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

July 29, 2022

International Sustainability Standards Board, IFRS Foundation
Columbus Building, 7 Westferry Circus, Canary Wharf
London, E14 4HD, UK

RE: General requirements for disclosures of sustainability-related financial information (IFRS S1) and climate-related disclosures (IFRS S2)

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the International Sustainability Standards Board (ISSB) in response to its consultation on its proposed sustainability and climate-related disclosure standards.

ABOUT THE CLHIA

The CLHIA is a not-for-profit, membership-based organization that represents 99 per cent of Canada's life and health insurance companies. CLHIA's member companies help Canadians protect themselves and their families against the financial risks surrounding premature death, illness, and retirement through a wide range of products. In 2020, CLHIA members provided coverage to 29 million Canadians and made $97 billion in benefits payments. Assets held by Canadian life and health insurers on behalf of policyholders outside of Canada amounted to over $1 trillion at the end of 2020. Three of our members are amongst the 15 largest insurers in the world.

Canadian life and health insurers are supportive of all governments taking steps to reduce, mitigate and adapt to the risks of climate change. In addition to assessing the impacts on transition risks, we are closely assessing the impact of climate change on mortality, morbidity, longevity and public health. We are also working with our national banking and insurance regulator, the Office of the Superintendent of Financial Institutions (OSFI), to assess the potential balance sheet implications of a transition to a lower carbon economy.

OVERARCHING COMMENTS

The CLHIA participated in the development of the Global Federation of Insurance Associations (GFIA) submission to the ISSB consultation. The CLHIA supports the positions taken in this submission, which we have attached to this letter.

The CLHIA would like to reiterate some of the positions in the GFIA submission which our members believe are crucial for the development of a global baseline for climate and sustainability reporting:

- We are pleased that the ISSB requirements are based on key existing reporting frameworks, in particular the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. However, we encourage the ISSB to reduce ambiguity by directly incorporating content into the IFRS standards as much as possible, rather than referencing third parties.

- Collaboration and coordination between the ISSB and jurisdictional standard setters is critical to promote consistency and to reduce overlapping and duplicative reporting requirements.

- Sustainability reporting expectations must respect the principles of confidentiality, proportionality, and materiality.

- We understand that the Exposure Drafts intend the term “material” to apply in relation to the information to be disclosed, and “significant” in relation to climate-related risks and opportunities. However, the ISSB should clarify the difference between “material” and “significant”. While “material” is defined in draft IFRS S1 (and is a standard term used in financial reporting), it is unclear how the rather subjective term “significant” is defined.

- The (re)insurance sector provides three types of insurance lines – life, health, and property and casualty. These (re)insurance lines have different exposures to different risks, including climate-related risks. This should be reflected in Appendix B of Volume B17 IFRS S2. In addition to the commentary in the GFIA submission which we fully support, we also believe that given the different risk profiles, the sustainability disclosure topics and metrics is not one-size-fits-all for the (re)insurance sector and (re)insurers would benefit from clear guidance on the applicability of Volume B17 to each insurance line.

CONCLUSION

Should you have any questions or wish to discuss further, please do not hesitate to contact Devika Prashad, Vice-President and Chief Actuary, at dprashad@clhia.ca.

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GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

29 July 2022

GFIA's high-level cover letter on the ISSB consultations on its Exposure Drafts IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures

The Global Federation of Insurance Associations (GFIA) appreciates the opportunity to comment on the Exposure Drafts of the General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2) of the International Sustainability Standards Board (ISSB). GFIA supports the ISSB's objective of creating a global baseline for sustainability reporting, on which individual jurisdictions, when necessary, can build through a "building blocks" approach. It is essential that this global baseline is developed through cooperation with relevant jurisdictions. In this submission, GFIA also provides recommendations to the ISSB which will strengthen the design of the disclosure requirements to create a consistent framework that will provide manageable, intelligible and comparable sustainability information.

Increase global consistency in sustainability reporting standards

The global insurance industry is inherently aware of, and well positioned to participate in addressing, the financial risks posed by sustainability-related challenges and climate change. GFIA recognises that an international approach to sustainability reporting standards is needed for (re)insurers, especially for international (re)insurers, given the global nature of their investments and activities. Developing international sustainability reporting standards is important for improving the comparability and availability of sustainability data while also reducing compliance costs for reporting companies.

Insurers are supportive of the fact that the ISSB requirements are based on key existing reporting frameworks, like the Task Force on Climate-related Financial Disclosures Recommendations and the Global Reporting Initiative Standards. This is vital for designing a global baseline. Nevertheless, GFIA encourages the ISSB to reduce the potential ambiguity of third-party references through the direct incorporation of content into the IFRS standards as much as possible.

