INSURANCE COMMISSION
OF THE BAHAMAS

2025

May 1

GUIDANCE ON CLIMATE-RELATED RISK MANAGEMENT

Contents

1. INTRODUCTION

Background

1.0.1. Climate change poses a significant risk to the financial soundness and operational resilience of insurers. These risks manifest in various forms, including disruptions to underwriting performance, volatility in investment portfolios, and threats to long-term solvency. In the context of The Bahamas, the impacts of climate change are particularly acute due to the country's geographic vulnerability to extreme weather events, rising sea levels, and the broader socio-economic consequences of climate transition. Collectively, these factors elevate the urgency for insurers to integrate climate-related risk considerations into their governance and risk management frameworks.

1.0.2. Recognizing climate change as a material and systemic risk to the insurance sector, the Insurance Commission of The Bahamas ("the Commission") is issuing this guidance to establish clear regulatory expectations for the identification, assessment, and management of climate-related financial risks. This guidance outlines minimum standards in governance, enterprise risk management (ERM), underwriting, investment strategy, stress testing/scenario analysis, and disclosures. It is intended to promote financial stability, policyholder protection, and long-term sectoral resilience. Insurers are also advised to consider this document in conjunction with the Commission's forthcoming *Guidance on Risk-Based Capital (RBC*). The RBC Guidance outlines capital adequacy requirements tailored to an insurer's specific risk exposures including its exposure to climate-related catastrophe risk. Particular attention should also be paid to the forthcoming guidelines on *Stress Testing/Scenario Analysis for General Insurers*, which will provide additional requirements specific to capital adequacy in the context of climate risk.

Purpose of Guidance

1.0.3. This guidance is designed to ensure that insurers adopt a proportionate, forward-looking approach to climate risk management, aligned with the nature, scale, and complexity of their business activities and exposures. Insurers are expected to systematically identify, assess, quantify, and disclose climate-related risks through structured methodologies that reflect both current vulnerabilities and future uncertainties.

1.0.4. Through the implementation of stress testing and scenario analysis, insurers will enhance their ability to anticipate and respond to adverse climate-related events. This aligns with global regulatory trends and best practices, including standards set by the International Association of Insurance Supervisors (IAIS), and ensures the that Bahamian insurers remain competitive and resilient in an evolving risk landscape.

Scope

1.0.5. This guidance applies to all General insurers licensed under the Insurance Act, 2005, and the External Insurance Act, 2009. The principles set forth herein are applicable where climate-related risks may impact on the insurer's liabilities, investment holdings, or operational capabilities.

1.0.6. The Commission adheres to the principle of proportionality in applying regulatory expectations. Insurers with higher levels of climate risk exposure or greater operational complexity are expected to implement more robust and data-driven risk assessment tools, including quantitative scenario analysis and detailed modeling. Conversely, smaller

insurers may adopt more qualitative approaches, provided they demonstrate a clear understanding of material risks and appropriate governance measures.

Regulatory Expectations

1.0.7. Insurers must integrate climate risk considerations across all relevant dimensions of their enterprise, including underwriting, investments, operations, and strategic planning. A forward-looking approach, supported by data and stress testing/scenario analysis, must be employed to assess the financial impact of both acute and chronic climate-related events.

1.0.8. Boards of directors and senior management are expected to provide oversight and strategic direction for climate risk management. This includes ensuring appropriate governance structures, dedicating resources, and embedding climate considerations into existing policies and frameworks. Furthermore, insurers must maintain capital buffers commensurate with their climate risk exposures, consistent with the Commission's forthcoming Guidance on Risk Based Capital for General Insurers.

1.0.9. Transparent and timely disclosure of climate risk information is essential for regulatory compliance and market discipline. Insurers must implement reporting frameworks that clearly demonstrate how climate-related risks are identified, evaluated, and addressed within the organization.

1.0.10. By adhering to these expectations, insurers will strengthen their capacity to manage emerging risks, safeguard policyholder interests, and contribute to the resilience of the Bahamian financial system.

2. DEFINTION OF KEY TERMS

TERM	DEFINITION
Asset-Liability Management (ALM)	A risk management approach to ensure that assets and liabilities are aligned in a way that minimizes financial risk, particularly in relation to interest rates, liquidity, and market fluctuations.
Climate Risk	Risk posed by the exposure of an insurer to physical, transition and/or liability risks caused by or arising from climate change (e.g. extreme weather events) and transition risks (e.g. regulatory and market changes affecting carbon-intensive industries).
Climate Stress Testing	A forward-looking risk assessment technique that evaluates the financial impact of climate-related shocks, such as extreme weather events or policy-driven economic changes, on an insurer's solvency and risk exposure.
Control Function	A key function within an insurer responsible for oversight and assurance in areas such as risk

