Response to the Ontario Low-Carbon Hydrogen Strategy Discussion Paper

Canadian Life and Health Insurance Association
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CLHIA
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The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the Ministry of the Environment, Conservation and Parks in response to the Ontario Low-Carbon Hydrogen Strategy discussion paper. This response is concerned primarily with “Topic 5: Reducing barriers and enabling action in order to attract investment and create a level playing field between technology options.”

The CLHIA is a voluntary association with member companies which account for 99 per cent of Canada's life and health insurance business. The industry plays a key role in providing financial security for Ontarians and makes significant contributions to the economy, with hundreds of billions of dollars invested for the long-term in the province.

Protecting **11 million Ontarians**

10.2 million with drug, dental and other health benefits

8.4 million with life insurance averaging $234,000 per insured

4.9 million with disability income protection

$46.8 billion in payments to Ontarians

$25.7 billion in annuities

$16 billion in health and disability claims

$5.1 billion in life insurance claims paid

$2.8 billion in provincial tax contributions

$210 million in corporate income tax

$351 million in payroll and other taxes

$592 million in premium tax

$1.64 billion in retail sales tax collected

Investing in Ontario

$337 billion in total invested assets

98% held in long-term investments

Canadian life and health insurers are supportive of all governments’ taking steps to reduce, mitigate and adapt to the risks of climate change. While the immediate impact of climate change—more frequent and severe storms, flooding, drought and forest fires—is obvious to property and casualty insurers, climate change also presents a unique and long-term risk to public health, and consequently to life and health insurers. As such, while managing climate change is of interest to many it is an area of significant and growing concern to the life and health insurance industry.

We support the Government of Ontario taking action to reduce, mitigate and adapt to the risks of climate change, including through the development of a Low-Carbon Hydrogen Strategy. We recommend that Ontario align its strategy with the federal Hydrogen Strategy for Canada. The life and health insurance industry looks forward to working with the province to achieve its climate and sustainability goals, including by providing a stable, long-term source of capital for sustainable infrastructure assets.

LIFE AND HEALTH INSURERS AS LONG-TERM INVESTORS

In 2018, Canada's life and health insurers held roughly 90 per cent of their total domestic assets—$780 billion—for the long-term. Life and health insurers have a strong desire and capacity to invest more.

When an individual purchases a life insurance or pension product, insurers often receive premiums for several decades—up to 50 years and in some cases much longer—before paying related claims. In exchange for premiums, the industry promises to compensate policyholders through a range of products. Insurers must invest the premiums they collect from policyholders to pay claims and benefits on their policies as well as cover their operating and capital costs. An insurer's investment strategy is heavily influenced by the profile of its liabilities. To the greatest extent possible, insurers seek to match the term of their liability with their assts. As a result, the industry has a strong demand for very long-term investments.

The industry's investments often support longer-term capital investments, including infrastructure investments, which are critical for creating economic growth. The industry is one of the largest investors in a number of critical asset classes in the economy, such as corporate bonds, government bonds and commercial mortgages, and therefore plays a key role in supporting economic growth.

In periods of market stress with significant market volatility—including through the COVID-19 pandemic—insurers receive a continual and steady flow of premiums. This, together with predictable liability outflows, enables insurers take a long-term view towards investing. Insurers hold and continue to buy assets that are temporarily undervalued during a downturn and to sell or avoid assets that are temporarily overvalued during a boom. Insurers' stable demand for long-term assets, along with their long-term, conservative investment approach, plays an important counter-cyclical role in times of market stress. This helps temper the swings in the market over business cycles as was evidenced by the industry's role in providing stability during the 2008 financial crisis and offer policyholders support during COVID-19 pandemic.

To enable insurers to maximize their investment potential and contribute to economic growth, the right regulatory conditions and appropriate measures need to be in place. It is important that regulations ensure that insurers have enough capital and that consumers are protected. However, if the design of insurance regulation does not take due account of the industry's distinctive characteristics, it can have unintended consequences for long-term investing and affect insurers' ability to support sustainable economic growth.

LIFE AND HEALTH INSURERS AS INFRASTRUCTURE INVESTORS

World-class infrastructure is vitally important to maximizing economic development and prosperity throughout Ontario and Canada as we compete to grow in a challenging economy. There are important infrastructure investments to be made in Ontario's public transit, roads, hospitals and schools. In 2018 life and health insurers had over $45 billion invested in domestic infrastructure.

