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Bureau d'assurance du Canada

# Insurance Bureau of Canada's Submission for the Pre-Budget Consultations in Advance of the Federal Budget

SUBMITTED AUGUST 6, 2021

- **RECOMMENDATION 1:** That the government appoint an advisor on national disaster resilience to scan for future tail-risk events such as earthquakes, pandemics, cyber attacks and catastrophic floods, and to advise on the measures needed to prepare Canadians and their governments and businesses properly.
- **RECOMMENDATION 2:** That the government extend and enhance its recent work to reduce the risk and impact of flooding across Canada.
- **RECOMMENDATION 3:** That the government invest \$2 million to introduce a parallel ResiliGuide home resilience rating system and certification that extends the existing EnerGuide label and scoring system *and* extends building retrofits programming to include resilience.
- **RECOMMENDATION 4:** That the government expand the Disaster Mitigation and Adaptation Fund (DMAF) to \$4 billion, and from this amount dedicate \$500 million to natural infrastructure solutions.
- **RECOMMENDATION 5:** That the government establish the Canadian Centre for Climate Information and Analytics as a first priority under the Sustainable Finance Action Council to help public and private sector organizations assess, disclose and manage escalating physical risks.
- **RECOMMENDATION 6:** That the government fund and prioritize the completion of the National Climate Adaptation Strategy, ensuring it protects people and infrastructure from the threat of increased flooding, wildfire, heat, drought and other extreme weather events.



## Insurance Bureau of Canada Submission for the Pre-Budget Consultations in Advance of the Federal Budget

The global pandemic has demonstrated the need to be proactive when it comes to mitigating and managing risk. A country's government should not be inventing financial aid programming in the middle of a catastrophe. We must learn from this tail-risk event to better prepare for the next one, be it a climate event, an earthquake or another pandemic.

For instance, Canada is the *only country* at high risk of an earthquake that lacks a financial plan to address the aftermath. Other nations have established public-private partnerships to address financial risk from terrorism, flooding, earthquakes and hurricanes. Canada does not have a single structure in place and, therefore, lacks the foundation and domestic experience needed to address the financial risk of pandemics and other tail-risk events.

Investments in economic recovery should prepare Canada for future global competitiveness and economic resilience. Insurance Bureau of Canada (IBC) fully supports all of the recommendations of the Task Force for a Resilient Recovery and the Expert Panel on Sustainable Finance. IBC highlights the following recommendations within that context.



## Recommendation 1:

**That the government appoint an advisor on national disaster resilience to scan for future tail-risk events such as earthquakes, pandemics, cyber attacks and catastrophic floods, and to advise on the measures needed to prepare Canadians and their governments and businesses properly.**

After the 2008 subprime mortgage crisis, G20 leaders created the Financial Stability Board (FSB) and tasked it with scanning for future risks to global financial stability. Ten years after the FSB formed, the global financial system has been re-regulated – creating a safer, simpler and fairer financial system that supports open markets and inclusive growth. The FSB identified climate change as an overarching risk, but its scan under-emphasized the threat of a pandemic.

Canada must be much better prepared for the next tail-risk event, whether it be an earthquake, catastrophic flood, pandemic, cyber attack or something else.

Echoing measures taken by G20 leaders over a decade ago, the Prime Minister should appoint a central authority which, in consultation with provincial authorities and the private sector, can ensure Canada is better prepared for future tail-risk events. This central advisor could fulfill its financial risk management function by preparing a list of recommendations for the Minister of Finance. The recommendations should address the measures needed to prepare Canadians and their governments and businesses properly. The central advisor should serve as a consultant for all relevant government proceedings.





## Recommendation 2:

That the government extend and enhance its recent work to reduce the risk and impact of flooding across Canada.

The primary climate risk affecting Canadians *now* is flooding. Over 1 million Canadian residential properties and their supporting public infrastructure have been identified as being at high risk of urban, fluvial (flood plain) or coastal flooding.

Eight out of the 10 worst years for insurance losses in Canadian history have taken place in the past decade and this has led to the hardening of the property and casualty insurance market across the country.

