In Conversation with

Superintendent Linda A. Lacewell

New York State Department of Financial Services

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1. When and why did your institution join the NGFS?

The New York State Department of Financial Services (DFS) is the regulator of banks and insurers in New York State, including many large, global institutions. We joined the NGFS in September 2019, and I was honoured to welcome NGFS Chairman Frank Elderson to our offices for the signing ceremony. I see climate change as a material risk to the financial system. As a member of NGFS, DFS's goal is to collaborate with our international partners and use this vast experience to ensure our regulated entities are well-prepared to mitigate the financial risks of climate change.

2. Can you share with us the key elements of the climate strategy of the New-York State Department of Financial Services and how it fits into the broader national strategy in your jurisdiction?

DFS's mission has three components – ensuring the safety, solvency, and soundness of our regulated entities, ensuring fair access to financial products by all, and supporting economic development in New York. Our climate strategy supports all three components of our mission. We became the first U.S. financial regulator, state or federal, to create a comprehensive climate program that includes supervision, consumer protection, and economic development. The overlap between NGFS and DFS's climate program is mostly on the first component.

In 2020, we issued formal letters to our regulated insurers[1] and banking institutions[2] outlining our expectations on integrating the financial risks from climate change into their governance, risk management, and business strategies, and start developing a disclosure approach. We were the first U.S. state or federal regulator to establish a holistic set of expectations for the insurance industry on managing the financial risks from climate change. In March 2021, we followed up with the proposed

[1] https://www.dfs.ny.gov/industry_guidance/circular_letters/cl2020_1

[2] https://www.dfs.ny.gov/industry_guidance/industry_letters/il20201029_climate_change_financial_risks

Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change[3]. It still is open for public comment. It was again the first climate-related guidance issued by a U.S. financial regulator. In that, we gave more detailed guidance on board governance, risk appetite, organizational structure, and what the risk management framework should be. We explained and gave examples of how climate change could impact existing risk factors, and how climate change should be considered in Own Risk and Solvency Assessment.

We understand that our regulated entities are at different stages of this journey, and that climate affects each in different ways and to varying degrees, depending on their size, complexity, geographic distribution, business lines and investment strategies. As a result, we are taking a proportionate approach, and have been actively engaged with the industry, which is very important. We are supporting the industry on this journey by holding a series of global industry knowledge exchange webinars with our insurers on the industry's experience and challenges in managing the financial risks from climate change. We also held educational webinars for our community and regional banks and mortgage banking institutions on the fundamentals of climate change and the financial market.

In addition, DFS recently issued guidance[4] to banking institutions to encourage them to support climate mitigation and adaption activities as a way to meet their regulatory requirement on investing in low-and-moderate income communities. We also signed a Memorandum of Understanding with NYSERDA (New York State Energy Research and Development Authority)[5], the New York State agency that is charged with stimulating clean energy development in the state to create innovative financial products to accelerate the deployment of low-carbon technologies.

During the past four years, DFS played a critical role in filling regulatory gaps created by both inaction and action by the federal government. As you know, the prior administration withdrew from the Paris Agreement and issued a rule restricting the application of ESG considerations to private pension funds.

We are proud to support our Governor's efforts to address climate change. Governor Cuomo serves as a co-chair of the United States Climate Alliance, a bipartisan coalition of 25 governors formed after the U.S. federal government withdrew from the Paris Agreement. In addition, the governor signed the Climate Leadership and Community Protection Act[6]. This includes an ambitious and aggressive greenhouse gas reduction target – New York aims to reach net zero carbon emissions by 2050.

3. To which extent did the New-York State Department of Financial Services leverage the work of the NGFS in its own domestic journey? Any concrete examples?

DFS has benefited from the NGFS's important work. When I visited Europe last spring, I met with several NGFS members including Bank of England and Banque de France. Our meetings confirmed both the urgency and extent of the work that needed to be done. We hired Yue (Nina) Chen, our first-ever Director of Sustainability and Climate Initiatives in May 2020. We worked closely with the NGFS and referenced the "Guide for Supervisors: Integrating climate-related and environmental risks into prudential supervision"[7] in creating the right organizational structure, the roadmap of actions that DFS

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3 https://www.dfs.ny.gov/system/files/documents/2021/03/proposed_ins_climate_guidance_2021_public_comment_1.pdf

4 https://www.dfs.ny.gov/industry_guidance/industry_letters/il20210209_cra_consideration

5 https://www.dfs.ny.gov/system/files/documents/2020/09/mou_09172020_nyserda.pdf

6 https://www.governor.ny.gov/news/statement-governor-andrew-m-cuomo-passage-climate-leadership-and-community-protection-act

7 https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf

should take, and internal capacity building. The guide has clear descriptions of how climate change impacts the financial system, definitions of terms such as “transition risks” and “physical risks,” and diagrams of the transmission mechanisms that we used in our educational materials. The guide provides a process of assessing climate-risk at the micro level. It has good information on questions we can ask when we engage with regulated entities. The assessment results from other regulators also provided us with examples we can use when educating internal and external stakeholders on climate risks. Our proposed guidance for insurers references the NGFS Guide for Supervisors and guidance by several NGFS members.

DFS values the access to other NGFS members for exchanging ideas and experiences and has benefited from NGFS’s internal newsletter and member meetings, which keep us up to date on the advance of climate-related supervision worldwide.

4. One last word?

I have been asked why – as we tackled concurrent crises – a global pandemic, a financial crisis and a racial justice crisis – we did not lose focus on climate change. The answer is simple: climate change creates material risks to the financial system. It will not slow down or stop because there is a pandemic or financial crisis. As a financial regulator, we need to stay on top of every risk that can impact our institutions and markets. We must also remember that climate change disproportionately affects disadvantaged communities, including low-income communities and communities of color, and feeds into the vicious cycle of social inequality. We must work together now to ensure a sustainable future for everyone.