

Climate Measurement & Reporting

21 May 2024

Presented by Adam Balusik

On behalf of the ASSA Sustainability Sub-Committee

Agenda

- **Why** should actuaries care about climate measurement & reporting?
- **Where** did we come from to arrive at IFRS S2?
- **How** does the Standard work?
- **What** are we doing in South Africa?
- Any other questions

Why should actuaries care?



We experience climate-related issues at an individual (Scale 0) level.



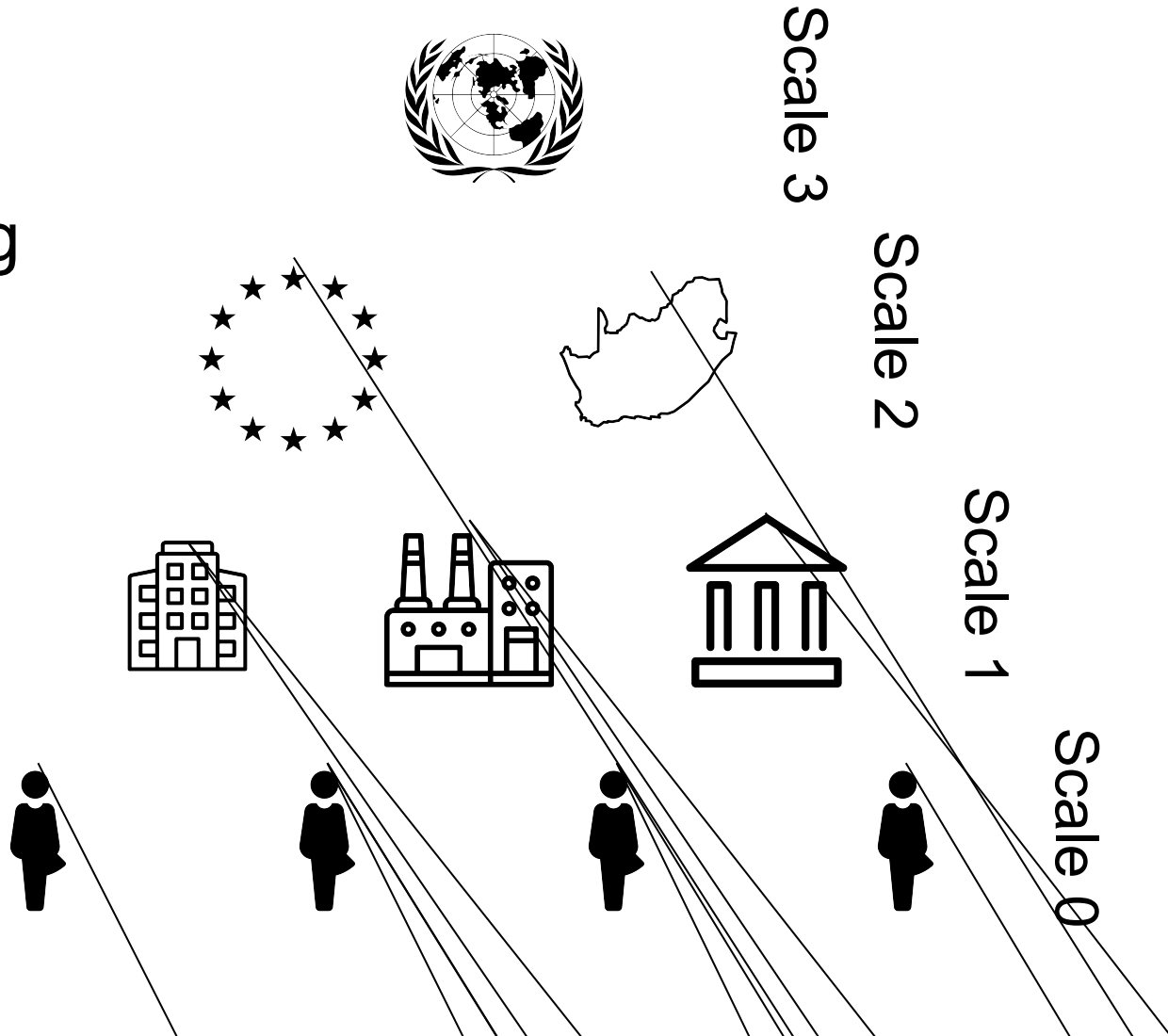
Actuaries have a valuable skill set in solving long-term problems that need to be quantified in human-related metrics.



