

# Natural Catastrophe and Climate-related Risks ("NCCR") – BCFSA Approach

Discussion Paper Information Session

September 19, 2023

**BCFSA** BC Financial  
Services Authority

Classification: Protected A



x<sup>w</sup>məθk<sup>w</sup>əy'əm (Musqueam Nation)  
Sk<sub>w</sub>x<sub>w</sub>ú7mesh Úxwumixw (Squamish Nation)  
səl'ílwətaʔt (Tseil-Waututh Nation)

# BCFSA Speakers

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Director, Regulatory  
Initiatives

**LUCAS NEUFELD**

Senior Policy Analyst

**FRANZISKA NIEGEMANN**

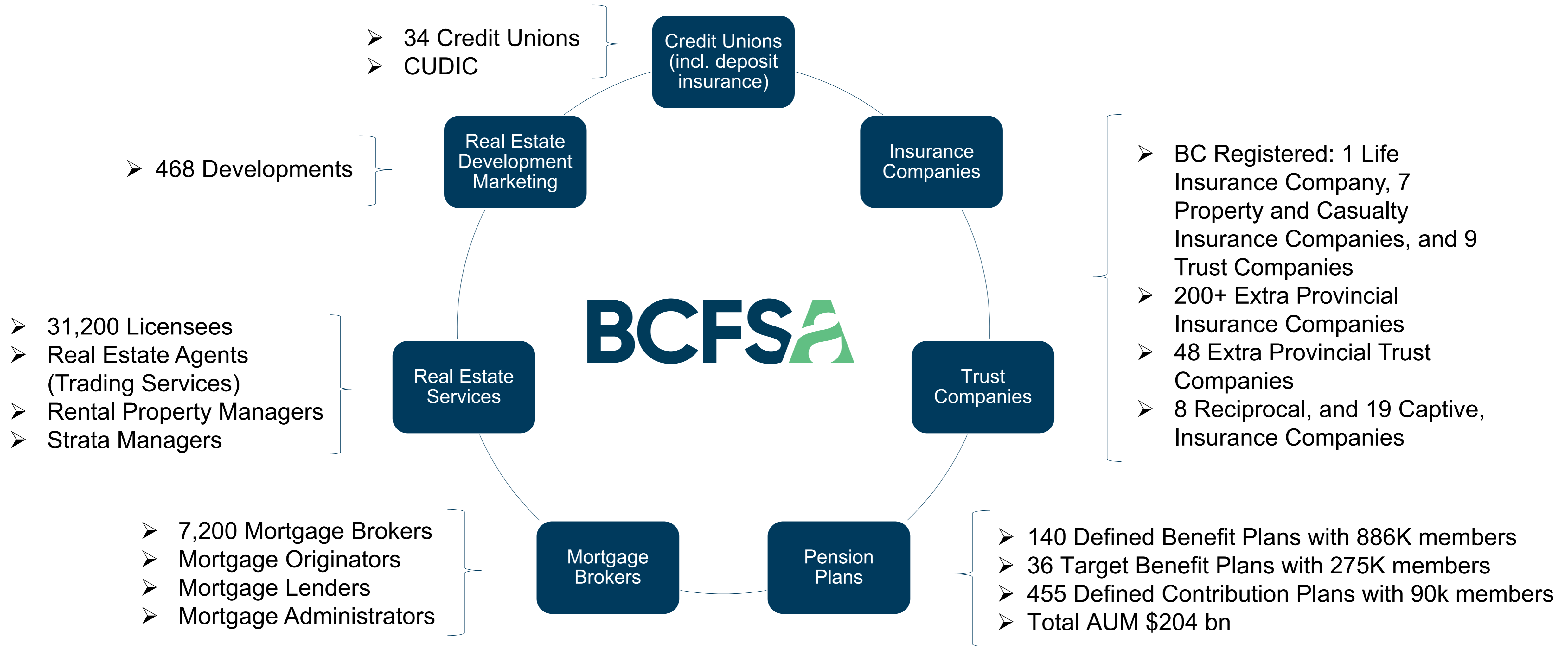
Director, Risk Surveillance &  
Analytics

