

1. Flavour-of-the-year topic: Climate-related risks

- 1.1 The PA has determined that for the 2023 calendar year, the flavour-of-the year topics will be organisational resilience and climate-related risks. The flavour-of-the-year topic on climate risk will only be discussed with selected financial institutions as climate risk management frameworks are nascent, and require specialist skills, capacity, and data.
- 1.2 The selected institutions for engagements on climate risks were selected based on proportionality, namely their nature, size and complexity, and relevance to the topic. The selected institutions will be communicated with bilaterally. The information is shared here for broader information purposes only.

2. Background

- 2.1 Climate-related risks have been a prevalent issue amongst various stakeholders both locally and internationally over recent years. The impact of climate risk continues to materialise globally through acute high severity natural disasters such as floods, droughts and wildfires. The chronic nature of climate risk continues to manifest through progressive shifts in climate and weather patterns. South Africa is not immune to these risks as evidenced by recent flooding events, which had a significant and sustained impact on the insurance and reinsurance industries.
- 2.2 There is also a significant drive internationally towards green investments and to reduce exposures to those industries and/or activities that harm the environment.
- 2.3 International committees such as the Network for Greening the Financial System (NGFS), the International Association of Insurance Supervisors (IAIS) and the Basel Committee on Banking Supervision (BCBS) have given the topic an increased focus. These organisations have published a number of papers to assist supervisors to enhance their understanding of this risk, and act appropriately within their supervisory mandates where required.
- 2.4 It is against this backdrop that the Prudential Authority will engage only selected institutions on their climate-related risk management approach. The following topics will be covered:
- 2.5 **General**
 - 2.5.1 Views on any current and/or future material impacts from climate-related risks on the institutions business model and strategy, which should include:
 - a. Views on the time horizon of such impacts;
 - b. Differentiating between transition and physical risk drivers; and
 - c. Sustainable finance, including transition planning.

2.6 **Governance and leadership**

- 2.6.1 How climate-related risks are defined by the institution.
- 2.6.2 The institutions strategy with regard to climate-related risks, including climate-related metrics, international alignment, net zero pledges or commitments.
- 2.6.3 How physical and transition risk drivers are taken into consideration in the development of the institutions strategy.
- 2.6.4 Assigned roles and responsibilities to board members and/or committees for managing climate-related risks.
- 2.6.5 Capacity building and training initiatives for board members and relevant individuals across the organisation.

2.7 **Risk management**

- 2.7.1 The institutions risk appetite in relation to climate-related risks (both physical risk and transition risks).
- 2.7.2 The risk management process:
 - a. Identification and assessment of climate-related risks;
 - b. Monitoring and responding to these risks, including any mitigation actions/strategies;
 - c. Reporting and escalation to the appropriate governance structures/committees; and
 - d. Implications of international standards and regulations.

2.8 **Scenario analysis and stress testing**

- 2.8.1 The institutions approach to climate-related scenario analysis and stress testing, which should include:
 - a. Objectives;
 - b. Selected scenarios/stresses;
 - c. Transition planning; and
 - d. Main challenges and/or concerns.

2.9 **Reporting and disclosure**

- 2.9.1 The institutions internal reporting on climate-related risks, which should include:
 - a. Purpose;
 - b. Internal stakeholders; and
 - c. Frequency.
- 2.9.2 The institutions disclosures of climate-related financial risks, which should include:
 - a. Disclosure frameworks used (e.g. Taskforce on Climate related Financial Disclosures, Green finance taxonomy);
 - b. Green finance instruments and allocations;
 - c. Relevant policies, advocacy and stewardship; and
 - d. High-level summary of types of information disclosed.
- 2.9.3 Main challenges and/or concerns relating to the reporting and/or disclosure of climate-related risks.