In 2019, the Government of Canada committed to a number of measures that, taken together, form a comprehensive plan for flooding. These commitments are listed in the mandate letters of five different Cabinet ministers. They include:

- ▶ **Development of measures to move those Canadians whose homes are at highest risk of flooding out of harm's way (strategic retreat);**
- ▶ **Investments in an expanded DMAF to defend Canadians whose homes are at highest risk of flooding, but who cannot be moved (see Recommendation 4);**
- ▶ **Development of a high-risk insurance pool, in partnership with the provinces and insurance industry, to ensure that these remaining Canadians can be financially protected;**
- ▶ **Operationalize a plan to make Canadian homes more climate and energy efficient;**
- ▶ **Establishing a Canadian Community Rating System based on lessons learned from**

**the U.S. Federal Emergency Management Agency;**

- ▶ **Working with provinces and territories to create a list of federally designated minimum flood hazard areas, which may be used to regulate development and prioritize infrastructure and relocation investments;**
- ▶ **Complete all flood maps in Canada. This foundational step will ensure that Canadians and their businesses and governments have the informed, aligned view of flood risk that they need to prioritize investments in flood defence.**

Together, these measures form the first comprehensive Canadian approach to any peril, and work on these would be based on a similar effort undertaken in the United Kingdom.

The present pandemic should not undermine Canada's commitments on flooding. As we consider our economic recovery from COVID-19, the Government of Canada should re-emphasize investments in flood resilience that can create jobs and defend Canadians from further financial risk. Such investments should be assigned a greater priority by the federal government, which has focused more on clean growth and energy innovation than on flood resilience. Furthermore, execution of these seven commitments on flooding should be informed by the advice given by the advisor on national disaster resilience (see Recommendation 1).



## Recommendation 3:

That the government invest \$2 million to introduce a parallel ResiliGuide home resilience rating system and certification that extends the existing EnerGuide label and scoring system *and* extends building retrofits programming to include resilience.

In light of the recovery measures needed to respond to the pandemic, one of the greatest opportunities available to the federal government through its recovery spending is to operationalize a plan to make Canadian homes more climate resilient (managed under Natural Resources Canada). We suggest a resilient retrofit program that comprises four parts.

- 1. Create a ResiliGuide home resiliency rating system** and label equivalent to EnerGuide that is administered through an expanded Office of Energy Efficiency and Resilience;
- 2. Train Natural Resources Canada certified energy advisors in the home flood protection measures** needed to achieve a high resiliency rating;
- 3. Introduce a federal tax credit**, similar to the Home Accessibility Retrofit program, to incent expenditures on energy and resilience retrofits (eligibility would be tied to securing a specified ResiliGuide and/or EnerGuide rating); and
- 4. Introduce a Canada Mortgage and Housing Corporation mortgage insurance incentive** for Green Mortgages tied to the ResiliGuide and/or EnerGuide ratings.

Canadians are shouldering the rising costs of climate change. Severe weather caused \$2.4 billion in insured losses in 2020. As a cost-effective way to protect Canadian homes, IBC recommends that Natural Resources Canada develop a ResiliGuide rating system that incorporates new National Model Building Code resiliency measures. The Office of Energy Efficiency is the appropriate unit to manage ResiliGuide through an expanded mandate that would include climate resiliency; it could be renamed the Office of Energy Efficiency and Climate Resiliency.

The cost for the proposed ResiliGuide program – approximately \$2 million – would pay for itself rapidly in terms of avoided losses. Federal and provincial governments now spend an average of \$600 million per year in disaster assistance payments related to flooding. The ResiliGuide program will prepare Canadians for the future by increasing resilience to extreme weather while generating multiple co-benefits for the Canadian economy.



## Recommendation 4:

**That the government expand the Disaster Mitigation and Adaptation Fund (DMAF) to \$4 billion, and from this amount dedicate \$500 million to natural infrastructure solutions.**

Although commitments to expand the DMAF by \$1.4 billion over 11 years were included in the 2021 Federal Budget, this number is insufficient to defend communities from climate risk. For context, Canadian insurers paid out \$1.4 billion for over 100,000 claims resulting from a twenty minute hailstorm in June 2020. To provide cost-effective resiliency opportunities for Canadians, the pool of funding earmarked for natural infrastructure under DMAF should also be increased to \$500 million. The total pool of funding for DMAF should be increased to \$4 billion.

