

New York State Department of Financial Services Issues Draft Guidance for Domestic Insurers on Climate Change Risks

April 1, 2021

New York domestic insurance companies will be expected to take into account the impact of climate change in all facets of their business, as per the latest regulatory guidance proposed by the New York State Department of Financial Services (DFS). Climate change is expected to materially impact many of the risks insured by insurance companies, increasing the frequency and severity of flooding, hurricanes and wildfires, all of which will lead to an increase in insurance claims and losses. The DFS anticipates that this proposed guidance will serve as a basis for dialogue between insurers and the DFS and “to help insurers familiarize themselves with climate risks and develop their capacity and processes for managing them.” This is not the DFS’s first foray into the issues raised by climate change. For example, in September 2020, the DFS issued Circular Letter 15, in which the DFS stated that it now expects insurers to integrate financial risks related to climate change into their governance frameworks, risk management processes and business strategies. Pursuant to Circular Letter 15, insurers should include analysis of how climate change is affecting the insurers’ investments, liquidity, operations, reputation, business strategy and underwriting into their risk management frameworks.

The guidance issued by the DFS is part of a wider push by the National Association of Insurance Commissioners Climate and Resiliency (EX) Task Force and the other state regulators to make sure the insurance industry is adequately prepared for the effects of climate change. We expect insurance regulators to continue to focus on the challenges raised by climate change.

Under the proposed guidance, the DFS will require that New York domestic insurers:

1. Incorporate the analysis of climate risk into their boards’ governance practices by ensuring that the insurers’ boards adequately understand and are responsible for managing climate risks.
2. Consider climate impact when making any strategic or business decisions.
3. Incorporate climate risk into their risk management framework, including in the insurers’ Own Risk and Solvency Assessment.
4. Use climate scenario analysis to inform business decisions, taking into account physical and transition risks, multiple carbon emissions and temperature pathways, and short-, medium- and long-time horizons.
5. Include climate risks in any applicable disclosures and consider the recommendation of the DFS’s Task Force on Climate-related Financial Disclosures.

Each insurer will need to assess the significance of climate-related financial risks to its business and take a proportionate approach to managing those risks that reflects its exposure to those risks, as well as the nature, scale and complexity of its business. DFS expects to develop a time frame for insurers to fully include climate risks in their governance structures, risk management frameworks and processes, business strategies, metrics and targets, and disclosure methods. Notably, the guidance says that while the disclosures to be initially included in an insurer’s risk assessment models are likely to be qualitative in nature, the DFS expects that the disclosures should become more quantitative, including key metrics and targets, over the next two to three years.

Interested parties are encouraged to provide comments on the proposed guidance by Wednesday, June 23, 2021. DFS will host a webinar to provide an overview of the proposed guidance on April 8, 2021, at 11:00 am EDT.

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