Improving knowledge and engagement helps us make better decisions as a group.

Why is the actuarial skill set valid?

Actuaries think across various scales and have an intuitive understanding of non-linear modelling with temporal components.



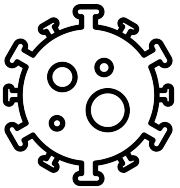
Why should actuaries care about the climate?



Scale 0 individuals will face the majority of consequences of climate change.

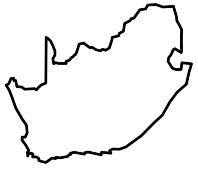


The driving problems are only seen at a global Scale 3 level.

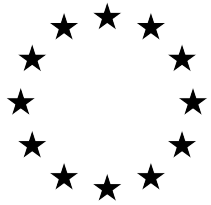


Actuaries have an inherent skill to see non-linear and indirect costs.

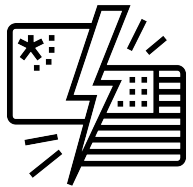
Why should actuaries care about climate measurement?



Climate impacts at the national (Scale 2) level increasingly drive insurance and capital markets.



International agreements on metrics at lower Scales need to allow for heterogeneous risk pools.

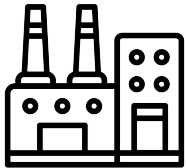


Generators of risk are not uniformly distributed and significant sources need to be identified.

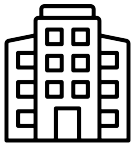
Why should actuaries care about climate reporting?



Scale 1 publicly listed companies produce around 40% of global GHG emissions.