	management, compliance, actuarial assessments, and internal auditing.
Credit Risk	The risk that a related or counterparty will fail to meet its financial obligations, leading to potential financial losses for the insurer.
Double Materiality	A concept requiring insurers to assess both (1) how climate risks impact their financial position (single materiality) and (2) how their activities contribute to or influence climate change (external materiality).
Enterprise Risk Management (ERM)	A structured framework for identifying, assessing, and managing all significant risks that could impact an insurer's financial stability, including climate-related risks.
Internal Controls	Policies and procedures implemented by an insurer to ensure regulatory compliance, financial integrity, and effective risk management.
Liability Risk	The risk that an insurer may face legal claims from policyholders, investors, or other stakeholders due to its coverage of climate-damaging activities or failures to consider climate-related liabilities in underwriting decisions.
Material Climate Risk	A climate-related financial risk that is significant enough to impact an insurer's business model, solvency, or long-term financial health.
Physical Risk	The financial risk arising from climate-related physical events, including acute risks (e.g. hurricanes, wildfires, floods) and chronic risks (e.g. rising sea levels, temperature changes).
Proportionality Principle	A regulatory concept ensuring that insurers implement risk management measures in line with the scale, complexity, and materiality of their exposure to climate risk.
Reputational Risk	The risk of loss or damage to an insurer's reputation due to inadequate management of climate-related risks, leading to decreased investor confidence, regulatory scrutiny, or public backlash.
Risk Appetite	The level of risk that an insurer is willing to accept in pursuit of its strategic objectives, including climate risk exposures.

Scenario Analysis	A forward-looking assessment tool used by insurers to evaluate potential financial and operational impacts of climate risks under different future scenarios, including extreme weather events and policy transitions.
Solvency Position	The financial strength of an insurer, measured by its ability to meet policyholder obligations and absorb potential losses, including those arising from climate-related risks.
Stranded Assets	Investments, particularly in carbon-intensive industries (e.g. fossil fuels, coal power), that may lose value or become obsolete due to climate-related regulations, market shifts, or technological advancements.
Stress Testing	A risk assessment technique that evaluates an insurer's financial resilience under extreme but plausible adverse conditions, such as severe climate events or regulatory shifts.
Sustainability Risk	The risk that environmental, social, or governance (ESG) factors, including climate-related risks, could negatively impact an insurer's financial performance or long-term viability.
Transition Risk	Transition risks include risks related to changes in domestic and international policy and regulatory setting, technological innovation, social adaptation and market changes, which can result in changes to costs, income and profits, investment preferences and asset viability.

3. GENERAL PRINCIPLES

3.0.1. The Commission has established foundational principles to guide insurers in developing sound, proportionate, and effective approaches to climate-related risk management. These principles are designed to ensure that insurers build resilience, maintain regulatory compliance, and respond adaptively to evolving climate threats.

Proportionality

3.0.2. Climate risk management expectations will vary based on the insurer's size, nature of operations, and exposure to climate-related risks. While the regulatory burden is calibrated to each insurer's profile, all insurers remain responsible for addressing material climate risks in a meaningful and documented manner.

Materiality

3.0.3. Insurers must evaluate climate risks through a materiality lens, focusing their efforts on exposures that could significantly affect financial performance or solvency. This assessment should span both enterprise-wide and business-unit levels to ensure that resources are allocated to the most critical risks.

Phased Implementation

3.0.4. Recognizing the evolving nature of climate risk management, the Commission supports a phased implementation approach. Insurers are expected to gradually enhance their climate risk frameworks, adhering to regulatory milestones and demonstrating measurable progress over time.

Adaptability

3.0.5. Given the dynamic nature of climate risks and regulatory expectations, insurers must continuously evaluate and update their risk management practices. Flexibility and responsiveness are essential to ensure that frameworks remain effective considering new data, market developments, and emerging climate scenarios.

Governance and Accountability

3.0.6. Effective governance is a cornerstone of climate risk management. Insurers must ensure that their boards and senior management teams effectively oversee climate-related risks, incorporating them into strategic decision-making processes. Accountability mechanisms must be established and maintained across all levels of the organization.

Policy Integration

3.0.7. Climate risk considerations must be embedded within existing policies, including governance, underwriting, investment, and ERM frameworks. Developing a standalone climate policy is not a regulatory requirement; however, integration must be deliberate, traceable, and consistently applied across business functions.

MATERIALITY ASSESSMENT AND DOUBLE MATERIALITY

3.0.8. A structured and comprehensive assessment of climate-related risks is critical for effective risk management and regulatory compliance. The Commission requires insurers to undertake materiality assessments that encompass both single and double materiality perspectives, providing a holistic understanding of climate-related financial and non-financial impacts.

3.1. CONDUCTING A MATERIALITY ASSESSMENT

3.1.1. Materiality assessments must enable insurers to determine which climate-related risks are significant enough to warrant integration into their governance, strategic planning, and risk management processes. These assessments should:

- **Identify Exposure Types**: Includes both physical risks (e.g. extreme weather events, sea level rise) and transition risks (e.g. policy shifts, market changes, technological disruptions).

