

November 30, 2023

BC Financial Services Authority
600-750 West Pender Street
Vancouver, BC, V6C 2T8
Sent by email: engage@bcfsa.ca

Re: Consultation on Natural Catastrophes and Climate-Related Risks

BCREA Response to the Consultation on Natural Catastrophes and Climate-Related Risks

Thank you for the opportunity to participate in your consultation on natural catastrophes and climate-related risks. We support the BC Financial Services Authority's (BCFSA) objective to create evidence-based rules and decision-making to help protect British Columbians while buying or selling property. Below is the BC Real Estate Association's (BCREA) response to the Consultation on Natural Catastrophes and Climate-Related Risks ("the Consultation").

Overview

BCREA is supportive of efforts to inform property owners and prospective purchasers of natural catastrophes and climate-related risks (NCCR). The concerns of "future" weather events are now moot – the effects of climate change are now upon us, and evident to residents throughout British Columbia. The wide range of NCCR, coupled with the ever-present seismic risk, needs to be communicated to residents of the province to enable strategies to mitigate the risk, improve resilience, and inform reconstruction efforts when disaster strikes.

Mortgage Brokers

"BCFSA believes that it is prudent that all mortgage brokers should consider how physical risk could impact themselves and consumers over time. While the principles of identifying and measuring physical risks still apply to mortgage brokers, the actions that mortgage brokers are expected to take to manage risk should be commensurate with the risk. Mortgage brokers should take appropriate measures to ensure they can manage disruptions in their operations due to climate and/or seismic events. It is proposed that mortgage brokers could be called upon to disclose to consumers a property's exposure to NCCR.

What challenges do you foresee with mortgage brokers (including lenders) having to provide advice or disclosures based on property-specific climate risk?"

BCREA Response:

It would appear to be a sector best practice that mortgage brokers would understand the risk associated with mortgages secured by both the property and the borrower's ability to support the debt servicing – both of which could be impacted by natural catastrophes. As with all participants in the sector, the challenge is to ensure that any such decisions are informed by accurate and current data regarding the location-specific NCCR.

Real Estate Development Marketing

"BCFSA believes that NCCR disclosures throughout the life cycle of real estate, including in real estate development marketing, could play an important role in protecting consumers.

What benefits and challenges do you foresee with property-specific NCCR disclosures?"

BCREA Response:

It is BCREA's opinion that if property-specific NCCR disclosure requirements are in place for purchasers of existing properties, the same should apply to purchasers of new properties marketed by developers. It will also be important to ensure that any NCCR information provided to purchasers at pre-sale are updated as required at possession date, given the long interval between the two dates.

Real Estate Service Providers

"BCFSA believes that it is prudent that all real estate service providers should consider how physical risk could impact themselves and consumers over time. While the principles of identifying and measuring physical risks still apply to real estate providers, the actions that real estate providers are expected to take to manage risk should be commensurate with the risk, as their operations could be affected abruptly or over time due to climate and/or seismic events. It is proposed that real estate service providers would be called upon to disclose to consumers a property's exposure to NCCR. They will also be expected to be knowledgeable about NCCR and financial services products that can help a customer better protect themselves.

What challenges do you foresee with requiring real estate service providers to disclose property-specific NCCR risk, or the disclosures themselves?"

BCREA Response:

It is the responsibility of each real estate service provider to ensure that they are aware of their exposure to local and regional NCCR, as information is made available and updated. However, the inconsistency of the availability and reliability of data is a major obstacle in understanding risk. Upon a more thorough collection and interpretation of local and regional risk factors, a Best Practice would involve incorporation of that awareness in each brokerage's policies and procedures manual, which would outline their preparedness and response to a natural catastrophe. As BCFSA is aware, BCREA has developed a template for brokerage policies and procedures which can be downloaded and customized for use. BCREA would be prepared to work

with BCFSa in the development of new sections of the template specifically related to disaster preparation, resilience, and recovery.

The challenge of disclosure is the availability of accurate, current data on the NCCR faced by individual properties within the brokerage's operational territory. While senior levels of government have increased funding for the development of floodplain maps, there is still much work to be done in the interpretation of this data, and increasing its availability for property owners and prospective purchasers. In addition, it is much more challenging to gauge the potential risk from wildfire events, given the vast forested areas within the province.

Without current, accurate information, it is very difficult for representatives to provide their clients with information about a property's NCCR, let alone potential risk mitigation strategies, or recovery scenarios. Also, BCREA is concerned about BCFSa's statement that "They (real estate service providers) will also be expected to be knowledgeable about NCCR and financial services products that can help a customer better protect themselves." -- it may not be realistic to expect representatives to be "knowledgeable" about the impact of NCCR upon financial service products. A more realistic expectation may be "awareness" that financial institutions may take NCCR factors into consideration when considering the availability or pricing of various financial instruments. In addition to the creation of an NCCR disclosure mechanism, the question of communication and education must be answered. When available, this information should be accessible to all property owners and prospective purchasers. Therefore, it should not be "transactional", but be part of the property's data – for example, included in the annual property assessment. In this manner, the information could be updated when new data is developed and should be linked to resources providing mitigation/resilience tactics that can be undertaken to reduce the impact of natural catastrophes. It is critically important that this information not be considered by members of the public as "just another number", and that it function as a catalyst for an action plan to reduce the impact of future events.