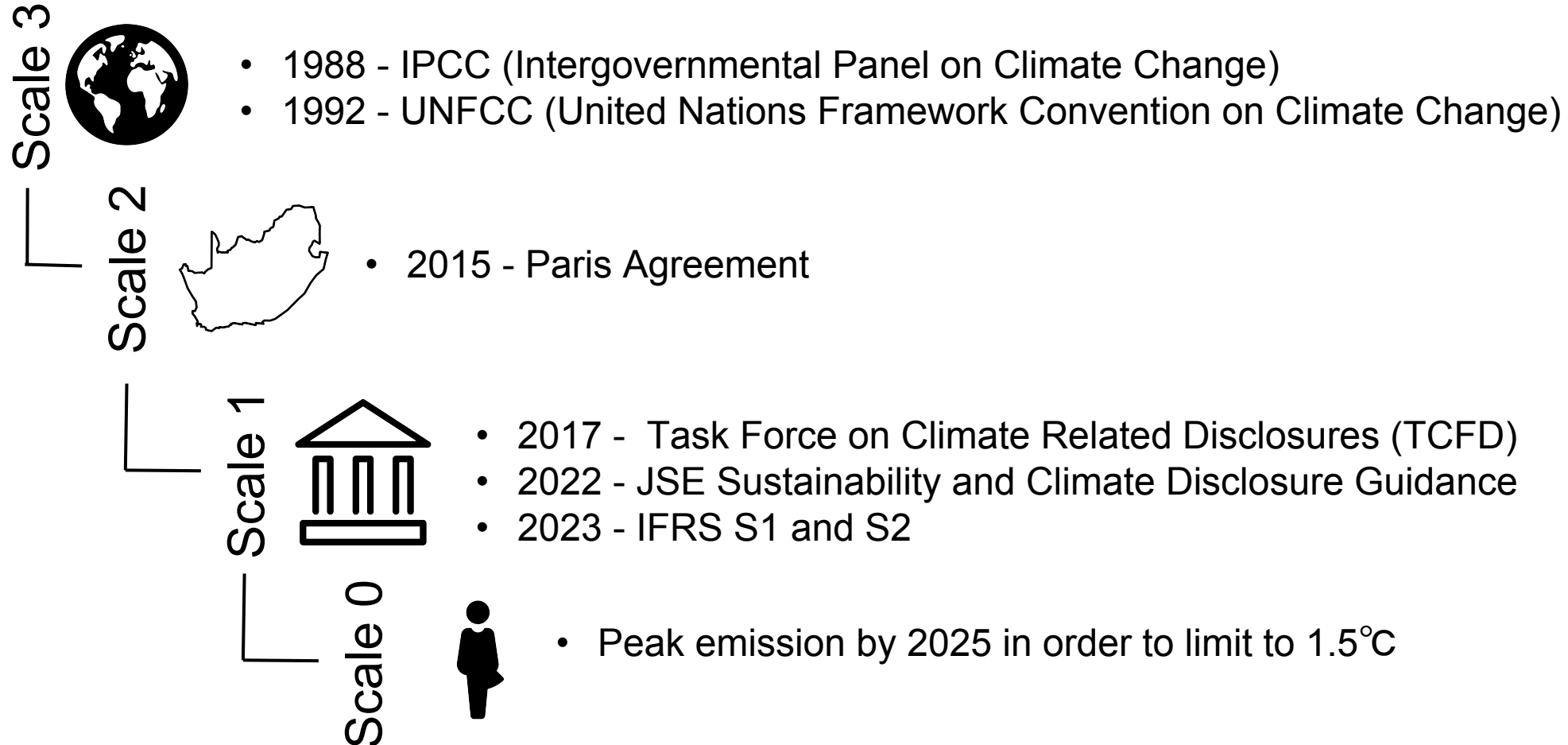


We are dependent on international trade and the indirect climate costs need to be accounted for.



Quantitative skills in assessing and validating emission related metrics fit well into the actuarial toolbox

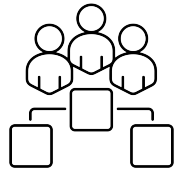
Where did we come from?



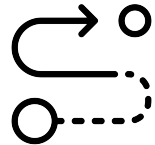
How does reporting work?



- IFRS S1: General Requirements for Disclosure of Sustainability-Related Financial Information
- **IFRS S2**: General Requirements for Disclosure of Climate-Related Financial Information (Effective as at 1 January 2024)