GFIA also supports the fact that the ISSB's sustainability reporting requirements act as a baseline for a building blocks approach, where jurisdictions and regional standard-setters can develop complementary requirements to address the specific characteristics of their policies. The formation by the ISSB of the Sustainability Standards Advisory Forum to enhance compatibility between the draft IFRS sustainability disclosure standards (the global baseline) and ongoing relevant jurisdictional initiatives on sustainability disclosures is highly welcome in this regard. Indeed, coordination between the ISSB and international/regional initiatives is vital to achieving the full interoperability of sustainability reporting standards across the various jurisdictions. This coordination is crucial for designing a global baseline that is consistent with market practices and widely accepted around the world.

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Promoting connectivity with financial reporting while acknowledging the limits of the exercise

GFIA encourages policy actions that avoid duplicative and overlapping financial and sustainability reporting. It appreciates that the proposed standards build on the IFRS financial reporting framework, allowing the achievement of a high degree of integration and connectivity between financial and sustainability reporting. Nevertheless, it calls on the ISSB to acknowledge the limits of the exercise. Indeed, scope, time horizons and key assumptions may vary between financial and sustainability reporting, limiting by nature the connectivity between the two frameworks. In addition, sustainability reporting is a considerably less mature field than financial reporting. It should be acknowledged that some time will be needed for the reconciliation of financial data and sustainability data to become mature.

Setting clearer boundaries to the definition of the value chain

GFIA recognises that insurers — and the financial sector more widely — can play a meaningful role in the sustainable finance transformation. As significant institutional investors, insurers will need information on their investees' value chains to steer investments towards sustainable assets, as well as for their own reporting.

GFIA acknowledges that the ISSB has chosen to take a broad definition of the value chain that includes all upstream and downstream activities. While it understands the rationale behind such a definition, the specific characteristics of insurance must be recognised through sector-specific disclosure guidance clarifying how insurers should define their value chain for their reporting. For example, in reporting on their investments, insurers should only be required to gather data that is reported and available from their investee companies and not to also seek data from their investee company's business partners. (ie, no look-through principle). Insurers can promote awareness campaigns but cannot act on behalf of or control their policyholders' behaviour.

Providing clear differentiation between sustainability-related and non-sustainability related risks and opportunities

The ISSB proposals require disclosure of "material information about all of the significant sustainability-related risks and opportunities to which an entity is exposed". This foundational requirement, understood literally, would require an entity to identify the total scope of sustainability risks to which it is exposed, then to determine which are "significant". However, identifying the universe of sustainability-related risks and opportunities would require defining what is and is not sustainability-related. This is not necessarily clear, as the draft appears to consider traditional operational risks, such as customer price perceptions and worker satisfaction, as sustainability topics (S1, Paragraph BC57). These should be excluded.

GFIA encourages the ISSB to work toward a clearer differentiation between sustainability-related and non-sustainability-related risks and opportunities. Some current and developing reporting frameworks, such as the EU Sustainability Reporting Standards, may offer helpful concepts. The UN's Sustainable Development Goals, which are referenced in Paragraph BC30, may provide additional direction.

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Step up efforts in support of the transition towards a sustainable economy

GFIA supports an international approach to climate-related disclosures. It believes that consideration should be given to phasing in the effective dates of some disclosure requirements in the draft standards. Furthermore, progressively increasing reporting to include Scope 3 greenhouse gas (GHG) emissions needs to be matched with the development of internationally recognised approaches to calculating Scope 3 for underwriting.

GFIA thinks that transition plans should focus not only on carbon offsets but also on plans and actions taken to foster emissions mitigation to secure comparability and provide investors with robust and usable information. Furthermore, the ISSB should make clearer its expectations and guidance on how carbon offsets may be considered within Scope 1, 2, and 3 carbon emissions accounting (eg, whether reporting entities would be expected to disclose net GHG emissions, reflecting carbon offsets, or total GHG emissions with carbon offsets being separately disclosed).

Promoting the principles of confidentiality, proportionality and materiality

Sustainability reporting should respect the principles of confidentiality, proportionality and materiality.

