



Speaking Notes for Penny Lee Senior Director, Insurance Supervision Sector Office of the Superintendent of Financial Institutions Canada (OSFI)

2019 P&C Risk Management Seminar

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For additional information contact:

Brock Kruger
Communications and Engagement
brock.kruger@osfi-bsif.gc.ca
www.osfi-bsif.gc.ca

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Introduction

Thank you for participating in our 11th Annual P&C Risk Management Seminar.

These have been popular events for the industry and we typically have more interest from people that want to attend than we have room. These events are important for OSFI and important for the industry as they provide an opportunity to share what each other is doing and where we are going.

A big development since last year's Seminar, apart from the recent federal election, is that we have issued our [Strategic Plan](#). It is available on our website.

Our Strategic Goals speak to the issues of financial and non-financial risk, how we can increase our own effectiveness and efficiency, and our approach to preserving the support for OSFI from Canadians and cooperation from the financial industry.

We only have four goals but they are comprehensive:

We want to:

- Improve regulated entities' resilience to financial risk;
- Improve their preparedness for and resilience to non-financial risks;
- Improve our agility and operational effectiveness while being responsible stewards of our resources; and
- Preserve support from Canadians and cooperation from the financial services industry by being transparent and accountable.

The first two goals recognize the importance of resilience for regulated institutions and the changing nature of their risk exposures.

The agenda today includes topics that highlight the importance of institutional resilience, as they have the potential to reshape the sector and the operations of institutions.

Consider for instance the size and scope of IFRS 17 impacts, which suggest that it will continue to be on our agendas for some time yet to come. Our targeted outcome is to have strong and comparable accounting standards across the globe for insurance contracts.

While it is widely expected that the IASB will grant a slight reprieve on IFRS 17 implementation, there is certainly enough work to keep us all busy. We would like insurers to be ready by the original deadline to allow time for observation, analysis and refinement prior to the global implementation deadline. This will help the Canadian industry stay ahead of its peers and reap the benefits sooner.

Further, capital will always be a key component of assessing financial strength and changes to the MCT will help us keep on top of changing risks, new developments in risk measurement, evolving business practices and growing non-financial risks.

Also, our work on earthquake benchmarking has helped us understand the level of preparedness for catastrophes and insurers' capacity and capability in managing such risks. We have an interesting presentation to show you on that topic after the break.

As you all know, a key project for us is the updating of our reinsurance framework to better address our observations of significant risk exposures from issuing policies with very large limits and reliance on reinsurance concentrated with one or a few counterparties, often unregistered affiliated reinsurers. We have put considerable time and effort into ensuring that our guidelines are in keeping with industry practices and encourage appropriate risk management behaviours. This work is continuing and you will hear more about that later this morning.

There are few areas worthy of more attention by both regulators, insurers and financial institutions of all kinds than Climate Risk. The P&C industry is quite a bit ahead of its financial peers in managing the impacts as it has been dealing with physical risk and its financial management for a few decades but it is certainly not alone in its exposure to this macro-risk. The impact on financial institutions with long-term liabilities is yet to emerge and is foreseen to be very significant.

Physical risks, Investment risks and liability risks are all shifting as the climate changes. Each risk has its own flavor but together they are a strong argument for a hard, long look at current practices, exposures, and mitigating tools.

That is why OSFI joined with 22 other countries on the Sustainable Insurance Forum (SIF). The SIF is a network of leading insurance supervisors and regulators seeking to strengthen their understanding of and responses to sustainability issues for the business of insurance and beyond.

With all of these issues on all of our already full plates, we need to be sure that our organizations and cultures can address the new risks while continuing to manage the better understood traditional sources of risk.

This means looking at new approaches and tools and it also means keeping a wary eye for changes internally and externally that can be counter-productive.

To respond to the growing threats from non-financial risks – matters such as cyber, new technologies, third party risks and others - OSFI has created a new group to focus on such risks. We did this in order to be able to get out in front of those growing areas of risk.

As you will hear from our next speaker, this new area includes a new group that will assess culture and conduct risk at federally regulated financial institutions. This may sound odd in Canada where conduct is not generally considered a prudential matter.

However, we know that culture and conduct issues can quickly lead to reputational risks and ultimately to financial losses – there are many examples of that. We see the need to be more proactive and forward-looking in identifying and addressing such concerns from an institution governance perspective.

The challenges of the future are bigger than one institution, one issue, or one regulator.

Keeping an open dialogue with industry and other regulatory experts is key to creating our own future stability.

I hope that you all learn something today about OSFI's work and approach. More importantly, I hope that you take the opportunity to speak with the OSFI officials here and get an understanding of our path forward.

Thank you.