Governance



Strategy



Risk management



Metrics & targets

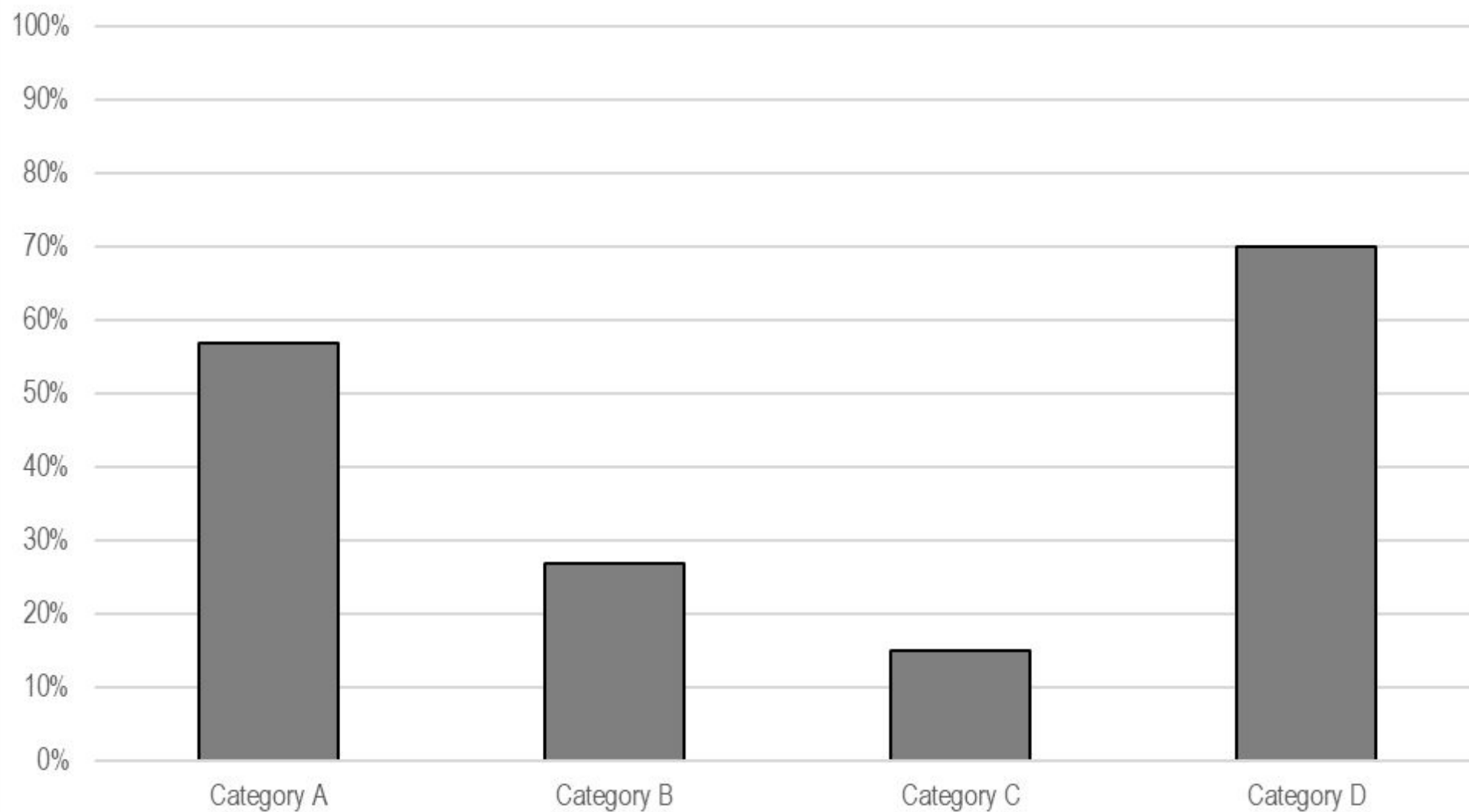
How do we report under IFRS S2?

Category A	- Measurement of GHG Emissions: Scope 1, 2 and 3 - Disclosure of GHG methodology - Consistency with GHG Protocol
Category B	- Physical risks: Amounts and % of assets or business activities vulnerable to climate-related physical risks - Transition risks: Amount and % of assets or business activities vulnerable to climate-related transition risks - Climate-related opportunities - Capital deployment: Amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities
Category C	- Internal carbon pricing methodology - Price for each metric tonne of GHG emissions
Category D	- Remuneration: Percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

