OSFI watching third-party risk

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And that, Mr. Routledge said, increases the need to understand third-party risk.

He said OSFI has identified five opportunities for improvement of third-party risk management across the financial sector: incident management, data security and access, risk assessment, continuity of critical operations and capacity to manage cloud computing risks.

The regulator is expecting to issue a guidance note on the opportunities early in the new year.

Mr. Routledge said OSFI will also be releasing new draft guidance on technology and cyber risk management this fall.

He said this, along with updated requirements for reporting cyber security incidents released this summer, are steps toward a longer-term objective to improve the sharing of risk data and broadening the circle of trust among institutions, regulators and newer participants in the financial system.

Mr. Routledge said responding to crypto-currency innovation is another challenge facing governments, financial institutions and regulators. He said digital currency could lead to changes in the speed and scope of funding and liquidity for institutions, which will likely require an adjustment to how OSFI considers and measures these more traditional financial risks.

Meanwhile, a report is expected before the end of the year on a pilot project using climate-change scenarios to assess the risks to Canada's financial system related to a transition to a low-carbon economy.

The project was launched last November by OSFI and the Bank of Canada and is aimed at building the climate scenario analysis capability of authorities and financial institutions and at supporting the Canadian financial sector in enhancing the disclosure of non-physical climate-related risks.

Intact Financial Corp. and the Co-operators Group are among a small sample of institutions from the banking and insurance sectors participating in the project.

Lack of urgency worries adaptation expert

EVERY SECTOR of Canada's economy is at risk of the physical impacts of climate change, but there is a lack of urgency to take action, an expert on the peril has warned.

Blair Feltmate, head of the Intact Centre on Climate Adaptation, spoke during last week's virtual Global Risk Institute summit about Canada's preparation for the increase in catastrophic events that will result from climate change.

He said the country has two strengths and one major weakness on that front.

The first strength is that a federal government report from 2019, titled 'Canada's Changing Climate,' has forecast how extreme weather will evolve across the country over the next 30 to 40 years.

For example, we know that precipitation will become higher in Eastern Canada, which will lead to more flooding, while Central and Western Canada will be hotter and drier, leading to more forest fires.

The second strength, he said, is that Canada has developed well-informed guidelines to limit extreme weather perils, including the two costliest perils of flood and fire.

"We have a good handle on solutions," Mr. Feltmate said.

"We know what measures to put in place in certain locations to mitigate risk."

However, he said, Canada's weakness in that area is failing to deploy those solutions at the rate we should.

"We know the solution, but the solution is not much good if you don't operationalize it or mobilize the change."

And he said that while the p&c industry in Canada has a clear understanding of how mitigating the impact of severe weather events can benefit it financially, that is less well understood by other sectors of the economy.

Every industry sector and subsector has been affected by extreme weather and is losing money as a result — but he said most have not felt the same urgency to act because of a lack of data.

Mr. Feltmate said more effort should be directed toward identifying — on a sector-by-sector basis — what key physical climate risk perils are most problematic.

And then within the context of those perils, it can be determined what events would cause investments to fail.

Education cited as key to boost quake cover

EDUCATION is the key to convincing more Canadians at risk from a major earthquake to buy proper coverage, the Insurance Bureau of Canada's Western and Pacific VP says.

"The gap that exists in insurance protection is a demand gap, not a supply gap," Aaron Sutherland said during a recent Insurance Institute of B.C. seminar titled 'Earthquake Risk, Exposures & Claims Handling.'

"Frankly, the insurance industry needs to do more to educate consumers against the perception that earthquake policies are a bad bargain, including that earthquakes aren't likely to happen or that they're not going to be adequately protected if one does happen."

Insurers also need assistance from other stakeholders to come forward and speak about the issue, he added.

For example, the banking industry could use its leverage around mortgages to influence more homeowners to buy coverage.

Mr. Sutherland said governments should also speak more about what would actually happen in the aftermath of a major earthquake.

"When we think about the support that government provides after a disaster, we know that if insurance is readily available, government assistance isn't intended to be there. If you can protect yourself financially from a risk and you choose not to, government isn't expected to respond. They need to clarify that for earthquake."

If a major earthquake hits, the government will likely be overwhelmed with health and safety issues and with the financial burden on its own infrastructure, such as bridges and hospitals, he said.

Creating an earthquake insurance pool could be another solution to increasing the amount of coverage.

Mr. Sutherland said such a program could include mandatory coverage or a requirement for insurers to offer coverage even if people choose not to take it up.

Losses from storms, wildfire compound already heavy toll

INSURED damage from storms that hit Alberta and Saskatchewan during the second half of the summer has been pegged at more than $120m.

Strong winds, hail and rain on July 22 led to $56m in claims while severe storms on August 31 brought flash flooding and large hail that caused a further $64m in insured damage, according to initial estimates from Catastrophe Indices and Quantification Inc. (CatIQ). Hail damaged homes and vehicles in both provinces and strong winds downed trees and power lines, leaving many without power for hours.

Those storms followed a hail event in Calgary earlier in July that caused more than $500m in insured damage.

Meanwhile, the wildfire in White Rock Lake, B.C. that started on August 2 is now estimated to have caused $77m in insured damage. More than 800 claims are expected from the event, with the majority related to residential properties.