# Agenda

1. Introduction
2. Risk Identification
3. Scope of BCFSA's Role
4. Risk Assessment
5. BCFSA's Proposed Approach
6. Discussion Paper and Consultation
7. Questions

# Introduction


# Overview of the BC Financial Services Sector



# Consultation Launch

## DISCUSSION PAPER

- Introduced BCFSA's proposed approach to Natural Catastrophes and Climate-Related Risks at BCFSA Financial Services Sector Forum in June with a panel discussion: **Future Proofing: What Does a Climate Ready Financial Sector Look Like?**
- Consultation and Discussion Paper launched on July 19 is open for comments until **November 30, 2023**



# Natural Catastrophes and Climate- Related Risks

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**Managing Uncertainty  
and Building Resilience in the  
B.C. Financial Services Sector**

2023 Discussion Paper

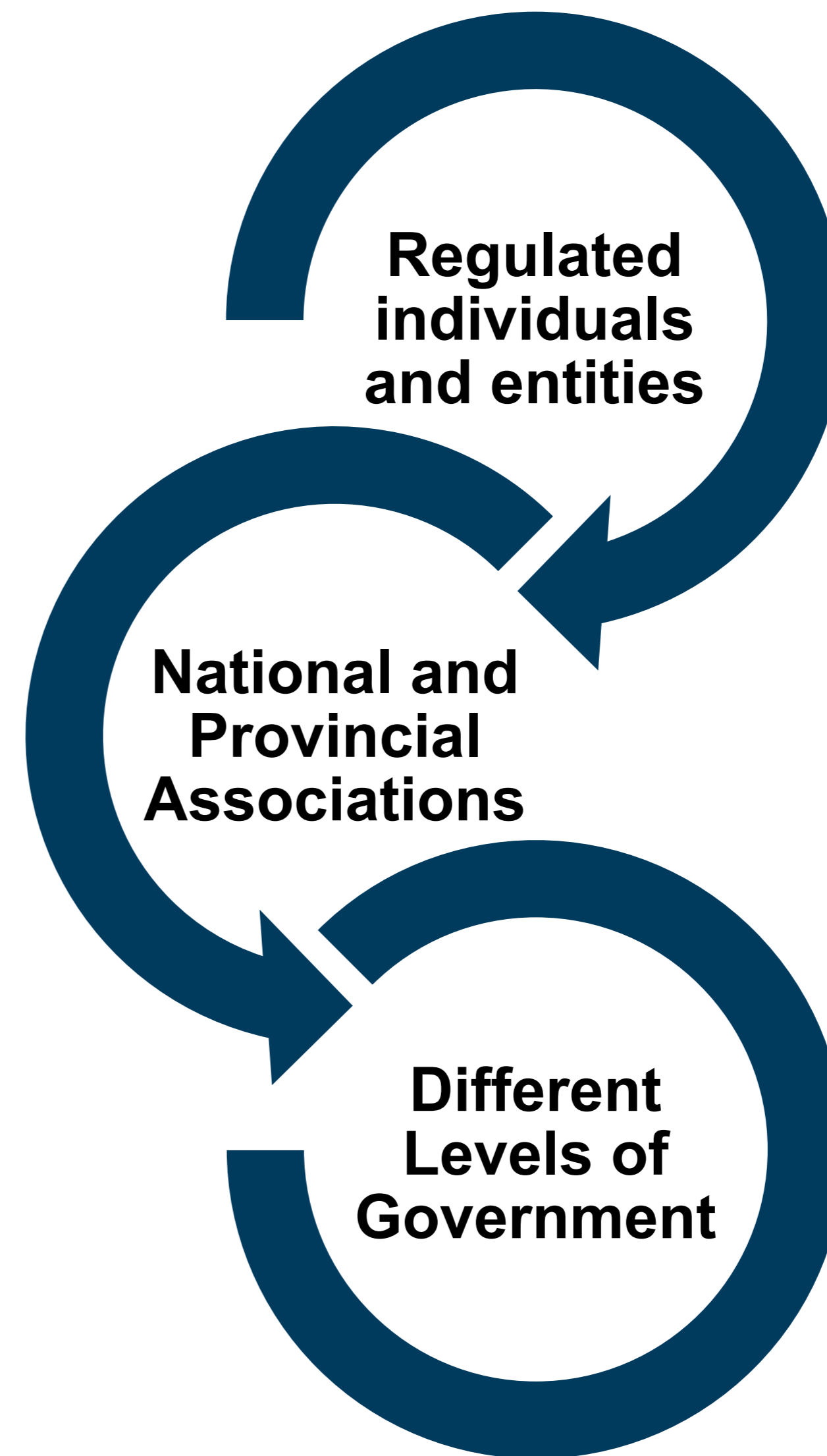
JULY 2023

# Introductory Video





# Consultation and Engagement Approach



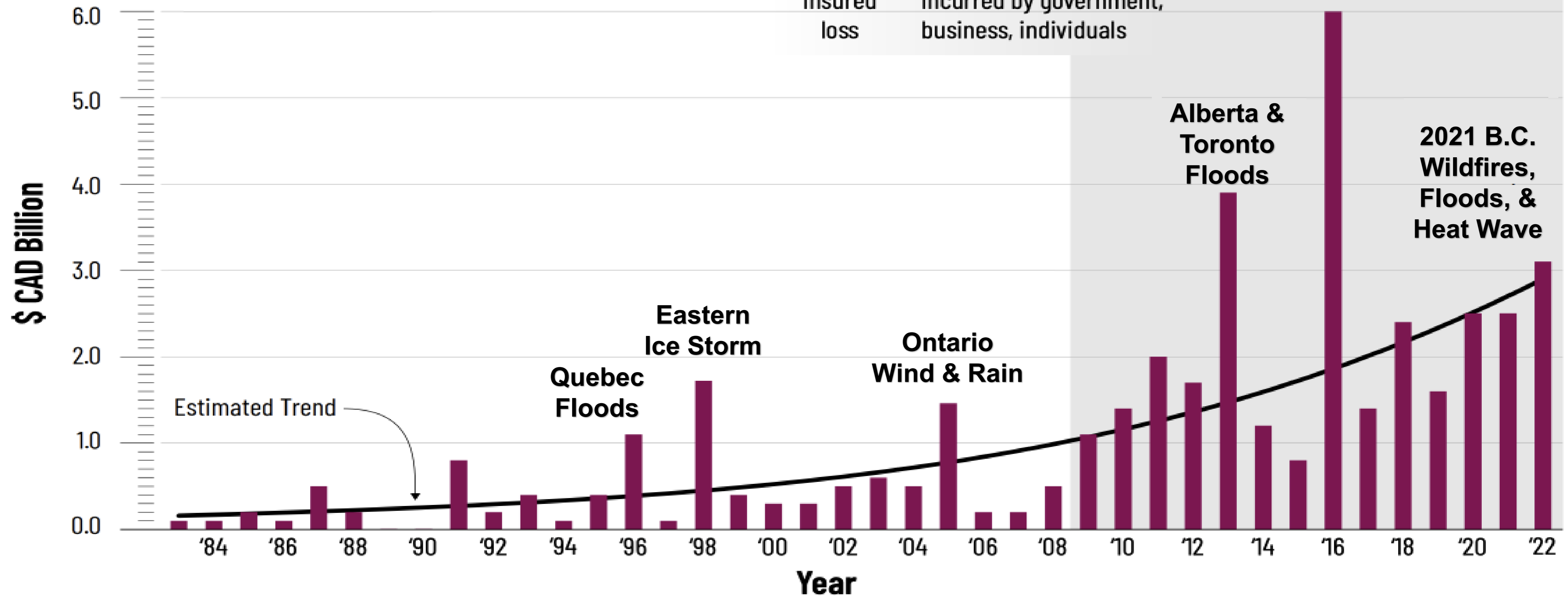
# Risk Identification

# A Changing Environment...

## Costs of Extreme Weather: Catastrophic Insurable Losses in Canada



\$1 insured loss = \$3-4 uninsured losses incurred by government, business, individuals



Retrieved from Intact Centre on Climate Adaptation Report, *Transitioning Rhetoric to Action: Integrating Physical Climate Change and Extreme Weather Risk into Institutional Investing*; specific event in BC have been added for illustrative purposes

