BMA
BERMUDA MONETARY AUTHORITY

9 March 2023

STAKEHOLDER LETTER

Re: Consultation Paper: Revisions to the "*Guidance Notes: Management of Climate Change Risks for Commercial Insurers*"

The Bermuda Monetary Authority (Authority or BMA) would like to thank its stakeholders for their continued engagement and support in furthering the Bermuda regulatory framework's developments and critical strategic initiatives. The Authority appreciates all feedback received on the **Consultation Paper – *Guidance Note: Management of Climate Risk for Commercial Insurers*** (Guidance Note) issued in August 2022 on the expectations regarding climate risk in the context of environmental, social and governance risk aspects and its consideration in governance and risk management requirements.

The Authority remains committed to working closely with its stakeholders to ensure that the Bermuda supervisory regime is effective, proportionate and aligned with international standards.

RESPONSE TO INDUSTRY FEEDBACK

The Authority received feedback from several stakeholders and the responses to the **key substantive comments** that were received on the Guidance Note are outlined below.

Proportionality Principle

Clarification was sought on whether the proportionality principle would apply throughout the Guidance Note.

Response:

The Authority would like to draw attention to Section 6 of the Guidance Note, which is now under a new section called 'General Principles and Expectations', which emphasises that the principle of proportionality generally applies to expectations listed in the guidance note. It specifically expands on this by stating that *"an insurer's application will be dependent on the nature of its operations and the scale, complexity and risk profile of its insurance business, as well as its materiality assessment for climate risk overall and within the various risk categories."*

Timing in adopting this Guidance Note

Clarification was sought on when the Guidance Note would take effect, seeking to clarify the year-end 2022 CISSA/GSSA (ORSA) reporting expectations.

Response:

The BMA is aware that the regular CISSA/GSSA process for year end 2022 has already progressed or finished. Therefore, the BMA has adjusted its expectations for the 2022 year-end, highlighting that the expectations are on a best-effort basis and insurers can focus on providing a summary in the respective report, which should now include the following:

- An overarching view of how climate change risk and its exposures affect the insurer, outlining key climate change risks affecting them and the chosen approach to tackling these risks
- Outline priorities for 2023
- An outlook for arriving at an action plan to be implemented in meeting the requirements by 2025, inclusive of any framework changes

The BMA expects a fuller integration of expectations in CISSA/GSSA from 2023 onwards and expanded future iteration expectations, by stating in Section 7 *"From year-end 2023 onwards, insurers are expected to carry-out an overarching climate risk status assessment regarding the implementation of an appropriate framework that includes a clear action plan, inclusive of timelines and a prioritisation approach."*

Materiality and Double Materiality

Clarity was sought on both materiality and double materiality concepts mentioned in the Guidance Note.

Response:

The Authority expanded on both these concepts by adding a dedicated section called 'Materiality Assessment and Double Materiality' in the Guidance Note, to provide further guidance on materiality assessments (for climate change risk exposures), which should be the starting point of analysing the exposure to climate change risks. Materiality is now highlighted in Sections 10 through 13.

Additionally, a reference was added to *"existing, generally accepted materiality assessment concepts" and insurers may "consult, for example, material published by other regulatory bodies on the topic, e.g., EIOPA"*.

In terms of the use of 'double materiality', outlined in Section 13, the BMA has provided further guidance where the Authority expects insurers to also "*specifically consider their own external impact on climate change (i.e., double materiality) by focusing on areas that may also revert back and affect in the short, mid or long-term their reputation with stakeholders and their strategy, as a consequence their own financial performance and operations."* This means it is expected that insurers should initially address double materiality focusing on those risks that can become relevant from a 'single materiality lens', such as reputational and strategic risks. In addition, the Authority recognises the evolving nature of the double materiality concept and encourages insurers to further develop their approaches and capabilities in this area.

