New York Department of Financial Services: Proposed Guidance for New York Domestic Insurers/Managing Financial Risks from Climate Change

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The New York Department of Financial Services ("NDFS") on March 25th issued for public comment a proposed guidance document titled:

Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change ("Proposed Guidance")

The *Proposed Guidance* outlines NDFS' expectations in regards to New York domestic insurers management of the potential financial risks associated with climate change.

Anthropogenic climate change is often associated with environmental changes such as:

- Higher concentrations of greenhouse gases
- A warming atmosphere in ocean
- Diminished snow and ice
- Rising sea levels

If such climate changes continue to increase, the possibility of more frequent and severe extreme weather conditions is a serious concern.

Such associated effects will presumably have significant impact on various aspects of the insurance industry such as:

- Property and casualty (property/infrastructure exposure to catastrophic and small weather extremes)
- Health (exacerbation of existing issues such as asthma, along with injuries associated with heatwaves, flooding, vector-borne diseases, and water quality)
- Life (adverse impact on investment portfolios)

As a result, insurer activities such as underwriting, financial reserving, investing, risk modeling, and risk capacity are potentially affected by climate change.

NDFS previously issued a circular letter on September 22, 2020, that requested all New York insurers begin integrating the consideration of final risks from climate change into:

- Governance frameworks
- Risk management processes

- Business strategies
- Climate-related financial disclosures

In introducing the *Proposed Guidance,* NDFS notes:

- Insurers will play a critical role in the management of client risk in their capacity as risk managers, risk carriers, and investors
- Insurers are uniquely qualified to understand the pricing of risks
- The *Proposed Guidance* will serve as a basis for supervisory dialogue and to help familiarize insurers with climate risks along with their capacity and processes for managing them
- A timeframe will be developed by which insurers should have fully imbedded their approaches to managing climate risks in their:
- Governance structure
- Risk management frameworks and processes
- Business strategies
- Metrics and targets
- Disclosure methods
- There is a wide range of levels of maturation/sophistication among insurers in terms of understanding and managing climate risks
- Disadvantaged communities (low income communities and communities of color) are disproportionately affected by climate change

By way of summary, NDFS believes that an insurer should:

1. Integrate the consideration of climate risks into its governance structure. The insurer's board should understand and be responsible for managing climate risks, which should be reflected in the company's risk appetite and organizational structure.

2. When making strategic and business decisions, consider the current and forwardlooking impact of climate-related factors on its business environment in the short-, medium-, and long-term.

3. Incorporate climate risks into the insurer's existing financial risk management, including by embedding climate risks in its risk management framework and analyzing the impact of climate risks on existing risk factors. Climate risks should be considered in the company's ORSA.

4. Use scenario analysis to inform business strategies and risk assessment and identification. Scenarios should consider physical and transition risks, multiple carbon emissions and temperature pathways, and short-, medium-, and long-time horizons.

5. Disclose its climate risks and consider the TCFD and other initiatives when developing its disclosure approaches.

The *Proposed Guidance* is subject to a 90-day public comment period.

A copy of the *Proposed Guidance* can be downloaded here.