- **Incorporate Time Horizons:** Consider short-term (up to 5 years), medium-term (5-10 years), and long-term (10+ years) horizons to evaluate how risks may evolve.
- **Differentiate Risk Categories:** Examine impacts on underwriting, investment, operational, credit, legal, and reputational risk categories.

3.2. METHODOLOGY AND DATA USE

3.2.1. Insurers are expected to adopt a combination of qualitative and quantitative techniques, with the depth and sophistication aligned to their size and risk profile. This includes:

- Using internal data (e.g. claims experience, asset exposure) and external sources (e.g. IPCC projections, industry benchmarks).
- Applying stress testing/scenario analysis – simplified for smaller insurers, more complex and model driven for larger entities.
- Documenting assumptions, sources, thresholds for materiality, and any expert judgment applied.

3.3. ASSESSMENT OUTPUT AND GOVERNANCE LINKAGE

3.3.1. Material risk identified must be formally reported to senior management and the board. The assessment should clearly:

- Justify classifications of material vs. immaterial risks.
- Recommend mitigation actions or escalation where applicable.
- Feed into the Enterprise Risk Management (ERM) framework, and capital planning.

3.4. TRIGGERS AND REVIEW FREQUENCY

3.4.1. Materiality assessments must be reviewed at least annually and updated:

- Following significant climate-related events or losses.
- In response to regulatory or policy changes.
- When strategic shifts alter the insurer's exposure or operations.

3.4.2. These assessments must not be static; they should reflect the dynamic nature of climate risk and the insurer's evolving understanding of its business environment.

3.5. CONSIDERATION OF DOUBLE MATERIALITY

3.5.1. In addition to assessing how climate-related risks affect the insurer (single materiality), insurers must consider how their own activities impact the climate and broader societal outcomes (double materiality). This dual perspective aligns with emerging global reporting frameworks and promotes responsible, forward-thinking governance.

Assessment Scope and Expectations

3.5.2. Insurers must examine the climate impact of:

- **Underwriting practices:** e.g. insuring high-emissions sectors, fossil fuel-related assets.
- **Investment portfolios:** e.g. exposure to stranded assets or carbon-intensive holdings.
- **Operational activities:** e.g. emissions footprint of corporate facilities.

Implications of Double Materiality

3.5.3. Where significant climate impact is identified, insurers should assess:

- **Reputational risk:** Perceived inconsistency between sustainability commitments and business practices.
- **Legal/regulatory risk:** Potential liability from failing to address harmful practices or comply with emerging ESG rules.
- **Strategic alignment**: Opportunities to enhance sustainability positioning and long-term competitiveness.

Integration into Risk Frameworks

3.5.4. Double materiality assessments should:
- Be incorporated into strategic and sustainability planning processes.
- Inform stakeholder engagement and public disclosures.
- Support ESG-aligned investment and underwriting strategies.

Capacity Building and Industry Alignment

3.5.5. Given the evolving nature of double materiality, insurers are encouraged to:
- Build internal expertise through training or designated ESG/climate officers.
- Reference international standards such as the ISSB, and EU SFDR.

3.5.6. By deepening their understanding of materiality and applying a dual-lens approach, insurers will be better equipped to manage climate-related risks, comply with evolving regulatory expectations, and contribute meaningfully to national and global climate objectives.

4. CORPORATE GOVERNANCE

4.0.1. Robust corporate governance is essential for effective oversight and management of climate-related risks. Climate change introduces complex, cross-cutting risks that affect multiple dimensions of insurance operations, including underwriting, investment, operations, and long-term solvency. Insurers must ensure that governance structures are fit for purpose, enabling effective oversight, informed decision-making, and alignment with regulatory expectations.

4.1. GOVERNANCE FRAMEWORK AND BOARD OVERSIGHT

4.1.1. Insurers must establish and maintain a governance framework that integrates climate-related risks into their core oversight structures. This framework must be proportionate to the insurer's size, complexity, and exposure profile and must include:

- **Board Responsibility:** The board of directors holds ultimate accountability for ensuring that climate-related risks are properly identified, assessed, and managed. The board must:
  i. Approve and oversee climate risk management strategies and policies.
  ii. Ensure that climate considerations are embedded into ERM, strategic planning, and capital adequacy assessments.
  iii. Regularly review governance structures and ensure adaptability to evolving climate risks.
- **Governance Integration:** Climate risk must be treated as a transversal risk, incorporated into existing governance functions rather than siloed. Oversight should be aligned with other enterprise risks and integrated into all decision-making processes.

- **Information Flow:** Governance structures must ensure that relevant climate risk information flows consistently from operational levels to senior management and the board, facilitating timely escalation, reporting, and decision-making.