- With regards to confidentiality, the publication of sustainability information should strike the right balance between transparency and business sensitivity. Indeed, sustainability reporting should not lead to the release of sensitive information that may undermine a company's competitiveness and economic development.
- With regards to proportionality, regulation should be useful for decision-making and tailored to a firm's business model. In this regard, we support the fact that the ISSB is avoiding a one-size-fits-all approach and proposes specific disclosure requirements by sector. However, at this stage, the ISSB has decided to rely on Sustainability Accounting Standards Board requirements, and GFIA calls on the ISSB to adapt them only where necessary to ensure international applicability.
- With regards to materiality, GFIA supports the decision that an entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material (Paragraph 60 of IFRS S1). GFIA supports the ISSB's statement that "the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard." (Paragraph B6 of IFRS S2). Such materiality analysis undertaken by entities is crucial to ensuring that sustainability reporting will provide information that is easy to access, to understand and to manage by the users of that information. GFIA encourages the ISSB to require the disclosure of a materiality matrix, as currently done in widespread reporting practices, eg, for financial reporting and risk assessment. This materiality matrix should be prepared according to each entity's decision and policy. In addition, the ISSB should further clarify the difference between "significant" versus "material", as the latter term is used in financial reporting and it might be confused with the rather subjective term "significant".

IFRS S2/Question 11 – Industry-based requirements

(j) GFIA agrees with the industry-based requirements that respect principles of confidentiality, proportionality and materiality as well as the industry-specific approach taken by the ISSB to ensure disclosures are relevant, meaningful and comprehensive. Yet it cautions against the requirement to disclose climate-related probable maximum losses. Indeed, not only could this information be highly sensitive, but it also depends on a wide variety of circumstances that may lead to difficult calculations and produce inaccurate information. GFIA also suggests limiting the disaggregation of GHGs by constituent gas to certain industry sectors.

(l) GFIA suggests rephrasing the insurance industry description (p.155 of the IFRS S2 Appendix B, Volume B17 on Insurance) to better reflect the insurance business model and its specific characteristics and to avoid value-based judgements:

- **Definition**

The activity of insurance is intended to provide individual institutional units exposed to certain risks with financial protection against the consequences of the occurrence of specified but unpredictable events, in return for a fee or premium. Reinsurance allows the transmission of risks from individuals and companies, through primary insurers, to one or more reinsurers and thus reduces an insurer's risk of loss by sharing the risk. In the event of a claim, the reinsurer compensates the insurer for its share of the risk.

- **Description**

The (re)insurance sector:

- Provides products and services that enable the transfer, pooling and sharing of risk necessary for a well-functioning economy.
- Enables capital accumulation for old-age provision. Insurance products take the form of a contract between the insurer (underwriter) and the client (policyholder), although the beneficial owner of the insurance policy can be the policyholder or a third-party.
- Provides commonly three types of (re)insurance lines: life, health, and property and casualty. The life (re)insurance sector can protect against the financial impact of dying or survival to a certain age and can enable capital accumulation (savings) for retirement or long-term goals. Health (re)insurance can protect against the financial impact of medical expenses, illness, accident, disability or infirmity. Property and casualty (re)insurance can protect against the financial impact of, for instance, the damage or loss of motor vehicles, aircrafts or goods in transit; fire and other natural forces; other damage to property, etc. All of these (re)insurance lines have different exposures to different risks. According to national law, some insurance policies may be compulsory, such as motor liability.
- Complements the government's role of providing social protection with regard to health, pensions and dependency but also with regard to civil liability, thereby enhancing societal resilience.

- **Key roles of insurers**
  - Prevention. The insurance sector is a cornerstone of risk prevention. By providing access to data and handling risks on a regular basis, insurers can raise awareness about potential risks and suggest measures to mitigate them.
  - Risk pricing. (Re)insurers play an important role in measuring and pricing risks to inform risk management, supporting the development of innovative adaptation solutions and providing economic support when disasters strike. (Re)insurance loss-modelling and stress-testing can also help inform risk-mitigation decisions.
  - Investments. As investors (asset owners), global (re)insurers support economic growth and transition towards a sustainable economy. (Re)insurers will further support sustainable investment as additional investment-grade sustainable assets become available.
- **Diversity of business models**

(Re)insurance premiums, underwriting revenue and investment income drive segment growth, while (re)insurance claims payments present the most significant charge. (Re)insurance products may be provided by different players, such as mutual entities with no shareholders or private stock companies, ranging from the smallest local organisations to the largest global ones. As a result, the profile of (re)insurance companies varies greatly in terms of size, geographic coverage, market coverage and customer segments.

- **Insurance regulation**

(Re)insurance companies are highly regulated entities subject to comprehensive prudential supervision. As a result, (re)insurers must comply with many rules, covering solvency, risk management and governance. Also, (re)insurance supervisors establish regulatory investment requirements to which (re)insurers are subject while investing policyholders' premiums. (Re)insurers are required to invest in such a manner as to ensure the security, quality and liquidity of their asset portfolio, so that payments to policyholders or creditors can be made as they fall due, and assets are adequately diversified. (Re)insurers are also required to abide by conduct regulations that help support their focus on good customer outcomes.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 40 member associations and 1 observer associations the interests of insurers and reinsurers in 67 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.