# B.C.'s Exposure to Natural Disasters

Highest provincial exposure to natural disasters

## Wildfires



## Flooding



## Earthquake Risk



## BCFSA'S STRATEGIC IMPERATIVES

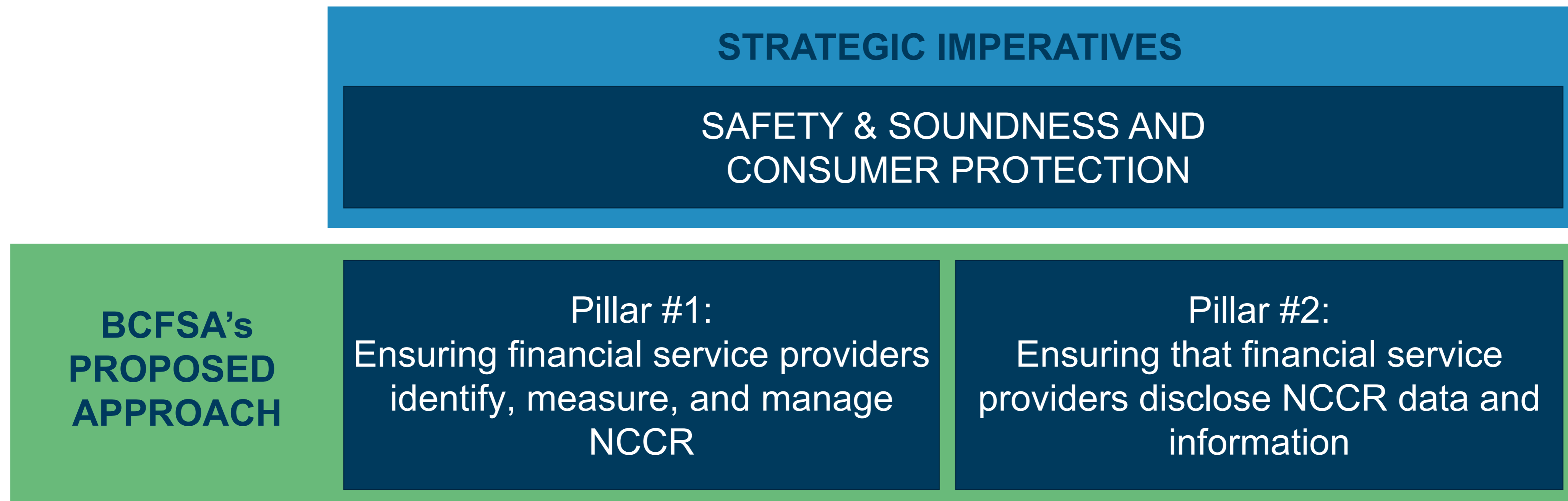


**SAFETY & SOUNDNESS AND  
CONSUMER PROTECTION**

- Climate Change and other Natural Catastrophes (the actualization of a natural hazard) threaten both safety and soundness and consumer protection

