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Guidance on climate-related disclosures for insurers

Objectives of this Guidance Notice

The purpose of this Guidance Notice is to provide guidance to insurers regarding climate-related disclosures, taking into consideration the International Sustainability Standards Board climate-related disclosures standard, under the four thematic areas of governance, strategy, risk management, and metrics and targets.

Disclosures of climate-related risks and opportunities are required to promote market discipline through the provision of meaningful information to stakeholders on a consistent and comparable basis. Climate risk management is a developing area and approaches will evolve and mature over time. It is important that insurers build the necessary capacity and capabilities to assess, manage and disclose climate-related risks and opportunities within existing risk management and governance frameworks, including any metrics or targets developed by the insurer.

1. Introduction

- 1.1. Climate change and the transition to a low-carbon climate-resilient economy can affect the safety and soundness of financial institutions and the stability of the financial system. South Africa is highly susceptible to climate-related disasters such as droughts, floods, and wildfires, and transition risks given, amongst other factors, its reliance on fossil fuels for electricity, export revenues, and as a key sector for employment. These climate-related physical and transition risks leave the South African financial sector exposed to financial and non-financial impacts through the location of assets and liabilities in climate-vulnerable regions, and through exposure to businesses and investments in transition-sensitive sectors.
- 1.2. Disclosures of climate-related risks and opportunities are required to promote market discipline through the provision of meaningful information to stakeholders on a consistent and comparable basis. An essential function of financial markets is to price risk to support informed, efficient capital-allocation decisions. Disclosures can enhance how climate-related risks are assessed, priced, and managed nationally and internationally.
- 1.3. The insurance industry plays a critical role in the management of climate-related risks in its capacity as an assessor, manager, and carrier of risk, and as an investor and steward of financial resources, while being uniquely qualified to understand the pricing of insurance risks. Notably, through risk-based pricing and the development

of suitable insurance policies and products, insurers provide critical economic signals regarding this changing risk environment. Insurers can also help build resilience through inclusive insurance.

- 1.4. This guidance builds on domestic and international initiatives on climate-related disclosures, specifically the standards developed by the International Sustainability Standards Board (ISSB) which were built on the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

2. Principles and conceptual foundations

- 2.1. Disclosures of climate-related risks and opportunities is continually evolving as methodologies are being developed and improved. Without being prescriptive of the methodologies, the following principles and conceptual foundations provide the overarching requirements to fulfil when disclosing climate-related risks and opportunities:

- 2.1.1. Disclosures should be focused on relevant and material information. Information is material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions that are made based on those reports by the primary users. Materiality is an institution-specific aspect of relevance, based on the nature and or magnitude of the information in relation to the institution's context.
- 2.1.2. Disclosures should be complete, objective, and accurate. Any material limitations of the data, the assumptions, and estimations used should be disclosed.
- 2.1.3. Disclosures should be clear, balanced, and understandable to a wide audience.
- 2.1.4. Disclosures should provide consistency to the extent possible over time. Any changes in approach should be described where necessary to enable stakeholders to understand the reasons for differences.
- 2.1.5. Disclosures should be timely and produced within appropriate time periods. Disclosure should provide information relevant to current decisions and be future-focused.
- 2.1.6. Disclosures should be for the same reporting entity and reporting period as the institution's financial statements. Connected information within and across disclosures should be clear and cross-referenced where required to avoid duplication and facilitate accessibility.

3. Supervisory expectations

- 3.1. Insurers should produce climate-related disclosure reports that reasonably satisfy the principles above and these supervisory expectations, as a minimum. Insurers are expected to produce high-quality and decision-useful disclosures in order to increase transparency and confidence about an insurers approach to climate-related risks and opportunities. Material risks associated with climate change should be disclosed in line with Insurance Core Principle (ICP) 20 (Public Disclosure). This Guidance Notice provides supervisory expectations to fulfil this requirement.

4. Governance

- 4.1. The insurer should disclose the governance practices, processes, controls and procedures in maintaining appropriate oversight over climate-related risks and opportunities. The insurers should disclose how these identified climate-related risks and opportunities impact on the insurers business model, strategy and decision-making. The insurer should provide sufficient detail on:

- 4.1.1. The governance structure¹ responsible for the oversight of climate-related risks and opportunities including how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies.
 - 4.1.2. How the board ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities.
 - 4.1.3. How and how often the board and its relevant committees are apprised of climate-related risks and opportunities.
 - 4.1.4. How the board and relevant committees consider climate-related risks and opportunities when overseeing the insurer's strategy, its decision on major transactions, risk management processes and related policies, including how trade-offs associated with those risks have been considered.
 - 4.1.5. The board's activities in tracking and monitoring progress against targets for addressing climate-related risks and opportunities, including whether and how related performance metrics are included in remuneration policies.
- 4.2. The insurer should disclose the role of management in the governance processes, controls and procedures used to monitor, manage, and oversee climate-related risks and opportunities including information about:
- 4.2.1. Whether the role is delegated to specific management-level positions or committees; and how oversight is exercised over that position or committee.
 - 4.2.2. Whether dedicated controls and procedures are applied to the management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions.

