

Template for Comments

Detailed Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change

Deadline: Wednesday, June 23, 2021 at 11:59pm

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Please enter your comments on this chart. When entering feedback, please make sure that:

- each comment deals with a single issue only;
- you indicate the relevant section by using the drop down menu in the Section column;
- you indicate the relevant paragraph(s) by specifying the paragraph number(s) in the Paragraph Number(s) column; and
- you indicate whether your comment is a proposed amendment, clarification or deletion.

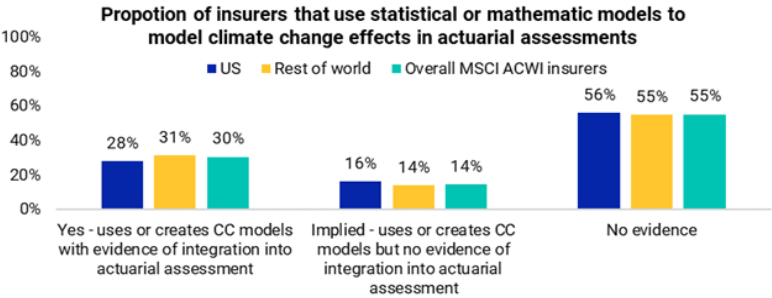
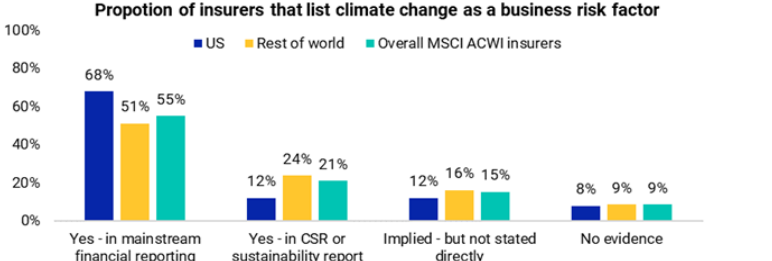
Please feel free to insert more rows if you have more comments.

If you have general comments not tied to a specific section, please enter them in the General Comments Section at the bottom of the page.

All comments, including the names and affiliations of the commenters, will be posted on DFS's website.

Please submit your comments to insurance_climate_guidance@dfs.ny.gov.

ID	Section	Paragraph Number(s)	Type of Comment	Detailed Comment
1	3.1 Proportionate Approach	13		<p>MSCI has adopted a proportionate approach in its ESG ratings and assign ratings on a AAA to CCC scale based on a company's resilience to long-term, industry material environmental, social and governance (ESG) risks. We use a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. With over 13 years of live ratings history, we have been able to examine and refine our model to identify the E, S, and G Key Issues which are most material to an industry. In the past decade, we have observed that most insurance companies in the MSCI ACWI Index have not demonstrated evidence of incorporating climate factors into their risk assessment in a systematic way. In assessing ESG and climate risk, MSCI has found that the use of quantitative rather than qualitative data in assessing ESG and climate risk is important in being able to compare and contrast companies' ESG and climate risk profiles.</p> <p>In our ESG Rating model for the insurance sector, the Climate Change Vulnerability Key Issue is very important for insurers heavily involved in the property & casualty insurance lines of business. We consider insurance companies to be on the front lines of the physical risks of climate change, as the profitability of insurance companies is closely linked to insured losses from high-intensity weather patterns, increased frequency or unpredictability of natural disasters and climate extremes. Further, we consider climate change factors may affect the resilience of insurance company's investment portfolios. The convergence of ESG factors (climate change, social attitudes, institutional governance, technological innovation) will significantly impact the pricing of financial assets and the risk and return of investments and lead to a large-scale re-allocation of capital over the next decades. The integration of sound ESG principles and taking climate change risks into investment decision-making plays an increasingly important role in attempts to mitigate ESG risks. This may affect the long-term resilience of insurance companies' investment portfolios.</p>

