



## At a glance



### 1. What's new?

- The Bermuda Monetary Authority (BMA or Authority) issued, for consultation, its Guidance Note on the Management of Climate Change Risks for Commercial Insurers on August 11, 2022.
- The guidance note provides further details on the BMA's expectations regarding the management of climate risk by commercial insurers, and is aligned to the existing Insurance Code of Conduct.



### 2. What does this mean?

#### Who does it apply to?

- While climate risk impacts the entire insurance market, this guidance note is applicable for commercial insurers and insurance groups (collectively referred to as the 'insurer').

#### What is the focus?

- As part of the Insurance Code of Conduct, this guidance focuses on corporate governance, risk management practices, the Own Risk and Solvency Assessment (ORSA) and climate risk scenario analysis.
- While it outlines the minimum requirements the Authority expects insurers to embed into their operations, the Authority's expectations are based on the proportionality principle, where application is dependent on the nature, complexity, scale and risk profile of the insurance business.
- The Authority acknowledges that climate risk measurement and management methods are still evolving and that insurers, therefore, will need to continuously update their approach during the implementation phase and beyond.



### 3. What do commercial insurers need to do?

- Implement a comprehensive, long-term risk management approach for climate change risk mitigation and adaptation in order to close protection gaps.
- Proactively manage and report on climate change risks (specifically as it relates to underwriting activities, operations, investments and satisfaction of policyholder obligations).
- Continuously evaluate operations in light of climate risks.

#### As part of Corporate Governance, key considerations include:

- Roles and responsibilities of the board and senior executives;
- Expertise, knowledge, skill-set and training;
- Reporting on climate risk;
- Integration of climate risk in policies and procedures;

## **As part of Risk Management, key considerations include:**

- ERM framework, appetite, assessment, metrics and tolerance which integrate climate risk;
- Integration of management and monitoring on climate-related risk exposures in policies and procedures;
- Training aimed at understanding climate related issues;
- Qualitative and quantitative metrics to monitor progress aligned to the risk appetite statement and business strategy;
- Risk Management, Compliance, and Actuarial functions having a focus on managing climate change.
- The Internal Audit function assessing the adequacy and effectiveness of the risk management process regarding climate risk, including a determination of whether all material climate risks have been assessed and whether the relevant internal processes and controls are robust.

## **As part of ORSA reporting, key considerations include:**

- Starting with year-end 2022 Own Risk and Solvency Assessment (ORSA), provide an assessment of their status regarding the implementation of an appropriate framework as well as an action plan that should indicate the appropriateness of policies, procedures and other relevant matters by the insurer's board of directors and senior executives.
- Consider the impact of climate-related risks and how they are managed within their ORSA.
- Incorporate an analysis of select climate risk scenarios and proactively develop expertise in climate scenario analysis.



## **4. Next steps**

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- The Authority expects insurers to provide an assessment of their status, and action plan regarding the implementation of the provisions of the guidance note in the 2022 ORSA, with full implementation expected on or before year end 2025.
- The Authority expects continuous advancements and aims to monitor the progress of this regime by insurers via offsite data analysis and on-site visits from 2023 onwards.

[\*\*Link\*\*](#) to Full BMA Guidance Note

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