

# New York Insurance Regulation and Environmental Concerns

October 2, 2020

In conjunction with New York Climate Week, the New York Department of Financial Services (the “DFS”) announced on September 22 new initiatives that will incorporate environmental considerations into the insurance regulatory sphere.

As set forth in the newly issued Circular Letter 15 (the “Circular Letter”), the DFS will now expect insurers to integrate financial risks related to climate change, including analysis of how climate change is affecting the insurers’ investments, liquidity, operations, reputation, and business strategy into their risk management frameworks. The types of risks contemplated by the Circular Letter to be included in this new requirement are both increased losses resulting from climate change-driven natural disasters in the property and casualty space as well as poorer financial market performance impacting insurers’ balance sheets, or asset-specific valuation risk, resulting from climate change issues. Beginning in 2021, the DFS will begin evaluating insurers’ handling of climate change-related issues in its examination process. These new requirements are consistent with the DFS’s recent support of the Principles for Sustainable Insurance propagated by the United Nations Environment Programme Finance Initiative as well as the DFS’s recent statements in support of ESG investing (taking into account environmental, social and governance considerations) by insurers. The Circular Letter acknowledges that different insurers will have differing levels of resources with which to respond to these requirements and that each insurer should take a “proportionate approach” reflecting its particular level of exposure to these types of risks.

Specific insurer practices contemplated by the Circular Letter include:

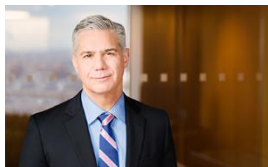
- Designating a board member or committee and member of senior management to be accountable for the insurer’s assessment and management of climate change-related financial risks;
- Including climate change-related risks in the insurer’s enterprise risk management and ORSA analyses; and

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- Covering these types of risks in public disclosures made by insurers.

We expect that compliance with the Circular Letter may require a significant amount of industry attention over the next few months, and we would be happy to consult on any of these issues.



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