reduces the utility of disclosure of NCCR.</p>	<p>BCFSA believes that there is utility in beneficiaries accessing disclosures that align with a national sustainability taxonomy.</p>
<p>Pension plans registered in B.C. have a significant volume of assets under administration. Given that volume of assets, their investment decisions can influence the magnitude of climate change.</p>	<p>Requiring or incentivizing pension plans to help finance Canada’s legislated requirements to transition to a net zero economy is a policy decision best made by governments, not BCFSA.</p> <p>Pensions plan administrators should be aware of best practices being developed at the international level concerning the applicability of double materiality. BCFSA encourages pension plan administrators to consider how their risk management practices should evolve as risks change, including given the transition to net zero.</p>

NEXT STEPS

CAPSA Risk Management Guideline

BCFSA will adopt CAPSA’s Risk Management Guideline as its primary guidance related to NCCR management for pension plans administrators. BCFSA will also increase monitoring of larger pension plans’ investments to better understand their risk exposure and how NCCR is being managed.

Evolving Best Practices and Standards

BCFSA will continue to monitor best practices and evolving standards at the national and international level. BCFSA encourages pension plan administrators to familiarize themselves with climate risk management and measurement tools currently being used by other plans, such as scenario analysis, and to proactively consider which could be useful for their pension plans.

BCFSA is also exploring innovative approaches to scenario analysis, such as the use of qualitative or narrative scenarios to accompany current methodologies. Based on its findings, BCFSA may work with the pensions segment to better understand how pension plan administrators may incorporate these approaches into their NCCR management.

Capacity Building

BCFSA will identify opportunities to enhance the capacity of smaller plans to manage NCCR, potentially by establishing a cross-sector capacity building working group to share learnings and best practices.

BCFSA was a member of the Sustainable Finance Action Council (“SFAC”) advisory group and will continue to support work towards the implementation of a sustainable taxonomy at the national level as well as other tools that can be used by financial services sector participants, including pensions plans, for the purposes of climate risk management.

REAL ESTATE SERVICES, MORTGAGE BROKERS AND REAL ESTATE DEVELOPMENT MARKETING

FEEDBACK

Summary of Issue/Comment	BCFSA Response
<p>There is currently a lack of accessible and high-quality information that could be used by real estate licensees and mortgage brokers for the purposes of informing clients of risk. BCFSA should also recognize that these professionals are not climate experts.</p>	<p>Generally, licensees should be aware of the relevant hazards in the areas where they conduct business. More specifically, informing clients of NCCR is like other issues or risks that a licensee would be expected to inform their client about. While BCFSA heard from some licensees a concern that they may not have the expertise to properly explain NCCR, BCFSA would expect real estate professionals to refer their client to appropriate subject matter experts, as they would if a property had an issue or risk that was beyond the licensee’s area of expertise.</p>
<p>Government and BCFSA should work together to help ensure authoritative NCCR-related information is broadly available, accessible, and high quality. This includes up to date flood maps and property risk scores.</p>	<p>BCFSA recognizes the need for authoritative NCCR information that can be used by licensees to support their conversations with clients and is actively working with government to identify opportunities to improve the accessibility of this information.</p>
<p>Any plans for developing and disclosing property risk scores must consider potential unintended consequences for homeowners/prospective buyers, such as overwhelming them with information that is not decision-ready, further limiting insurance availability in high-risk areas, and negatively affecting house prices.</p>	<p>BCFSA is aware of potential concerns related to property risk scores and disclosures. While BCFSA will not lead the development of a property risk scoring framework, it will continue to provide input and advice to those leading this work to ensure the risk scores may be used by financial services providers to increase consumer awareness of risk, so that actions can be taken at both the community and the property level to reduce the risk of loss.</p>

Summary of Issue/Comment	BCFSA Response
<p>General agreement that homeowners need access to property-specific risk related information, but disagreement on the role of different stakeholders in providing that information (e.g., real estate licensees, mortgage brokers, development marketing, lenders, and insurers), who should generate that information (e.g., BCFSA, government, B.C. Assessment, insurers, and lenders), and which properties should be in scope (new and/or existing).</p>	<p>BCFSA recognizes that communicating property-specific risk to homeowners involves complex information and relies on high quality and authoritative data, which is not always available. While BCFSA is actively involved in improving the availability and usability of NCCR-related information, licensees have an opportunity and a responsibility to increase awareness of NCCR to their clients. Consumers need to get information from multiple sources, including real estate licensees and mortgage brokers.</p>
<p>Some feel that existing guidance, including disclosures for real estate development marketing, already address the concerns BCFSA has highlighted while others feel additional best practices and guidance could help ensure homeowners understand their risk; specifically, stakeholders point to up to date and geo-location specific data.</p>	<p>BCFSA will review whether current disclosure standards sufficiently address NCCR and consider partnering with existing consumer advocacy groups or sharing information directly with consumers to raise awareness of existing disclosures.</p> <p>BCFSA will also provide education to licensees on NCCR through our continuing education program and potentially though targeted training sessions in collaboration with industry associations to support discussions with clients in areas affected by NCCR.</p>

NEXT STEPS

Education And Resources

BCFSA will continue to provide education and resources to licensees on local and regional NCCR with a focus, as appropriate, on communicating risk to clients. This could include sessions through BCFSA’s continuing education program, augmented with additional education in partnership with industry associations.

BCFSA will also explore potential guidance for licensees to enable them to engage their clients on relevant NCCR in the area their clients want to purchase, including the potential impact of those risks on the availability and pricing of relevant financial services. In the interim, BCFSA will continue to provide resources that licensees may use to help clients protect themselves from NCCR, such as optional contract clauses for transactions in active wildfire zones.¹

While BCFSA does not have a prudential lens for real estate licensees and mortgage brokers (including private lenders), it is prudent for these segments to consider how an acute event could impact both their own operations and that of their clients. BCFSA may explore the role of regulatory guidance in helping ensure licensees consider the longer-term impact of NCCR on their business and their clients.

Disclosure Requirements

BCFSA recognizes that licensees require authoritative sources of information to inform their discussions with clients around NCCR. To help improve the accessibility and availability of NCCR information, BCFSA is actively engaging with

¹ [New Wildfire Clause for Real Estate Transactions | BCFSA](#)

the relevant government departments and key stakeholders, including on the development of a property risk scoring framework. While BCFSA is not responsible for developing the framework and will not house the risk scores, BCFSA can provide input to those developing the framework to help ensure the risk scoring framework is available and accessible to both B.C. financial services providers and consumers. If a framework is developed, BCFSA will consider how it can be used by financial services providers, including licensees, to improve homeowners' awareness and understanding of NCCR.

In the interim, BCFSA will also review existing disclosure requirements for real estate development marketing to determine whether they sufficiently address NCCR. BCFSA will also consider working with existing consumer advocacy groups or sharing information directly to raise consumer awareness of existing disclosures.

TRUST COMPANIES

Summary of Issue/Comment	BCFSA Response
Specific NCCR guidance is less applicable to B.C. trust companies; existing guidance sufficiently addresses NCCR, given the nature of trust business.	BCFSA agrees and is not planning on applying its NCCR guidance to trust companies. BCFSA encourages trust companies to ensure they are appropriately considering NCCR in their existing frameworks.



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