Canadian life insurers are a leading source of long-term financing for infrastructure (re)development. The nature of Canadian life and health insurance products − routinely lasting more than 50 years −

results in predictable, long-term, liabilities. As such, life insurers are ideal financial partners for public-private partnership (P3) infrastructure projects as they can commit to long-term financing throughout the "design, build, maintain and operate" stages. This inherent structural advantage makes the industry an important and stable investor in long-term assets.

Canadian life insurers have participated in projects ranging from roadways and public transit to public buildings and wastewater systems. These investments efficiently match insurers' long-term liabilities for the life and health coverage, retirement savings and pension plans upon which Ontarians depend on. The industry has a strong desire to invest further in infrastructure projects.

Given that the bulk of Canada's $400 billion infrastructure deficit is at the smaller municipal government level, a more nuanced approach is needed to address this specific segment of the country's infrastructure deficit. Active collaboration between all levels of government and the private sector to develop a comprehensive long-term plan to fund and facilitate identified needs at the local level will help speed projects to market and reduce the infrastructure deficit.

We recommend the government leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.

LIFE AND HEALTH INSURERS AS SUSTAINABLE INVESTORS

Significant infrastructure, particularly in low-carbon electricity generation capacity, is necessary to support the growth of Ontario's hydrogen economy. As a substantial investor in the Canadian economy, the life and health insurance industry is well positioned to support the transition to a lower carbon economy through its substantial capital available to invest in sustainable infrastructure.

In fact, insurers have already taken steps to increase their investments in products and assets that meet environmental, social and governance (ESG) or sustainability criteria. Canadian life and health insurers already have more than $50 billion invested in products or assets that integrate ESG or sustainability factors.

Beyond investment dollars, several Canadian life and health insurers have publicly supported the Financial Stability Board's (FSB) Task Force for Climate-related Financial Disclosure (TCFD) recommendations, and some are also signatories of the United Nations-supported Principles for Responsible Investment (PRI) and the UN Environment Programme (UNEP) Principles for Sustainable Insurance (PSI). The CLHIA itself also recently became a supporting institution of the PSI alongside with the Insurance Bureau of Canada (IBC) and the International Actuarial Association (IAA), which is headquartered in Canada.

Actions being taken by Canadian life and health insurers to increase their investment in products and assets that meet ESG and/or sustainability benchmarks include:

- Having a sustainable investment council or external advisory board to assist them with exploring ESG investment opportunities;
- Conducting ESG analysis as part of certain investment processes and/or daily investment practices;

- Expecting sustainability-related insights to be a component of the research processes that are used to arrive at investment decisions;
- Establishing internal ESG scoring systems for their investment processes;
- Issuing green bonds to support sustainability projects;
- Investing in government green bonds and/or private sector investment funds with sustainability mandates;
- Investing in resilient and sustainable infrastructure such as green buildings, renewable energy, clean transport and sustainable water management;
- Targeting investments on renewable energy (wind, solar and other) and energy efficiency; and
- Reviewing their investment portfolio and exploring the option of and/or setting targets for their ESG and/or sustainable investment rate.

When analyzing whether a product or asset meets ESG or sustainability criteria, Canadian life and health insurers may employ strategies such as negative/exclusionary screening, positive/best-in-class screening and norms-based screening. They may also consider corporate engagement and shareholder action.

However, the industry is able and wants to do more. Currently, insurers' capacity to invest more is not matched by available sustainable assets. Further there is a lack of simple and clear definitions for sustainable investments and green financial products.

The industry is available to collaborate with the government on the issue of lack of supply of sustainable assets for investment, such as infrastructure, low-carbon electricity generation, and climate transition projects. The industry is also available to support policymakers in developing clear language and definitions for the various investments and financial products that meet ESG criteria.

CONCLUSION

The life and health insurance industry supports the Government of Ontario creating new opportunities for investment in sustainable, long-term infrastructure assets, including those where hydrogen could be utilized to reduce greenhouse gas emissions such as buildings, transportation and power generation. Should you have any questions or wish to discuss further, please don't hesitate to contact Susan Murray, Vice-President, Government Relations and Policy at **smurray@clhia.ca** or 613-691-6002.

79 Wellington St. West, Suite 2300
P.O. Box 99, TD South Tower
Toronto, Ontario M5K 1G8
416.777.2221
info@clhia.ca