4.2. MANAGEMENT RESPONSIBILITIES AND ORGANIZATIONAL EXPERTISE

4.2.1. Insurers must clearly define and assign responsibilities for climate risk management across senior management and key functional areas. Management is responsible for implementing board-approved climate risk strategies and ensuring their effective execution through the organization. This includes:

- **Accountability:** Establishing lines of accountability for climate risk identification, monitoring, and mitigation across business units.
- **Coordination:** Ensuring effective cross-functional collaboration among underwriting, investment, actuarial, compliance, and operational teams.
- **Competence**: Conducting periodic assessments of staff competencies and providing training to address knowledge gaps related to climate science, financial impacts, and regulatory requirements.

4.2.2. Where internal capabilities are limited, insurers should engage external advisors or specialists to supplement internal resources. For insurers with significant climate exposure, the Commission expects the presence of dedicated climate expertise at the executive or board level.

4.3. CLIMATE RISK REPORTING AND ACCOUNTABILITY

4.3.1. A clear, structured climate risk reporting framework is essential to maintain transparency, consistency, and accountability. Insurers must:

- Design a reporting system that supports internal governance and regulatory compliance, incorporating climate risk metrics, trends, and escalation mechanisms into their risk management framework.
- Establish defined reporting frequencies based on the materiality of climate risks, with more frequent updates required for high-exposure insurers.
- Implement clear procedures to escalate material risks to senior leadership and the board, particularly where financial performance, solvency, or reputation is at stake.

4.3.2. Boards must ensure that policies and controls linked to material climate risks are applied consistently across all business units, and that mitigation actions are monitored for effectiveness.

4.4. TRAINING, MONITORING, AND CONTINUOUS IMPROVEMENT

4.4.1. Given the evolving nature of climate risk, insurers must foster a culture of continuous learning and improvement. Key expectations include:

- Deliver ongoing, role-specific training to board members, senior executives, and relevant staff on climate-related risks and emerging regulatory expectations.
- Regularly review the effectiveness of governance arrangements and control functions to ensure they remain aligned with the insurer's risk profile and regulatory standards.
- Update internal policies, charters, and terms of reference to reflect emerging best practices, new data, and evolving climate scenarios.

4.4.2. The Commission expects insurers to demonstrate active governance over risk and to show evidence of refinement and responsiveness over time. Strong governance is not only essential for regulatory compliance but also for maintaining financial resilience, protecting policyholders, and supporting the broader stability of the insurance sector.

5. RISK IDENTIFICATION

5.0.1. Effective climate risk management begins with comprehensive risk identification. Insurers must embed climate risk within their Enterprise Risk Management (ERM) frameworks and evaluate key risk categories using structured tools and consistent methodologies.

5.1. ENTERPRISE RISK MANAGEMENT FRAMEWORK

5.1.1. A well-defined ERM framework allows insurers to systematically identify, assess, and manage climate risks. Key regulatory expectations include:

- **Risk Appetite:** Define specific climate-related risk appetite statements.
- **Risk Metrics:** Develop metrics for evaluating exposure across business lines.
- **Stress Testing:** Apply climate stress testing/scenario analysis for short- and long-term impacts.
- **Integrated Approach:** Embed climate risk into existing risk governance structures.

5.1.2. The Commission expects insurers to tailor their approach based on their risk profile, size, and complexity.

5.2. KEY CLIMATE RISK AREAS

5.2.1. Insurers must evaluate climate-related exposures across the following risk categories:

Underwriting Risk

5.2.2. Climate risk must be integrated into underwriting practices by evaluating:

5.2.3. **Physical Risks:**

- Natural catastrophes (e.g. hurricanes, flooding) increase claims volume and severity.
- Secondary impacts include supply chain disruption and inflation in claim costs.

5.2.4. **Transition Risks:**

- Policy changes, technology shifts, and evolving customer preferences may reduce insurability in high-risk sectors.

5.2.5. **Liability Risks:**

- Legal claims may arise from coverage provided to industries or activities that are environmentally harmful.

Financial Risks

5.2.6. **Investment and Market Risk:**

- Physical risks can depreciate assets (e.g. real estate in flood zones).

- Transition risks can destabilize markets and reduce returns in carbon-intensive sectors.

5.2.7. **Mitigation Actions:**
- Assess geographic and sectoral concentrations.
- Use internal risk metrics and external climate indicators.

Credit and Third-Party Risk

5.2.8. Climate change can deteriorate the financial health of counterparties, increasing credit risk. Insurers must:
- Evaluate reinsurance and investment exposures.
- Conduct due diligence on third parties.
- Monitor climate-adjusted creditworthiness.

Operational Risk

5.2.9. **Business Continuity:**
- Insurers must maintain and test a climate-sensitive Business Continuity Plan (BCP).

5.2.10. **Workforce and Training:**
- Staff should be trained to assess and respond to climate risks.

5.2.11. **Data and Tools:**
- Leverage climate data and external expertise to improve risk assessment.

The following table illustrates a basic example of climate-related risks' impact on operational resilience:

Risk Type	Operational Impact	Example Response
Flood disruption	Claims processing delays	Establish remote operations hub
Power outages	Data access interruption	Implement cloud-based claims systems

Reputational Risk

5.2.12. Reputation can be damaged by:
- Failing to act on climate risks.
- Supporting industries seen as unsustainable.
- Lack of transparent disclosures.