2	3.1 Proportionate Approach	14-15	Amendment	<p>We acknowledge that some insurers may currently lack the data, tools and expertise to take a quantitative approach to managing climate risk.</p>  <table border="1"> <caption>Proportion of insurers that use statistical or mathematic models to model climate change effects in actuarial assessments</caption> <thead> <tr> <th>Category</th> <th>US</th> <th>Rest of world</th> <th>Overall MSCI ACWI insurers</th> </tr> </thead> <tbody> <tr> <td>Yes - uses or creates CC models with evidence of integration into actuarial assessment</td> <td>28%</td> <td>31%</td> <td>30%</td> </tr> <tr> <td>Implied - uses or creates CC models but no evidence of integration into actuarial assessment</td> <td>16%</td> <td>14%</td> <td>14%</td> </tr> <tr> <td>No evidence</td> <td>56%</td> <td>55%</td> <td>55%</td> </tr> </tbody> </table> <p>Source: MSCI ESG Research as of June 16, 2021</p> <p>However, the most important, and useful, information for MSCI and MSCI's investor clients as users of published information is quantitative metrics, which should be prioritized over qualitative statements. As detailed below (Comment on 3.6 Scenario Analysis), the technology exists today to quantitatively assess the resilience of investment portfolios to climate transition and physical risks under a range of scenarios. These data and methodologies can also be applied to insurance liabilities for certain lines of business. Therefore, if DFS were to propose a more prescriptive approach that prioritizes the shift from a qualitative approach to a quantitative approach over a clearly defined time horizon, the tools would be available to insurers to achieve this objective. Additional policy support and public-private partnerships could be helpful, especially to small insurers with limited resources.</p>	Category	US	Rest of world	Overall MSCI ACWI insurers	Yes - uses or creates CC models with evidence of integration into actuarial assessment	28%	31%	30%	Implied - uses or creates CC models but no evidence of integration into actuarial assessment	16%	14%	14%	No evidence	56%	55%	55%				
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3	3.3 Risk Culture and Governance	19-21	Amendment	<p>MSCI would suggest that DFS considers adding one more aspect on investor engagement and disclosure. The 2021 proxy season has shown that lack of communication and action on climate issues can eventually lead shareholders to take drastic action, such as supporting an activist's director slate at Exxon. It would be helpful to the market if companies: publish regular disclosure (in annual filings or supplemental documents) to the market outlining how the board of directors is overseeing climate risk management and how the company is performing against its climate targets. If there are any changes/adjustments to targets, the company should disclose how and why these are happening.</p>																				
4	3.5 Risk Management	40, 48 and 49		<p>Based on the company publicly disclosed data collected by MSCI, we note that among the insurer constituents of the MSCI ACWI Index, U.S. insurers outperform the rest of world in listing climate change as a business risk factor (see chart below), but around 20% of U.S. insurers have not explicitly recognized climate change risk in their public disclosed reports and most of these disclosures today consist only of "boilerplate" language absent any insurer-specific details.</p> <p>If climate change risk is not determined to be material for some insurers at the time of assessment, the dynamic nature and long-term uncertainties of climate change and potential policy change could quickly increase risk materiality for insurers and, therefore, incorporation of climate considerations into an insurer's enterprise risk management is an important consideration in our ESG rating assessment.</p>  <table border="1"> <caption>Proportion of insurers that list climate change as a business risk factor</caption> <thead> <tr> <th>Category</th> <th>US</th> <th>Rest of world</th> <th>Overall MSCI ACWI insurers</th> </tr> </thead> <tbody> <tr> <td>Yes - in mainstream financial reporting</td> <td>68%</td> <td>51%</td> <td>55%</td> </tr> <tr> <td>Yes - in CSR or sustainability report</td> <td>12%</td> <td>24%</td> <td>21%</td> </tr> <tr> <td>Implied - but not stated directly</td> <td>12%</td> <td>16%</td> <td>15%</td> </tr> <tr> <td>No evidence</td> <td>8%</td> <td>9%</td> <td>9%</td> </tr> </tbody> </table>	Category	US	Rest of world	Overall MSCI ACWI insurers	Yes - in mainstream financial reporting	68%	51%	55%	Yes - in CSR or sustainability report	12%	24%	21%	Implied - but not stated directly	12%	16%	15%	No evidence	8%	9%	9%
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5	3.5 Risk Management	40, 48 and 49		<p>In our ESG Rating model that measures an insurance company's management efforts on climate change risks, we consider it to be critical for insurers to leverage in-house research capabilities and/or external resources to conduct climate change risk assessments so that they can better mitigate physical and transition risks and better price these risks in the marketplace. Based on the company public disclosure data collected by MSCI, we found that among the insurer constituents of the MSCI ACWI Index, U.S. insurers lagged the rest of world with over 60% of U.S. insurers showing limited efforts in conducting climate change research.