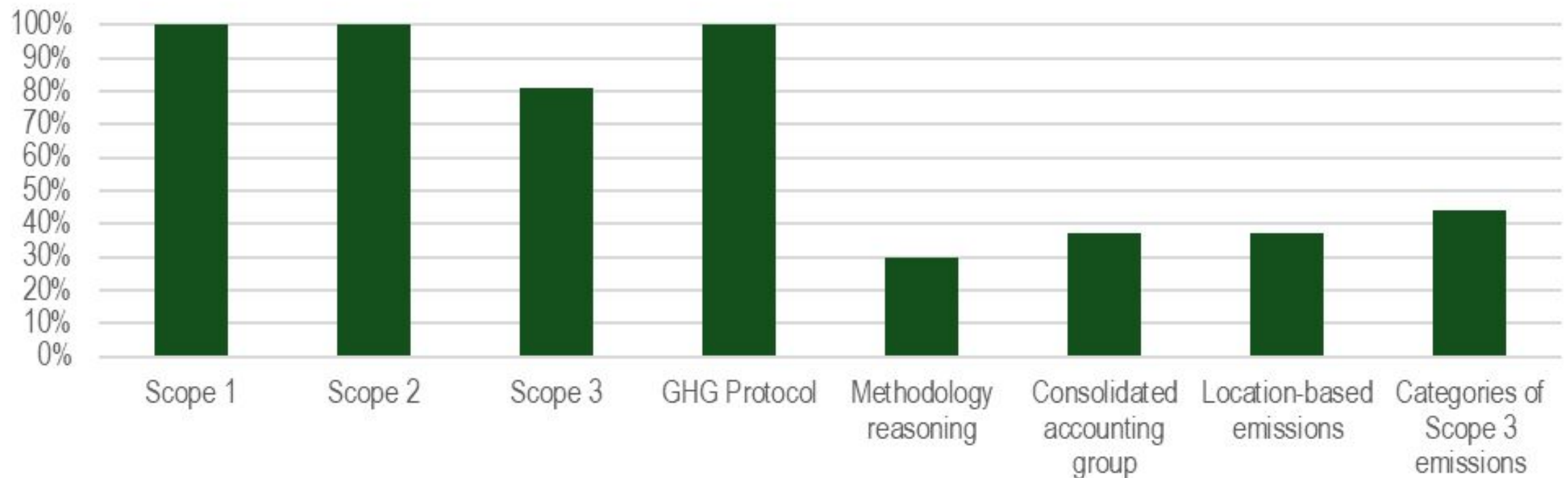
What are we doing in South Africa?

- Student research (D. Ziepfel & U. Oliphant) around South Africa's readiness for IFRS S2
- 27 JSE companies (Total market cap of R3.9tr)
 - 11 Financials
 - 5 Basic materials
 - 1 Healthcare
 - 7 Consumer services
 - 2 Telecommunications
 - 1 Conglomerate

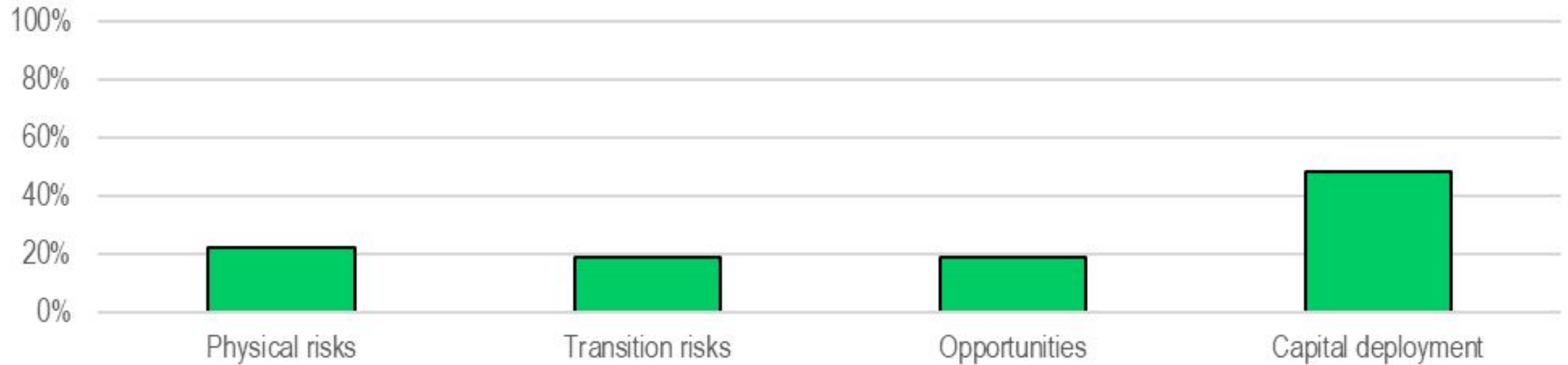
Percentage of JSE sample disclosure adherence according to category