5.2.13. Mitigation includes implementing a strong climate strategy and communication plan.

Strategic and Legal Risks

5.2.14. **Strategic Risk:**
- Inability to adapt the business model to a low-carbon economy.

5.2.15. **Legal Risk:**
- Increased litigation due to inadequate integration of climate considerations into governance or risk management.

5.2.16. A dual approach (bottom-up + top-down) is recommended to ensure alignment across functions and leadership.

5.2.17. By strengthening climate risk identification processes across these areas, insurers will enhance resilience and meet regulatory expectations while safeguarding financial and operational stability.

6. CLIMATE RISK MANAGEMENT FRAMEWORK

6.0.1. This section outlines regulatory expectations for managing climate-related risks across core areas: underwriting, investment, credit, operational, reputational, and strategic risk. The goal is to ensure insurers implement proportionate, effective mitigation and adaptation measures aligned with their risk profile and exposure.

6.1. INSURANCE UNDERWRITING RISK

6.1.1. Insurers must implement tools and methodologies to assess and manage climate exposures within underwriting portfolios. Key actions include:

- **Physical Risk Assessment:** Use scenario analysis to account for long-term weather trends and extreme events.
- **Transition Risk Screening:** Identify policyholders exposed to regulatory, technological, or reputational risks from climate transition.
- **Liability Risk Evaluation:** Analyze legal exposure tied to insured parties contributing to environmental harm.

6.1.2. **Risk Management Options:**

- Engage with clients to promote climate adaptation.
- Adjust pricing and policy terms.
- Limit exposure to high-risk business lines.

6.1.3. Underwriting strategies must align with the insurer's climate risk appetite and support broader sustainability objectives.

6.2. INVESTMENT RISK MANAGEMENT

6.2.1. Insurers must manage climate-related investment risks across multiple dimensions.

6.2.2. **Key Focus Areas:**

- **Physical Risk:** Real estate and infrastructure exposure in climate-sensitive areas.
- **Transition Risk:** Exposure to high-carbon sectors vulnerable to regulation or market shifts.
- **Concentration Risk:** Sectoral/geographic overexposure that amplifies climate vulnerability.

6.2.3. **Risk Management Actions:**

- Implement ESG screening and divestment strategies.
- Reallocate capital toward climate-resilient or green assets.
- Engage with investment managers and investees on sustainability practices.

Example Table 1: Managing Investment Risk

Risk Type	Strategy
Fossil fuel exposure	Divest and reallocate to renewable energy
Physical asset risk	Assess and reduce holdings in flood-prone areas
Sectoral concentration	Diversify across industries and jurisdictions.

6.2.4. Regulatory Expectation:

- Insurers must demonstrate that investment strategies incorporate climate risk resilience and align with financial and sustainable goals.

6.3. CREDIT AND THIRD-PARTY RISK MANAGEMENT

6.3.1. Insurers must identify and manage climate-related credit and third-party exposures. This includes:

6.3.2. **Assessment Requirements**

- Evaluate financial strength of reinsurers and investment counterparties.
- Conduct due diligence and credit reviews with climate risk lens.
- Use stress testing/scenario analyses to assess potential climate shocks to third-party stability.

6.3.3. **Mitigation Strategies:**

- Secure additional reinsurance coverage for climate-sensitive risks.
- Utilize alternative risk transfer mechanisms.
- Limit or withdraw exposure to entities lacking climate resilience.

6.3.4. **Engagement Expectations:**

- Insurers must collaborate with third parties in adaptation and sustainability planning.
- Document credit quality and climate preparedness of key counterparties.

6.4. OPERATIONAL RISK MANAGEMENT

6.4.1. Climate risk must be integrated into operational risk frameworks. Insurers are expected to:

6.4.2. **Business Continuity Planning (BCP):**

- Include scenarios for physical risks (storms, flooding) and service interruptions.
- Ensure BCPs are tested and regularly updated.

6.4.3. **Outsourcing and Supply Chain:**

- Ensure outsources functions, if any, have contingency plans.
- Monitor climate resilience of third-party providers.

6.4.4. **Capacity Building and Data Use:**

- Train staff across key functions on climate risk.
- Use public and proprietary climate data for scenario modeling and decision-making.

Example Table 2: Operational Resilience Planning

Disruption Type	Mitigation Measure
Flood event	Establish backup site in safer jurisdiction
Claims delay	Use cloud-based systems for remote access
Vendor failure	Develop redundancy in supplier network

6.5. REPUTATIONAL RISK MANAGEMENT

6.5.1. Insurers must assess and manage risks to their reputation stemming from climate risk inaction or misalignment.

6.5.2. **Reputational Threats:**

- Coverage of environmentally damaging industries.
- Greenwashing or inconsistent public disclosures.
- Lack of demonstrable climate commitment.