5. Strategy

- 5.1. The insurer should disclose the current and anticipated impacts of climate-related risks and opportunities on the insurer's business model, strategy, and financial planning where such information is material. An insurer should disclose to what extent and whether any parts of their value chain are included or excluded from its processes for identifying, assessing, and managing climate-related risks and opportunities.
- 5.2. The insurer should describe the climate-related risks that could affect its business model, strategy, and financial planning over the short, medium, and long term. The insurer should use all reasonable and supportable information that is available at the reporting date without undue cost or effort, including information about past events, current conditions, and forecasts of future conditions. Specifically, the insurer should disclose:
 - 5.2.1. For each climate-related risk the insurer has identified, explain whether the insurer considers the risk to be a climate-related physical risk or climate-related transition risk.
 - 5.2.2. For each climate-related risk identified, specify over which time horizons short, medium, or long term the effects of each climate-related risk could reasonably be expected to occur.
 - 5.2.3. The insurer's definition of short, medium, and long term, and how these definitions are linked to the insurer's strategic planning horizons.

¹ Governance structure can include a board, board committee, or equivalent body charged with governance. The term Board is used in this document to refer to all relevant governance structures.

- 5.3. The insurer should describe the current and anticipated effects of those climate-related risks and opportunities on the insurer's business model and value chain. Specifically, the insurer should disclose:
 - 5.3.1. The current and anticipated effects of climate-related risks and opportunities on the insurer's business model and value chain.
 - 5.3.2. A description of where in the insurers business model and value chain climate-related risks and opportunities are concentrated, for example, geographical areas, sectors, facilities, and types of assets.
- 5.4. The insurer should describe the effects of those climate-related risks and opportunities on the insurer's strategy and decision-making, how the insurer has responded to, and plans to respond. Specifically, the insurer should disclose information about:
 - 5.4.1. The current and anticipated changes to the insurer's business model, including resource allocations to address climate-related risks and opportunities.
 - 5.4.2. The current and anticipated indirect mitigation and adaptation efforts.
 - 5.4.3. Any climate-related transition plan the insurer has, including information about key assumptions used in developing its transition plan, and dependencies on which the transition plan relies.
 - 5.4.4. Information regarding climate-related targets for these plans including the process for review of the targets.
 - 5.4.5. How the insurer is resourcing, and plans to resource, the activities disclosed; and
 - 5.4.6. The quantitative and qualitative information about the progress of plans disclosed in prior reporting periods.
- 5.5. The insurer should describe the effects of those climate-related risks and opportunities on the insurer's financial position, financial performance and cash flows for the reporting period, and their anticipated effects over the short, medium, and long term, taking into consideration how those climate-related risks and opportunities have been factored into the insurer's financial planning.
- 5.6. The insurer should describe the climate resilience of the insurer's strategy and business model taking into account climate-related scenario analysis. Specifically, the insurer should describe:
 - 5.6.1. The implications, if any, of the insurer's assessment for its strategy and business model, including how the insurer would need to respond to the effects identified in the scenario analysis.
 - 5.6.2. The significant areas of uncertainty considered in the insurer's assessment of its climate resilience.
 - 5.6.3. The capacity to adjust or adapt its strategy and business model to climate change over the short, medium, and long term.
 - 5.6.4. The availability of, and flexibility in, existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks.
 - 5.6.5. The insurer's ability to redeploy, repurpose, upgrade, or decommission existing assets.
 - 5.6.6. The effect of the insurer's current and planned investments in climate-related mitigation and adaptation for climate resilience.

- 5.7. The insurer should disclose how and when climate-related scenario analysis was undertaken. Specifically, the insurer should describe:
- 5.7.1. Which climate scenarios were used, the source of scenarios, and their relevance.
 - 5.7.2. Whether the chosen scenarios are aligned to the latest international climate agreements and science-based targets.
 - 5.7.3. The scope of operations used in the analysis (for example, the operating locations and business units).
 - 5.7.4. The key assumptions used, the time periods, and whether the scenarios covered physical, transition risks or both.

6. Risk management

- 6.1. The insurer should describe the extent to which, and how, processes for identifying, assessing, prioritising, managing, mitigating, and monitoring climate-related risks are integrated into and inform the insurer's overall risk management. Specifically, the insurer should describe:
- 6.1.1. How the insurer determines the relative significance of climate-related risks in relation to other risk exposures.
 - 6.1.2. The process(es) for prioritising climate-related risks, including how materiality determinations are made within the insurer.
- 6.2. The insurer should describe the processes and related policies the insurer uses to identify, assess, prioritise, and monitor climate-related risks, including information about:
- 6.2.1. The input parameters it uses (for example, data sources, the scope of operations covered in the processes).
 - 6.2.2. Whether and how the insurer uses climate-related scenario analysis to inform its identification of climate-related risks.
 - 6.2.3. How the insurer assesses the nature, likelihood, and magnitude of the effects of those risks (for example, whether the insurer considers qualitative factors, quantitative thresholds or other criteria).
 - 6.2.4. Whether and how the insurer prioritises climate-related risks relative to other types of risks.
 - 6.2.5. How the insurer monitors climate-related risks.
 - 6.2.6. Whether the insurer has changed the processes it uses from the previous reporting period.