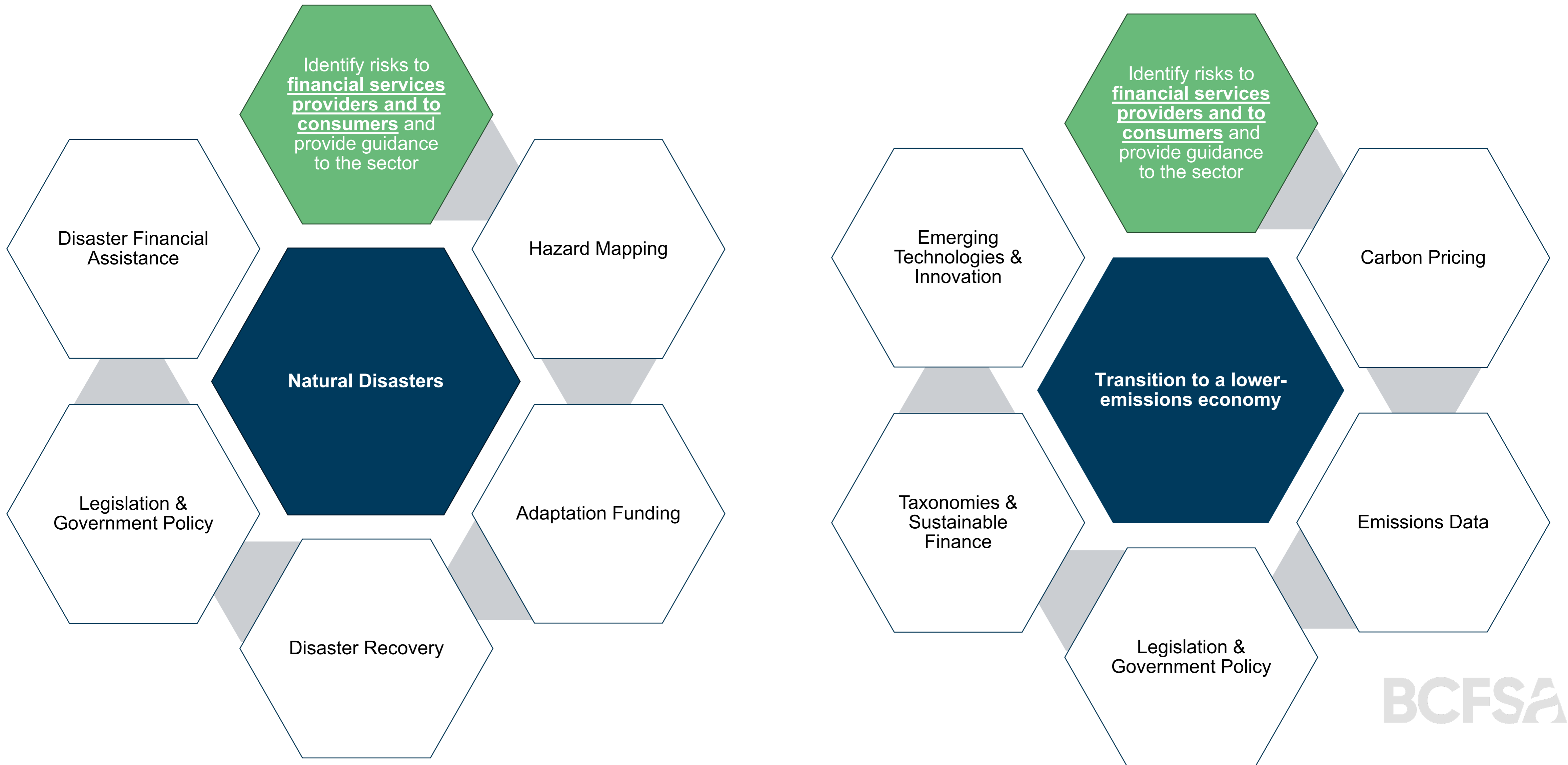
# Proposed Approach

- The risks to consumers and the financial services sector from increasing natural catastrophes, and a changing climate require regulatory intervention.
- BCFSA is proposing a risk-based and integrated approach to NCCR that increases the resiliency of the financial services sector and consumers.



# Scope of BCFSA's Role (Intervention)

# Understanding BCFSA's role





# Risk Assessment

# Physical Risks

Arise from exposure to

- Severe weather events, such as floods, wildfires, storm surges, heatwaves, and landslides
- Longer-term gradual shifts in climate conditions, such as changes in precipitation patterns, ocean acidification, and rising sea levels and average temperatures; and
- Indirect effects of climate change such as loss of ecosystem services (e.g., desertification, water shortage, degradation of soil quality, or marine ecology)
- Earthquakes (BCFSA has adapted physical risk to include these)

Emphasis on wildfires, floods, and earthquakes



**Physical risks** arise from potential damages to physical assets from **climate** and **earthquake events** — and become **financial risks**

### Impact on the financial services sector

- Property insurance claims → Insurers
- Reductions in the value of investments → Pension funds, Insurers
- Reduced value of real estate collateral → Credit unions
- Impacted business activity → All businesses

### Impact to consumers

- Reduced value of real estate collateral → Property owners
- Impacted business activity → All businesses and employees
- Damages to structures, contents → property owners, renters

# Physical Risks

## Financial Impact

## Time Horizon

- Immediate
- Event severity and frequency increased in recent years
- Exposure (built environment, people) increasing over time
  - More people
  - More buildings
  - More expensive buildings

# Physical Risk & Real Estate

BC residents' homes and businesses are at the centre of BCFSA's regulated segments

All: own business operations



# Physical Risk & Real Estate

## Financial Institutions & Pensions Segments

### Credit Unions

- Real-estate secured loans/mortgages

### Insurers

- Insurance claims
- Investments

### Pension Funds

- Investments



# Transition Risks

## Financial Impact

## Time Horizon

- Longer-term/gradual impact
- Potential sudden changes when policy changes

**Transition risks** arise from shift to 'green' economy

- Changing investor and consumer sentiment
- Policy responses to induce the transition (e.g., carbon taxes)
  - Mitigation costs
  - Business restrictions – and new opportunities
- Industry restructuring (coal, oil & gas, farming, construction, etc.)
  - Changed employment patterns while the labour force reskills

## Impact on Investing and Lending

- Depreciation of value of investments and companies
- Constraints on credit and potential loan delinquencies
  - Employment sectors under pressure
- Changes in the institutions' strategic direction

# Transition Risk & Real Estate

## Building operations

- Energy efficiency
- Energy source

Greenhouse gas  
Emissions



Greenhouse gas  
Emissions

## Building construction

- Building materials

**All:** own business operations

### Financial Institutions and Pension Funds:

- Transition risks through business activities (Lending and Investment portfolios)

- Data is foundational for companies' sound and prudent risk management.
  - Lack of current, credible, and accessible climate-related hazard models.
  - Multi-hazard modeling required
  - Translation of hazard risk into financial impact (losses)
  - Hazard modelling is outside of financial services sector's expertise
- Historical or backwards looking data to infer future risks are proving less accurate – new models are needed.
- Financial Regulators require scenario analysis and stress testing
- Even when climate-related information is available, it may be difficult for consumers to understand how it affects them.

## Impact & Loss Quantification

Challenge for regulators, regulated segments and consumers

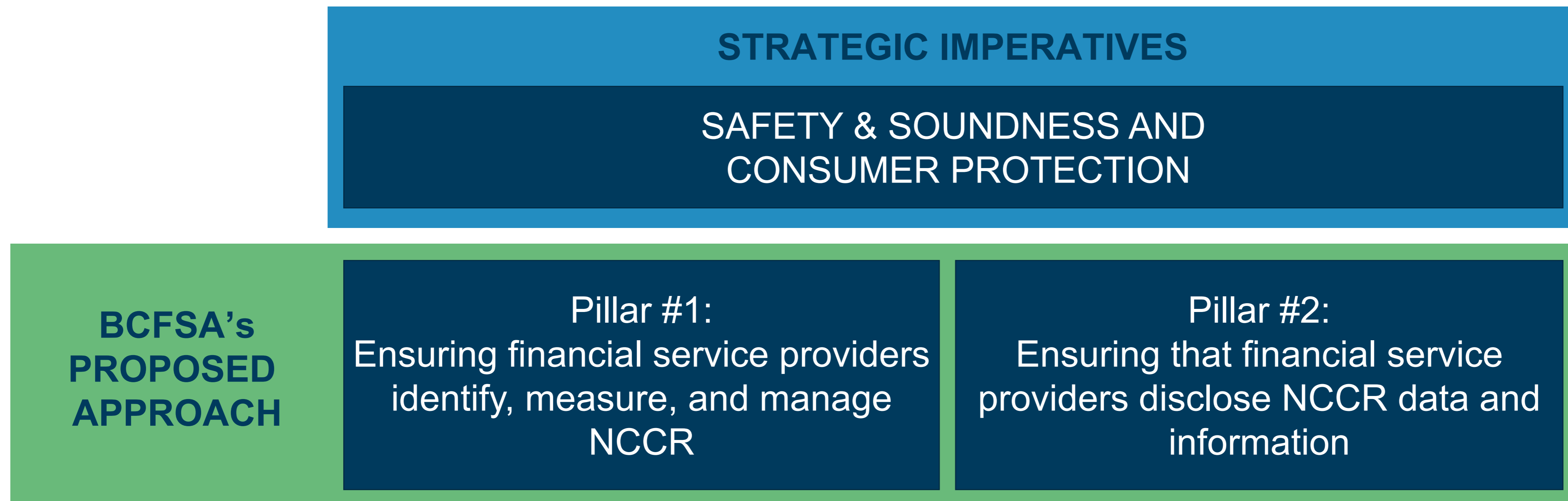
- Uncertainty about climate change
- Long time horizon