6.5.3. **Mitigation Actions:**

- Adopt and publicize a climate risk strategy with measurable goals.
- Enhance transparency in climate disclosures.
- Engage stakeholders to communicate progress and accountability.

6.6. STRATEGIC RISK MANAGEMENT

6.6.1. Strategic resilience is key to long-term success in a climate-sensitive environment. Insurers must:

6.6.2. **Strategic Planning Requirements:**

- Incorporate climate data into long-range planning.
- Continuously update climate-related metrics and assumptions.
- Align business model with sustainability and regulatory shifts.

6.6.3. **Cross-Functional Integration:**

- Ensure all departments contribute to climate-aligned strategic objectives.
- Develop action plans for transition and physical risk response.

6.6.4. Effective strategic planning reduces long-term exposure and supports profitability while aligning with national and global climate goals.

6.6.5. By implementing this framework, insurers will enhance their climate risk preparedness, support long-term sector stability, and comply with regulatory expectations for forward-looking and proportionate climate risk management.

7. ESCALATION AND REPORTING OF MATERIAL EXPOSURES

7.0.1. This section outlines the expectations for insurers to identify, escalate, and report material climate-related risk exposures. A structured escalation and reporting process ensures

timely mitigation of threats to financial resilience, supports informed governance, and strengthens regulatory oversight.

7.0.2. To reduce confusion between overlapping concepts please note the following:

Term	Definition	When used
Escalation Procedures	Steps to follow when a material climate risk must be reviewed or acted upon	Triggered by threshold breaches or significant events
Escalation Thresholds	Predefined criteria (based on risk appetite) that trigger escalation	Set by the insurer; used to assess severity of risk
Reporting Requirements	Regular or ad-hoc updates on climate risk status, trends and impacts	Part of routine governance and regulatory compliance

7.1. ESCALATION PROCEDURES

7.1.1. Insurers must integrate climate-related risks into their existing escalation protocols. If procedures differ from other risk escalation frameworks, these distinctions must be documented and justified.

7.1.2. **When to Escalate:** A climate risk exposure must be escalated when:

- A climate-related event significantly impacts the insurer's financial position (e.g. hurricane, flood, regulatory shift).
- A materiality threshold, defined within the insurer's risk appetite, is exceeded.
- New regulatory requirements affect solvency, capital adequacy, or underwriting exposure.

Escalation Flow:

Stage	Responsibility	Action
1. Risk Identification	Business Units	Detect material exposure
2. Escalation Trigger	Risk Manager/Control Function	Determine threshold breach or regulatory impact
3. Internal Review	Senior Management/Risk Committee	Assess response strategies
4. Governance Oversight	Board of Directors	Approve mitigation actions and ensure capital adequacy
5. Regulatory Disclosure	Compliance/Executive	Report material risks to the Commission

7.2. REPORTING REQUIREMENTS

7.2.1. Insurers must establish formal climate risk reporting mechanisms. These reports must:

- Summarize results of stress testing/scenario analysis.
- Identify emerging risk trends and developments.
- Detail corrective actions taken.
- Highlight capital reserve or solvency adjustments

7.2.2. **Integration:** All climate risk reports must be incorporated into enterprise risk management (ERM) and governance processes to support informed decision-making.

Table: When to Report vs. Escalate

Climate Risk Situation	Report Only	Escalate + Report
Emerging trends or low-risk exposures	✓	
Moderate risks, below materiality threshold	✓ (semi-annual)	
Material threshold exceeded (e.g. capital adequacy impact)	✓	✓
Regulatory/policy changes affecting solvency	✓	✓
Climate shock (e.g. major flood, hurricane) with high impact	✓	✓

7.3. REPORTING FREQUENCY

7.3.1. The frequency of reporting should reflect the insurer's climate risk exposure and business model:

Exposure Level	Frequency	Audience
High (Material Risks)	Quarterly	Senior Management, Board, Commission
Moderate	Semi-Annually	Risk Committee, Senior Management
All Insurers	Annually	Public Regulatory Filings

7.3.2. **Note: The Commission may request ad-hoc reports following significant climate-related events.**

7.4. ESCALATION THRESHOLDS AND BOARD OVERSIGHT

7.4.1. Insurers must establish thresholds that define when a climate risk requires escalation. These thresholds must align with their risk appetite and be reviewed regularly.

Threshold Levels and Actions

Risk Level	Escalation Response
Low	Continuous monitoring by business functions
Medium	Senior Management evaluates mitigation and capital implications
High	Immediate escalation to the Board

7.4.2. Board Responsibilities:

- Review climate risk reports.
- Approve risk mitigation and solvency strategies.
- Ensure policy and capital adjustments are implemented.

7.5. REGULATORY EXPECTATIONS

7.5.1. To meet regulatory standards, insurers must:

- Maintain clear governance structures for climate risk identification and escalation
- Define proportionate reporting mechanisms aligned with exposure
- Ensure timely[1] delivery of accurate risk information to senior leaders and the Commission
- Incorporate climate risk disclosures in regulatory filings.

[1] Within 30 days of identifying a material exposure.

7.5.2. Failure to escalate or report material risk in accordance with this guidance may result in increased regulatory scrutiny or corrective action.

8. CONTROL FUNCTIONS

8.0.1. Control functions play a central role in ensuring that climate risk is effectively identified, assessed, managed, and reported. These functions—Risk Management, Compliance, Actuarial, and Internal Audit—are responsible for integrating climate considerations into their respective domains and supporting the insurer's governance, strategy, and risk management frameworks.

8.0.2. Each function must operate with sufficient independence, technical competence, and authority to carry out its responsibilities. This section outlines the specific roles and regulatory expectations for each control function in the context of climate risk.

8.1. RISK MANAGEMENT FUNCTION

8.1.1. **Key Responsibilities:**

- Integrate climate risk into the insurer's Enterprise Risk Management (ERM) framework.
- Develop and apply climate-related risk metrics aligned with the insurer's risk appetite.
- Lead or support climate stress testing/scenario analysis.
- Collaborate with underwriting, investment, and other business units.

8.1.2. **Regulatory Expectations:**

- Ensure climate risks are consistently identified, measured, monitored, and reported.
- Maintain documentation of risk assessments and risk appetite thresholds.
- Support strategic planning through climate-informed risk evaluations.

8.2. COMPLIANCE FUNCTION

8.2.1. **Key Responsibilities:**

- Ensure adherence to all regulatory requirements related to climate risk.
- Monitor the implementation of internal climate risk policies and controls.
- Ensure the accuracy and completeness of climate risk disclosures.

8.2.2. **Regulatory Expectations:**

- Regularly review internal policies to reflect regulatory developments and best practices.
- Verify that climate-related reporting aligns with statutory and public disclosure requirements.
- Support transparency and accountability in climate governance.

8.3. ACTUARIAL FUNCTION

8.3.1. **Key Responsibilities:**

- Reflect climate risk in pricing, reserving, and capital adequacy models.
- Evaluate the longer-term impact of physical and transition risks on liabilities.
- Collaborate on stress testing/scenario analysis and ensure use of forward-looking data.

8.3.2. **Regulatory Expectations:**

- Support climate-adjusted valuation of assets and liabilities (where applicable).
- Contribute to development of any required framework.
- Enhance actuarial modeling to incorporate climate risk projections.

8.4. INTERNAL AUDIT FUNCTION

8.4.1. **Key Responsibilities:**

- Assess the effectiveness of climate risk governance and internal controls.
- Identify gaps or weaknesses in climate risk management frameworks.
- Provide recommendations for improvements in oversight and execution.

8.4.2. **Regulatory Expectations:**

- Conduct periodic audits of climate risk procedures and control mechanisms.
- Confirm compliance with both internal policies and regulatory standards.
- Ensure the Board and Senior Management are informed of audit findings.

Summary Table: Climate Risk Roles of Control Functions

Control Function	Climate Risk Role
Risk Management	Integrate climate risk into ERM and stress testing/scenario analysis
Compliance	Ensure regulatory and disclosure alignment
Actuarial	Reflects physical and transition risks in modeling
Internal Audit	Evaluates effectiveness of controls and oversight mechanisms

8.4.3. By strengthening the role of control function in climate risk oversight, insurers will improve accountability, support sound governance, and meet regulatory expectations for climate resilience and long-term financial stability.

9. STRESS TESTING/SCENARIO ANALYSIS OF CLIMATE CHANGE

9.0.1. Scenario analysis is a critical tool for addressing how climate-related risks could impact an insurer's financial resilience under varying future conditions. This section sets out regulatory expectations for insurers to adopt both qualitative and quantitative stress testing/scenario analysis as part of a forward-looking, risk-based climate strategy.

9.1. PURPOSE AND REGULATORY EXPECTATION

9.1.1. Insurers must implement a climate stress testing/scenario analysis framework, in accordance with the Commission's guidelines on stress testing/scenario analysis. This framework must:

- Identify financial vulnerabilities linked to physical and transition climate risks
- Support long-term strategic planning and capital adequacy decisions
- Enhance climate risk integration across underwriting, investment, and operations.

9.1.2. **Regulatory Requirement:** All general insurers must develop stress testing/scenario analysis capabilities. Initial efforts may be qualitative but must evolve over time to include more sophisticated, data-driven analysis.

9.2. TYPES OF SCENARIO ANALYSIS

9.2.1. An insurer's consideration of the time horizon for the impact of climate-related risks should be tailored to its business and activities.

- **Short-Term (one to five years)**
  - Use as a form of climate stress testing
  - Evaluate impacts of acute events (e.g. hurricanes, droughts)
- **Medium-Term (five to ten years)**
  - Assess strategic implications of chronic risks and transition trends
  - Support adjustments to underwriting models and investment portfolios

9.2.2. Both physical and transition risks must be assessed, either separately or through integrated scenarios. A combined approach is preferred for its realism and completeness.

9.3. STRESS TESTING/SCENARIO ANALYSIS DEVELOPMENT AND DATA USE

9.3.1. Insurers must use scientifically sound, current, and relevant data sources. Where internal resources are limited, external benchmarks or industry guidance may be referenced.

9.3.2. Best Practices:

- Base scenarios on IPCC climate pathways, or domestic climate projections.
- Present two sets of outcomes: one with management actions, and one without.
- Align assumptions with proportionality based on the insurer's size and complexity.

9.4. ILLUSTRATIVE EXAMPLE: CATASTROPHE SCENARIO ANALYSIS

9.4.1. An insurer underwriting home insurance in flood-prone areas conducts scenario analysis as follows:

Scenario	**Climate Outlook**	**Claims Impact Estimate**
Scenario A (2025)	Current climate, moderate rainfall	Claims increase by 15%
Scenario B (2035)	Intensified flood frequency	Claims increase by 30$
Scenario C (2050)	Sea level rise and severe flooding events	Claims increase by 50%; some areas uninsurable

9.4.2. **Regulatory Expectation:**

- Update underwriting and pricing models based on projected risk trajectories.
- Consider withdrawing coverage or revising terms for high-risk areas.

9.5. STRENGTHENING INTERNAL CAPABILITIES

9.5.1. To enhance stress testing/scenario analysis capabilities, insurers must:

- Build internal expertise through training and technical upskilling.
- Leverage external partnerships for modeling support where needed.
- Continuously improve modeling tools to reflect evolving science and risk insights.

9.5.2. By adopting a structured and proportionate stress testing/scenario analysis framework, insurers will be better positioned to anticipate and mitigate climate-related shocks, adapt

their business models, and fulfill the Commission's expectations for forward-looking climate risk governance.

10. APPENDIX

10.0. A1. MATERIALITY ASSESSMENT FRAMEWORK FOR CLIMATE-RELATED RISKS

This framework outlines the requirements for insurers in The Bahamas to conduct a comprehensive materiality assessment of their exposure to climate-related risks, as mandated by the Insurance Commission of The Bahamas.

PURPOSE:
The purpose of the materiality assessment is to identify and evaluate the significance of climate-related risks to an insurer's business, considering both current and future conditions. This assessment informs the development of appropriate risk management strategies and ensures compliance with regulatory expectations.

SCOPE:
The assessment must encompass both:

- **Physical Risks:** These include risks arising from specific climate-related events.
- **Transition Risks:** These encompass risks related to the shift towards a low-carbon economy, including policy changes, regulatory developments, market fluctuations, and technological advancements.

The assessment will consider short-term, medium-term, and long-term horizons to provide a comprehensive understanding of evolving climate risk exposure. This forward-looking approach is crucial for effective risk management and adaptation.

METHODOLOGY:
Insurers must employ a combination of qualitative and quantitative methods to assess the materiality of climate-related risks. This may involve:

- **Data Collection and Analysis:** Gathering relevant data on climate-related hazards, exposure, and vulnerability.
- **Stress Testing/Scenario Analysis:** While full-scale stress tests and scenario analysis may not be required for immaterial risks, simplified or qualitative stress tests are mandatory for all assessed risks. This allows insurers to understand potential financial and operational impacts, even for risks deemed less significant.
- **Expert Judgment:** Incorporating expert opinions and industry best practices to evaluate the potential impact of climate-related risks.

DOCUMENTATION:
Insurers are required to maintain documented evidence of their materiality assessments. This documentation must include:

- **Rationale for Risk Classification:** Clear justification for classifying risks as material or immaterial.
- **Methodologies Used:** Detailed description of the assessment methodologies employed.
- **Data Sources: Identification** of the data sources used in the assessment.
- **Results of Analysis:** Summary of the findings and conclusions of the assessment.

This documentation will be subject to review by the Commission to ensure transparency, accountability, and regulatory compliance.

REVIEW AND UPDATES:
The materiality assessment must be reviewed and updated periodically to reflect:

- **Evolving Climate Risks:** Changes in the frequency, intensity, or nature of climate-related hazards.
- **Strategic Adjustments:** Changes in the insurer's business strategy, risk appetite, or operations.
- **External Influences:** Developments in regulations, market dynamics, and international best practices.

ALIGNMENT WITH INTERNATIONAL BEST PRACTICES:
While tailored to the Bahamian context, the materiality assessment should align with generally accepted frameworks and international regulatory guidance. Insurers are encouraged to reference established methodologies to enhance the robustness and effectiveness of their evaluations.

NEXT STEPS:
The results of the materiality assessment will inform the development and implementation of appropriate risk management strategies, including:

- **Integration of climate risk considerations into underwriting processes.**
- **Development of climate-informed investment strategies.**
- **Enhancement of operational resilience.**
- **Compliance with disclosure obligations.**

INSURANCE COMMISSION
OF THE BAHAMAS

2025

May 1

GUIDANCE ON CLIMATE-RELATED RISK MANAGEMENT