General Questions

"Has BCFSa identified the key risks and issues for financial services providers and consumers, or are there any elements or issues that have not been identified that should be considered, keeping in mind BCFSa's mandate and regulatory authority?"

BCREA Response:

While disclosure of property-specific NCCR would be of significant benefit to a property owner or prospective purchaser, the understanding of such risk is only one element in a decision-making process. The Sendai Framework from the United Nations Office for Disaster Risk Reduction states that understanding risk reduction and resilience and response/recovery/reconstruction are equally important steps in hardening against NCCR. Property owners should have access to links to resources providing relevant information on the implications of NCCR and steps that they can take to mitigate the risk and impacts of future events.

Not being subject matter experts themselves, real estate service providers must rely upon various government ministries, agencies, and engineering experts to properly identify and quantify the NCCR faced by specific regions, locales, or properties. It will be the duty of those entities to ensure that changes to such information are properly verified and communicated to representatives who would be charged with passing that information on to property owners and prospective purchasers.

“Is the proposed approach appropriate for the financial services sector in B.C. given our mandate and strategic imperatives?”

BCREA Response:

If BCFSAs intent in this consultation is to determine the Best Practices for disclosure of property-specific NCCR, then it must only do so when the necessary data is available, and is in a form that is easily accessible, relatable, and actionable by both real estate service providers and property owners and prospective purchasers. The challenge for BCFSAs is that the preparation of this data is out of its jurisdiction, and requires the cooperation of senior and local levels of government, NGOs, and sector expertise. Once the data is available, BCFSAs has a public engagement, communication, and education role, and a regulatory role to ensure that the information is made available to consumers on a timely basis. Real estate service providers have a role in that engagement, as do existing tools such as disclosure of latent defects. However, private sales will continue to be a challenge, to ensure that purchasers are given the same information as those working through a real estate professional. The availability of such data on a publicly-accessible platform (such as the annual BC Assessment valuation) could help ensure continuous public access.

“Are there any unique characteristics that BCFSAs needs to consider that would necessitate BCFSAs modifying its approach from other regulators?”

BCREA Response:

Because BCFSAs is also the regulator for the insurance and mortgage brokerage sector in BC, it is important that regulations align with those for real estate service providers. Property-specific NCCR assessment will be a critical factor for insurance providers, and may even impact the decisions of lenders regarding their loan portfolios. The valuation of properties with elevated levels of NCCR could also be impacted by the availability and cost of insurance and financing. There could be pushback from existing property owners if they feel that disclosure of such risks will reduce their property values. This may be significant in areas proximate to coastlines, rivers and forests – locales which have historically been preferred locations in BC, and have commanded elevated values – but are also the most likely to be identified as locations with higher NCCR.

“How should BCFSA apply proportionality when developing its approach?”

BCREA Response:

It is important that BCFSA understand the regional and local factors that impact property-specific NCCR throughout the province. For example, risk from sea level rise or tsunamis is restricted to a very narrow band along BC’s coastline, but wildfire risk is much more widespread. Similarly, risk from seismic events is not equally distributed throughout the province. Understanding the risk for any specific property will involve not only the identification of the risk, but also the probability of its occurrence, and the magnitude of its impact. This multi-layered information presents challenges to anyone who intends to present a proper evaluation of property-specific NCCR to the public.

“From a consumer’s perspective, are there additional areas that BCFSA should focus that fit with our mandate?”

BCREA Response:

There have been recent discussions at various forums in BC on the subject of a property-specific climate-change risk assessment. While this would be of significant value for property owners and prospective purchasers, there are several factors that are critical to be in place prior to such an assessment becoming operational. First, the information must be current, accurate, and understandable for users. Second, it must be in a form that can be updated when new information is obtained. Third, it must properly indicate the actions that can be undertaken to increase the property’s resilience to NCCR and mitigate the impacts of potential future events. Finally, it must provide an action plan for occupants during and after an event, so that their personal safety is ensured, and that they can “build back better” to reduce the impacts of future events.

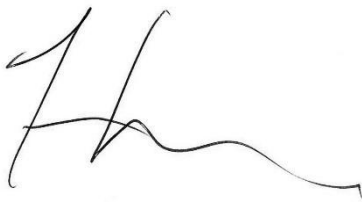
BCREA’s recommendation is for BCFSA to proceed in a measured, deliberate method to ensure that this information, when available, is of maximum use to property owners and prospective purchasers.

If you have any immediate questions or concerns, please reach out to me at thargreaves@bcrea.bc.ca or 236.333.4572.

November 30, 2023

As you know, BCREA is a professional association representing eight real estate boards with more than 26,000 REALTORS® in BC, focusing on provincial issues that impact real estate. BCREA provides continuing professional development, advocacy, economic research and standard forms to help REALTORS® provide value for their clients. BCREA supports policies that help ensure economic vitality, provide housing opportunities, help mitigate the impacts of climate change on homeownership and protect property owners.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'T. Hargreaves', with a stylized, flowing script.

Trevor Hargreaves

Senior VP Government Relations, BC Real Estate Association

Copy: Franziska Niegemann, Director of Risk Surveillance and Analytics, BCFS
(Franziska.Niegemann@bcfsa.ca)