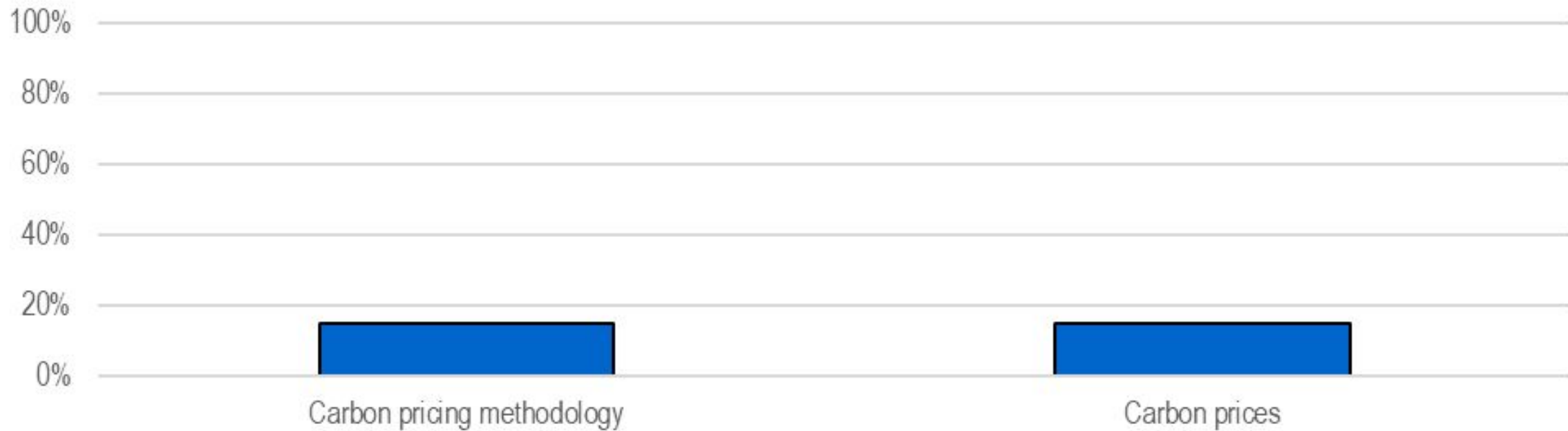
Category A - Percentage of JSE sample disclosing selected metric and related information