7. Metrics and targets

- 7.1. The insurer should disclose metrics and targets that enable stakeholders to evaluate the insurer's exposure, measurement, and management of climate-related risks; and how it measures and monitors its climate-related opportunities including progress towards any climate-related targets it has set.
- 7.2. The insurer should disclose metrics used to assess their climate-related risks and opportunities, considering their strategy and risk management processes. In preparing disclosures to meet these requirements, an insurer should use all reasonable and supportable information that is available to the insurer at the reporting date without undue cost or effort.

- 7.3. The insurer should disclose Scope 1, 2, and 3 greenhouse gas (GHG) emissions² in accordance with the Greenhouse Gas Protocol, unless legally required to use a different method by another jurisdictional authority or exchange where the insurer is listed. Disclosures should be made as absolute GHG emissions expressed as metric tonnes of carbon dioxide equivalent. Disclosures should be made at consolidated group level. Specifically, the insurer should disclose:
- 7.3.1. The measurement approach and inputs and assumptions used, and whether any changes were made to these during the reporting period.
 - 7.3.2. The categories included within the measurement of Scope 3 emissions, including information on financed and underwritten emissions.
- 7.4. The insurer should disclose whether and how climate-related considerations are included in remuneration policies, and the percentage of executive management remuneration linked to climate-related considerations.
- 7.5. The insurer should disclose how climate-related risks are considered in investment management and underwriting processes and strategies where appropriate.
- 7.6. The insurer should disclose the quantitative and qualitative targets it has set and performance against these targets. Specifically, the insurer should disclose:
- 7.6.1. The objective of the target (for example mitigation, adaptation, or conformance with science-based initiatives), the metric used to set the target and the part of the insurer to which the target applies- such as such as sector, geographical location or portfolio levels. Details relating to whether targets are absolute, or intensity-based should be stated.
 - 7.6.2. The time horizon for the target, including the baseline and any interim or milestone targets. Updates or changes to targets should be specified with appropriate rationale for the changes, including how the targets compare to international agreements.
 - 7.6.3. Where relevant, an insurer should disclose information about any carbon credits it plans to use in achieving a net GHG emissions target.

8. Additional considerations

- 8.1. Where relevant, disclosures should describe whether or how scenarios considered South Africa specific context and transition pathways.
- 8.2. Where appropriate, targets on insurers financing activities that are environmentally sustainable should reference the South African green finance taxonomy³.

² Scope 1 refers to all direct GHG emissions; Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Relevant scope 3 emissions for finance sector entities includes the scope 1, scope 2 and material scope 3 emissions from businesses to which they have a financial exposure (e.g., through lending activities, insurance products, and investments), or the scope 3 emissions of emissions-intensive inputs to their businesses. For further information, see the Greenhouse Gas Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard and Technical Guidance for Calculating Scope 3 Emissions.

³ See link: <https://sustainablefinanceinitiative.org.za/working-groups/taxonomy-working-group/>

- 8.3. Insurers particularly those with international exposures and activities, should be developing the capacity and capabilities to disclose internationally comparable quantitative metrics. These include, but are not limited to:
- 8.3.1. Climate-related transition risks: The amount and percentage of assets and liabilities or business activities vulnerable to climate-related transition risks.
 - 8.3.2. Climate-related physical risks: The amount and percentage of assets and liabilities or business activities vulnerable to climate-related physical risks.
 - 8.3.3. Physical risk exposure: Probable maximum loss (PML) of insured products from weather-related natural catastrophes.

9. Assurance requirements

- 9.1. The disclosures are not expected to be subject to independent external assurance at this time but should work towards a future state in which external assurance is expected. The disclosures should be subject to internal governance processes and controls as used for financial reporting.

10. Implementation

- 10.1. The Prudential Authority encourages institutions to be proactive in their climate-related risk management and disclosures, and not wait for regulation to be issued or be compliance-driven. Climate-related risk management is a developing area and approaches will evolve and mature over time; however the expectation of future improvements and developments in approach is not a justification for delay in implementation. Climate-related disclosures are expected to become mandatory over time.
- 10.2. The timeline of mandatory disclosures will be determined by numerous factors including but not limited to, non-financial corporate sector disclosure requirements and international standard-setting bodies. Financial institutions' progress in addressing climate-related risks relies on the non-financial corporate sector making similar progress, including in the areas of firm-level disclosures, addressing data gaps and transition plans.
- 10.3. If an insurer determines that certain information is commercially sensitive, an insurer may omit to disclose such information. The insurer should however consider the possibility to disclose the information in a manner that would not jeopardise the potential economic benefits the insurer would otherwise be able to realise (for example at an aggregated level).

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Date: