TESTIMONY

OF

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For

PUBLIC HEARING

SENATE STANDING COMMITTEE ON BANKS

SENATE STANDING COMMITTEE ON FINANCE

SENATE STANDING COMMITTEE ON ENVIRONMENTAL CONSERVATION

March 1, 2022

ALBANY, NEW YORK

Thank you, Chairpersons Krueger, Sanders, and Kaminsky; the members of the Senate Banks, Finance and Environmental Conservation Committees; and all of the members of the Legislature, for the opportunity to comment on the issue of climate change and related financial risks in the banking sector. As President and CEO, I am submitting this testimony on behalf of the New York Bankers Association (NYBA). NYBA is comprised of smaller community, regional, and large banks across every region of New York State. Together NYBA members employ nearly 200,000 New Yorkers, safeguard $2 trillion in deposits, and annually extend nearly $70 billion in home and small business loans.

NYBA and its members understand that climate change poses financial risks for banking institutions across New York State, as well as for the communities they serve. NYBA also acknowledges the need for legislators to understand the nature of those risks and their causes, and we generally support efforts by policymakers and regulatory authorities to implement effective mitigation strategies addressing climate-related risk.

NYBA has already participated in several virtual meetings and webinars with the New York State Department of Financial Services (the "Department" or "DFS") on the topic of climate change and its impact on banking to date. We sincerely appreciate DFS's outreach and gathering of information from the financial industry, as well as the Department's pioneering and pragmatic leadership in addressing climate change issues for New Yorkers. NYBA believes that this proactive, collaborative approach is the optimal strategy to identifying and implementing the best solutions on this critically important issue. We encourage broad coordination of any actions and policies pertaining to climate change with the actions and policies being taken and implemented already by the federal government, including the United States Treasury and the Office of the Comptroller of the Currency ("OCC"), as well as the Financial Stability Oversight Council; along with state and other government financial regulators, and government sponsored enterprises around the world. Without sufficient coordination, inconsistent or contradictory requirements could be issued that hinder or otherwise delay the effective dissemination of decision-useful information to investors and consumers.

Moreover, on their own initiative, banks continue to demonstrate their commitment – at scale – to mitigating and eventually eliminating financial risks arising from climate change.

Some of the nation's largest banks, including NYBA members, have implemented policies designed to, for example, substantially reduce or eliminate their greenhouse gas emissions by 2050. Many are members of the Net-Zero Banking Alliance, an industry group convened by the United Nations, who have pledged to establish required interim goals within 18 months of enlisting and then reporting on progress annually, a framework that will allow the market to hold institutions accountable. Larger banks also have publicly endorsed the Paris Climate Agreement and, consistent with its goals, have implemented sustainable financing initiatives designed to help transition lending portfolios away from carbon-intensive activities, while at the same time allocating larger amounts of capital to financing the growth and development of key "green economy" sectors, like renewable energy. In undertaking these measures, banks have worked collaboratively with their customers, their communities, and other stakeholders to minimize market disruption and preserve consumer confidence.

NYBA acknowledges, however, that there is more work ahead as banks, like all industries, continue to adapt to the challenges of climate change and the myriad risks it poses. As we move forward, NYBA believes that legislative and regulatory policy addressing climate change risk within New York's banking industry should be guided both by the novel and rapidly evolving nature of climate-related risk identification methodologies, and by the multi-jurisdictional nature of climate risk. These features strongly recommend an approach to risk management that is iterative, flexible, and principles-based, and that distinguishes between larger, national banking institutions and smaller community and regional banks.

The risk management frameworks, systems and metrics used by large banks to identify and manage a variety of risks are well-developed, effective, and widely understood. And although banks are actively incorporating climate risk into those frameworks, there is still an absence of robust market data concerning climate-related financial risk, a lack of standardized terminology and definitions, and an incomplete understanding of how climate-related risk interacts with more traditional categories of financial risk. Climate-related financial risk management is thus still at a nascent stage and any State policy should reflect this by avoiding an overly prescriptive approach that would prematurely attach legal or regulatory consequences to climate-risk exposures that are not yet well understood.

NYBA also believes that a flexible, iterative approach to State policy is warranted because in both cause and effect, financial risks, like all risks associated with climate change, transcend state, and even national, boundaries. Federal actors are already receptive to this approach. During a speech at the Ceres 2021 Conference, Federal Reserve Governor Lael Brainard acknowledged that "[c]limate change is inherently a cross-border and cross-sectoral challenge, and we recognize the benefit of collaborating with other regulatory agencies, central banks, and international standard-setting bodies while taking into account the important differences across jurisdictions. In the United States, close coordination with the Financial Stability Oversight Council member agencies will be important." New York should tailor its approach to ensure that any legislative or regulatory effort is calibrated with concurrent or contemplated federal efforts addressing climate-related financial risk. An absence of coordination among relevant authorities will forestall the development of comprehensive, effective risk mitigation strategies, and risks unnecessarily distorting the commercial landscape for State-chartered banking institutions.

Finally, we also believe that any State legislative and regulatory policy concerning climate-related financial risk must avoid a "one-size fits all" approach and instead be suitably tailored to address the differing risk profiles and capacities among large national banks, on the one hand, and smaller community and regional banks, on the other. NYBA acknowledges the need for banking institutions of all sizes to identify, monitor, and manage climate-related financial risks. As I have already described, larger national banks are already undertaking significant efforts in this regard. However, smaller banking institutions are markedly different from their national counterparts both in terms of the financial risk and other climate impacts arising from their operations, and in terms of their resources and capacity to identify, monitor and manage climate risk. We believe that ensuring the continued vitality of New York's banking charter requires that State policy acknowledge the unique circumstances and challenges faced by smaller banks in particular and be appropriately tailored to help them meet those challenges.

In short, banking institutions have, over time, accumulated unparalleled experience and expertise in managing complex changes in the business environment, and they are applying that experience to aggressively confront financial risks posed by climate change. There is more work to be done, and we stand at the ready to continue this path forward.

Thank you for the opportunity to provide comments and insights on the financial risks to banking posed by climate change. We appreciate your leadership in facing this multi-faceted challenge, and we look forward to working with you as you continue to address the needs of New Yorkers in this regard.