Board's Understanding and Expertise on Climate Change Risk

Clarification was sought on both evidence of the board's 'understanding' of climate change risk and in general, the level of climate change risk expertise that should be within an organisation.

Response:

Section 16 mentioned the need for the board *"to understand and assess the financial risks that may stem from climate change risk factors [...]"*. This was replaced with "*The board should* ***have sufficient knowledge of*** *and assess the financial risks that may stem from climate change risk* […].

With regards to climate change risk expertise expectations, the Authority expects registrants to have a level of climate change risk knowledge within the board to be able to oversee the management of climate change risk effectively. It is the BMA's assessment that responsibility for climate risk management should rest with one individual, similar to how the framework for risk management policies ultimately is the responsibility of the Chief Risk Officer. Sections 18, 23 and 41 should also be referenced for further guidance on this topic. They refer to both training and skill enhancement that may be required on the topic of climate change risk within an organisation and the responsibility aspect.

Bye-Law Amendment

Clarification was sought on whether it was the true intent of the Authority for companies to make changes to board bye-laws, given the processes involved in making bye-law changes.

Response:

The Authority agrees to remove the requirement to amend the bye-laws and removed this from Section 23, replacing it with a requirement for *"updated policies and procedures or Terms of Reference [...]."*

Prescriptiveness

Clarification was sought as to why the Guidance Note is prescriptive in nature.

Response:

The Guidance Note is intentionally prescriptive and gives examples to guide the wider market and ensure that the majority of the potential risks are covered. The materiality assessment of climate change risk will ultimately guide companies on the level of focus and further details needed on these risks.

Group Versus Entity Level Application

Clarification was sought on the degree to which a subsidiary entity can utilise the group's climate change risk management practices in order to meet the compliance requirements of the Guidance Note. This was framed in the context of instances where conflicting requirements may exist between various jurisdictions, especially where a group and a subsidiary operate in different regions.

Response:

The Guidance Note has been developed based on international best practices, borrowing on the work that the Authority has been a part of the International Association of Insurance Supervisors initiatives on this topic, and compares well with the practices of peer regulators. Therefore, the Authority views a very limited potential for conflict. The Authority does not object to climate change risk management frameworks at the group level to be applied at the entity level, as long as principles mentioned in the Guidance Note are adhered to.

Escalation of Climate Change Risk

Clarification was sought on whether separate and specific policies and procedures for the escalation of climate change risk are required, advising that most companies follow the same escalation procedures for climate change risk that are applied to all risks.

Response:

The Authority agrees that separate policies and procedures for the escalation of climate risk specifically are not required; however, where climate risk escalation procedures vary from those of other risks, these delineations should be highlighted. This requirement is highlighted in Section 39.

Review Frequency for Climate Risk Governance and Strategy

Clarification was sought on the frequency of reviewing climate strategy and governance, as the annual requirement seemed too prescriptive.

Response:

Section 48 was amended by replacing the annual requirement with a regular review requirement.

Risk Appetite, Policies and Procedures for Climate Change Risk Specifically

Clarity was sought on whether it is a strong requirement for climate change risk to have its own specific overarching risk appetite in place and risk-specific policies in place, as there are instances where climate change risk is embedded in existing policies, such as underwriting or investment risk.

Response:

The Authority agrees that where climate change is deemed to be adequately captured and mitigated in existing policies, and climate risk appetite defined within specific risk areas, a stand-alone climate change risk management policy is not required, therefore it was added *"under the condition that all material climate change risks aspects are covered […] The chosen approach to climate change policies and procedures should be outlined by the insurers."* This was expanded in the Guidance Note under Section 9.

The Authority would like to thank stakeholders for their feedback and remains committed to working with stakeholders and other interested parties to ensure optimal protection for policyholders. Any stakeholder who wishes to seek further clarification or additional information on these matters should contact the Authority directly at **riskanalytics@bma.bm.**

Sincerely,

The Bermuda Monetary Authority