Eligibility has been expanded to include small-scale projects. As well, opportunities should be structured for partnerships with the public sector, and for attracting private capital and leveraging insurance frameworks.

The DMAF is the clearest path for federal funds to be invested in improving Canada's climate resilience. For every \$1 invested in mitigation efforts, \$7 to \$10 can be saved in post-disaster recovery costs.

Natural infrastructure projects are an efficient tool to increase the resiliency of Canadians to extreme weather events and climate change. For example, wetlands maintained in their natural state can reduce flood damage costs to buildings from severe rainfall (a one-in-500-year event) by close to 40%. Natural infrastructure can also effectively mitigate fluvial and coastal flooding. Frequently, risks can be mitigated at a much lower cost than through grey infrastructure. Natural infrastructure can also provide other valuable services, such as conveying and storing stormwater, enhancing economic recovery, sequestering carbon through the growth of vegetation and promoting conservation, all of which advance Canada's commitments to nature-based solutions. Such programming should include the conservation and restoration of ponds, wetlands, riparian forests, coastal dunes, barrier islands and other natural features where they protect communities from coastal and inland flooding.



## Recommendation 5:

That the government establish the Canadian Centre for Climate Information and Analytics as a first priority under the Sustainable Finance Action Council to help public and private sector organizations assess, disclose and manage escalating physical climate-related risks.

The Sustainable Finance Action Council should fulfill its objective to establish the terms of reference and governance structure for the Canadian Centre for Climate Information and Analytics. (This is Recommendation 4 in the Sustainable Finance Expert Panel Report.) The Canadian Centre for Climate Information Working Group and governance structure should include representation from the insurance industry to leverage the industry's insights on physical climate risks, data needs, flood mapping and other physical climate data that is essential for pricing climate risks effectively, as well as its growing collaborative and essential connection to communities in taking evidence-informed action.

Research conducted by the Smart Prosperity Institute<sup>1</sup> suggests that the Centre could:

- ▶ address barriers to transparency related to asset- and portfolio-level carbon emissions,
- ▶ help make climate-related disclosure more consistent and comparable,

- ▶ provide support for forward-looking scenario analyses to allow financial and other actors to better assess the transitional and physical risks arising from climate change, and
- ▶ curate essential knowledge on how climate risk is identified to deliver concrete benefits to Canadians by enabling advancements in municipal decision-making, particularly in the prioritization of areas for flood risk and mitigation.

It is imperative that the Centre become an authoritative source that allows public and private sector organizations to assess, disclose and manage escalating physical climate-related risks, such as the potential impacts of climate-related events on supply chains. This will incentivize the sort of climate adaptation and climate resilience measures our country needs from both public and private sector organizations.

<sup>1</sup> <https://institute.smartprosperity.ca/content/better-climate-data>





## Recommendation 6:

**That the government fund and prioritize the completion of the National Climate Adaptation Strategy, ensuring it protects people and infrastructure from the threat of increased flooding, wildfire, heat, drought and other extreme weather events.**

Canada has the opportunity to better protect people from the growing effects of climate change and help communities prepare for – and adapt to – future challenges, including the increasing risk of climate-related disasters. We encourage the federal government to take action now to create a culture of preparedness and build a more disaster-resilient country.

To address this growing challenge across a massive country, governments need to develop the capacity to better coordinate strategy and implement actions that keep our homes and communities safe from the increasing impacts of severe weather.

That is why we are calling on the federal government to better defend Canadians by prioritizing the completion of the National Climate Adaptation Strategy, ensuring it protects people and infrastructure from the threat of increased flooding, wildfire, heat, drought and extreme weather events, with specific recognition of and attention to the disproportionate impacts of these events on Indigenous peoples and vulnerable communities. This strategy should incorporate measurable national targets related to specific perils (flooding, wildfire, heat) leverage private-sector capacity and promote nature-based solutions.