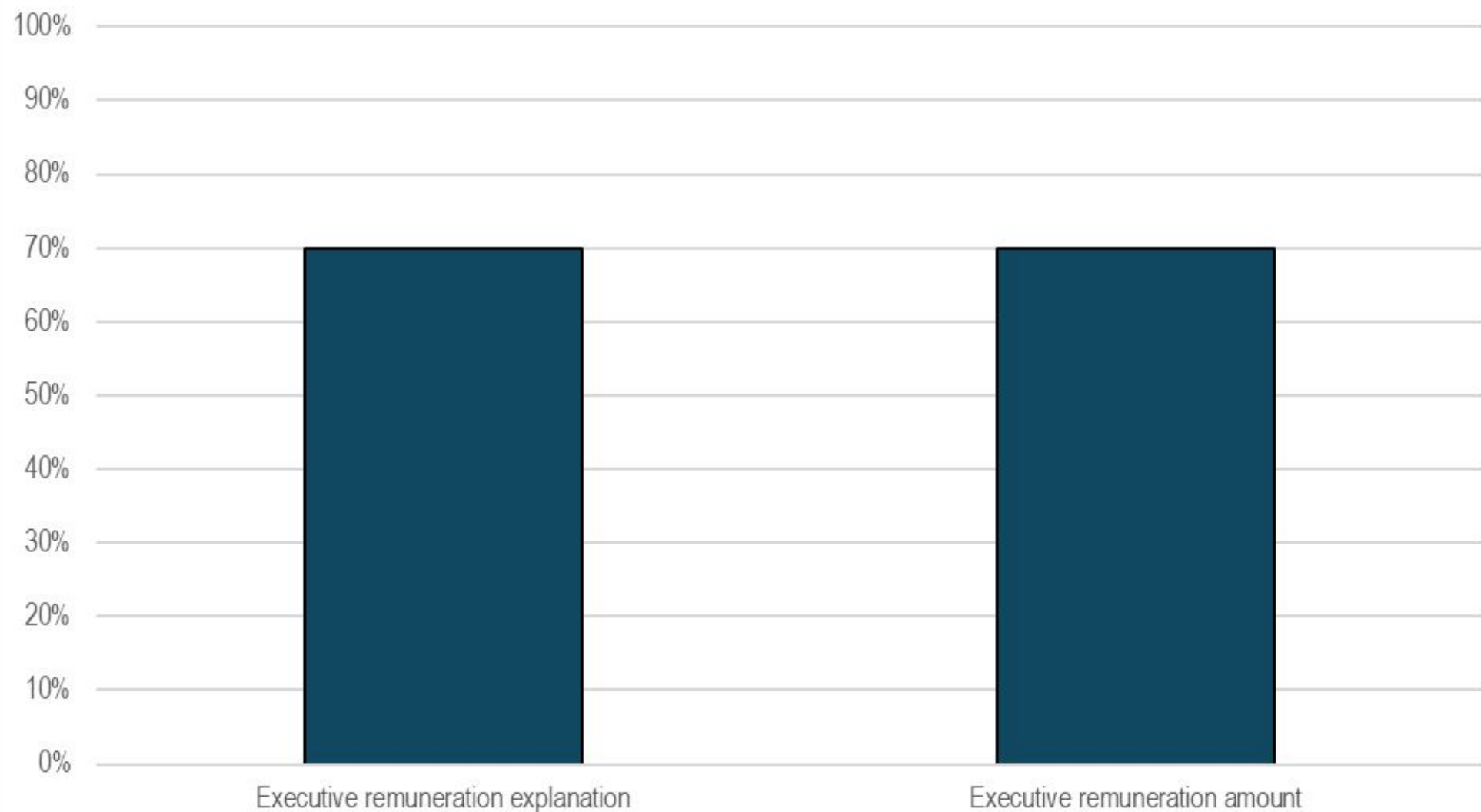
Category B - Percentage of JSE sample disclosing selected metric and related information



**Category C - Percentage of JSE sample disclosing selected metric
and related information**



**Category D - Percentage of JSE sample disclosing selected metric
and related information**



What can we look for as actuaries?