</p> <div data-bbox="655 240 1407 527"> <p style="text-align: center;">Proportion of insurers that conduct research on climate change risk</p> <table border="1"> <thead> <tr> <th>Category</th> <th>US</th> <th>Rest of world</th> <th>Overall MSCI ACWI insurers</th> </tr> </thead> <tbody> <tr> <td>Yes - produces primary research</td> <td>20%</td> <td>30%</td> <td>28%</td> </tr> <tr> <td>Implied - through participation in an industry consortium</td> <td>16%</td> <td>25%</td> <td>23%</td> </tr> <tr> <td>No evidence</td> <td>64%</td> <td>45%</td> <td>50%</td> </tr> </tbody> </table> </div> <p>Source: MSCI ESG Research as of June 16, 2021</p> <p>MSCI highlights the guidance to consider strategic risks to a company's capacity to write insurance (paragraph 48), potential correlations between climate change impacts on assets and liabilities (paragraph 49), and potential impacts on liquidity risk (paragraph 40). These are three areas we often find lacking when assessing insurance companies' climate risk management efforts. We have also observed that companies tend to rely on reactive mitigating measures that may not be realistic in an environment of heightened physical risks or low liquidity for high-carbon assets (paragraph 58).</p>	Category	US	Rest of world	Overall MSCI ACWI insurers	Yes - produces primary research	20%	30%	28%	Implied - through participation in an industry consortium	16%	25%	23%	No evidence	64%	45%	50%
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6	3.6 Scenario Analysis	54		<p>We note that there are a range of models currently available in the market to assist investors with their forward-looking scenario analysis. For example, the MSCI Climate Value-At-Risk (Climate VaR) model provides forward looking and return-based valuation assessments to measure the potential impact of climate change on company valuations. The tool provides insights into the potential stressed market valuation of investment portfolios and downside risks, translating climate-related costs into potential valuation impacts. The MSCI Climate VaR model has three main underlying components which investors use separately or in aggregate:</p> <ul style="list-style-type: none"> •Policy risk: This component aggregates future policy costs based on an end of the century time horizon. By overlaying climate policy outlooks and future emission reduction price estimates onto company data, the model provides insights into how current and forthcoming climate policies could affect companies. •Technology opportunities: This component is based on company-specific data on the patents each company holds related to low-carbon technologies, providing insights into how companies' strategic investments could affect their future competitive positioning in a low carbon economy. •Physical risks and opportunities: This component estimates the impact and financial risk relating to several extreme weather hazards, such as extreme heat and cold and flood risk. 																
7	3.6 Scenario Analysis	55		<p>MSCI notes that using different models and scenarios leads to results that are not comparable. While this gives insurers some flexibility to choose any model for self-examination, it is important for the market to be able to effectively compare the results of a prescribed scenario analysis on various insurers. In order to achieve this objective, DFS may consider providing insurers with a minimum set of specific climate scenarios to consider.</p> <p>We furthermore suggest that DFS provides examples of acceptable Representative Concentration Pathways (RCPs), Integrated Assessment Models (IAMs) and/or Shared Socioeconomic Pathways (SSPs) that insurer's should utilize during scenario analysis. Further, it would be helpful to prescribe the precise time horizons that the scenario analysis should cover.</p> <p>The NGFS has delivered several examples of acceptable climate scenario modeling characteristics (See: Central Banks and Supervisors Network for Greening the Financial System (NGFS) https://ngfs.net. The most recent set of climate scenarios was published on June 7, 2021: "NGFS Climate Scenarios for central banks and supervisors".</p>																
8	3.7 Public Disclosure	61-65		<p>As mentioned above, the most important, and useful, information for MSCI and MSCI's investor clients as users of published information is quantitative metrics, which should be prioritized over qualitative statements. We would not object to a framework that supplements quantitative disclosures with a qualitative overlay of an insurer's views on its climate risks and opportunities but "boilerplate statements" should be discouraged in favor of meaningful disclosure that explains how these risks and opportunities are being managed and how they might be expected to impact the company in the foreseeable future.</p> <p>MSCI is fully supportive of alignment of public disclosures that align with the TCFD recommendations, particularly as they pertain to quantitative and forward-looking metrics and targets.</p>																

General Comments

Climate change is the single greatest challenge humankind has faced and addressing its impacts will require the largest reconstruction of the global economy since the Industrial Revolution. A convergence of environmental, social and governance factors will impact the pricing of financial assets and precipitate a large-scale reallocation of capital. The climate crisis is foremost among those factors, creating economic and investment risks and opportunities on an unprecedented scale. For MSCI and MSCI's investor clients as users of published information the most important, and useful, information is quantitative metrics, which should be prioritized over qualitative statements.