# BCFSA's Proposed Approach

# Proposed Approach

- The risks to consumers and the financial services sector from increasing natural catastrophes, and a changing climate require regulatory intervention.
- BCFSA is proposing a risk-based and integrated approach to NCCR that increases the resiliency of the financial services sector and consumers.



**Pillar #1:  
Ensuring financial service  
providers identify, measure,  
and manage NCCR**

# Pillar #1: Ensuring Financial Service Providers Identify, Measure, and Manage NCCR



## **Governance**

The organization's governance around climate-related risks and opportunities

## **Strategy**

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

## **Risk Management**

The processes used by the organization to identify, assess, and manage climate-related risks

## **Metrics and Targets**

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

# Pillar #1: Ensuring Financial Service Providers Identify, Measure, and Manage NCCR

- BCFSA would differ from peer regulators in the following areas:
  - Integrate a market conduct (fair treatment of consumers) perspective into NCCR guidance to ensure financial institutions consider vulnerable populations and the changing needs of consumers in operating their business.
  - By adding seismic risk to our focus, BCFSA is emphasizing physical risk, particularly for credit unions, insurance companies and real estate and mortgage brokerages.
  - Adapt standardized climate change scenarios to the B.C. context.
- BCFSA will provide education to the real estate and mortgage brokers segment on:
  - Proactively considering NCCR impacts to their business
  - How licensees/registrants consider these issues when dealing with clients (Legal Update 2024, Ethics 2024)



**Pillar #2:  
Ensuring that financial service  
providers disclose NCCR data  
and information**

## Pillar #2: Ensuring That Financial Service Providers Disclose NCCR Data and Information

- Pillar #2 proposes two main types of disclosures:
  1. Disclosures for the purpose of market discipline; and
  2. Disclosures across the lifecycle of real estate transactions to improve consumer awareness.
- Market discipline disclosures are fairly well developed and BCFSA would align itself with standards accepted by OSFI and other Canadian regulators along similar timelines.
- Consumer awareness disclosures are relatively leading-edge. BCFSA would be on the forefront of leading this discussion, and regulatory action in this area may not be feasible in the short-term.



# Consumer Awareness Disclosures

- NCCR amplifies the risk that consumers could be treated unfairly, primarily through a lack of transparency.
- Financial services providers play an important role to address market asymmetry issues (by providing property owners with information and advice based on their risk).
- Financial services providers need to ensure they are disclosing these risks to customers.
- In December 2021, the Insurance Bureau of Canada and the Canada Mortgage and Housing Corporation initiated a project framework to communicate natural hazards and climate risk to Canadian homeowners and develop tools to use across the housing finance and insurance sectors.





# Discussion Paper and Consultation

# General Discussion Questions (sample)

- What other factors should BCFSA consider?
- Is the proposed approach appropriate for the financial services sector in B.C. given our mandate and strategic imperatives?
- Has BCFSA identified the key risks and issues for financial services providers and consumers?

Including segment specific concepts and questions for:

- Credit Unions
- Insurance Companies
- Trust Companies
- Pensions
- Mortgage Brokers
- Real Estate Service Providers
- Real Estate Development Marketing



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**Part**

# 05

**Next Steps &  
Discussion Questions**

# Have Your Say!

- Provide your feedback in our online [Consultation Feedback Form](#), **closes November 30, 2023**
- Further information about the consultation is available on BCFSA's [Consultation page](#).

## Upcoming Activities

- Increasing engagement with segment specific industry associations and stakeholders.

Please contact [engage@bcfsa.ca](mailto:engage@bcfsa.ca) if you have any questions or need more information



# Questions?

Contact: [engage@bcfsa.ca](mailto:engage@bcfsa.ca)



**Thank  
you**