SCOPE EMISSIONS (tCO₂e) AT 30 JUNE

				SA	UK	US	FY2023	% Change	FY2022	FY2021
Scope 1, 2 and 3	Scope 1 and 2	Scope 1	Mobile combustion	863	88	n/a	951		864	696
			Product use: Refrigerant gases (Kyoto Protocol)	313	–	n/a	313		320	255
			Stationary combustion	919	264	n/a	1 183		548	498
		Scope 2	Purchased electricity**	26 540	63	199	26 802		28 601	28 274
		Total		28 635	415	199	29 249	(4%)	30 333	29 723
	Scope 3	Scope 3	Business travel	4 182	–*	–*	4 182		872	512
			Downstream leased assets: Purchased electricity	680	–*	–*	680		287	–*
			Employee commute	13 868	–*	–*	13 868		11 974	7 011
			Franchises	613	–*	–*	613		652	–*
			Fuel- and energy-related activities	8 514	195	55	8 764		9 183	–*
			Purchased goods and services: Paper	52	–*	–*	52		68	69
			Purchased goods and services: Water	87	–*	–*	87		81	73
			Upstream transport and distribution	178	–*	–*	178		83	64
			Waste generated in operations	42	–*	–*	42		30	51
	Total		28 216	195	55	28 466	23%	23 230	7 780	
Total (market-based)			56 851	610	254	57 715	8%	53 563	37 503	
Out of scopes	Out of scopes	Product use: Refrigerant gases (non-Kyoto Protocol)	80	–	–	80		61	95	
	Total		80	–	–	80	31%	61	95	
Total				56 931	610	254	57 795	8%	53 624	37 598

* Not reported

** Includes purchased heat of 5 tCO₂e for the UK and 44 tCO₂e for the US in FY2023.

n/a = Not applicable

(Discovery TCFD Report 2023)

OUR PHASED APPROACH TO ADVANCING TCFD REPORTING

In **phase 1**, we established a foundation for climate-related financial disclosure against the TCFD recommendations by addressing key requirements in the governance and risk management pillars. In **phase 2** we focused on enhancements and additions to strategy, metric and target disclosure elements, which are considered especially useful by interested stakeholders.

Once we have advanced sufficiently on aligning disclosures with the TCFD recommendations and refined the use of climate-related scenario analysis, we anticipate we will be able to disclose our strategy's resilience under different climate-related scenarios under **phase 3**. As new data is produced and the science and research evolve, we will further integrate this information into our strategy and align our reporting.

PHASE 1 FOUNDATION

G	Board oversight	✓
G	Management's role	✓
RM	Risk identification and assessment processes	✓
RM	Risk management processes	✓

PHASE 2 ENHANCEMENTS AND ADDITIONS

G	How the Board considers climate-related issues in reviewing capital expenditure, acquisitions and divestiture	→
S	Material climate-related issues by sector and geography	✓
S	How these issues affected the business and strategy	✓
MT	Key metrics used to measure and manage climate-related issues over the past three years	✓
MT	Scope 1 and 2 GHG emissions disclosed over the past three years	✓
MT	Climate-related targets related to GHG emissions, timeframes and base year	✓
MT	KPIs used to assess progress against climate-related targets	✓

PHASE 3 ENHANCEMENTS AND ADDITIONS OF STRATEGY RESILIENCE

G	How the Board considers climate-related issues in reviewing and guiding strategy	→
RM	Consideration of existing and emerging regulatory requirements related to climate change	✓
S	Timeframe (short, medium and long term)	✓
S	How material climate-related issues affect financial planning	→
S	How climate-related scenarios inform strategy/financial planning	✗
S	Resilience of strategy to climate-related issues, including an indication of range	✗
S	Climate-related scenarios and associated time horizon(s) used	→
S	Sensitivity to carbon pricing, if applicable	→
MT	How climate-related performance metrics are incorporated in remuneration policies	✓
MT	Methodologies used to calculate or estimate climate-related metrics	→
MT	Scope 3 GHG emissions over the past three years	→
MT	Identification of climate-related targets as absolute or intensity based	→
MT	Methodologies used to calculate or estimate climate-related targets	→

Key:

- ✓ Disclosed
- ✗ Not started
- In progress

- G Governance
- RM Risk management
- S Strategy
- MT Metrics and Targets

- Draft International Financial Reporting Standards (IFRS) S2 Climate-related Disclosures

The International Sustainability Standards Board (ISSB) published the Draft IFRS S2 Climate-related Disclosures to establish more consistent, complete, comparable and verifiable financial reporting of climate-related matters. The draft has the TCFD framework as its basis. The ISSB aims to publish the final iteration at the end of quarter 2 of 2023 on conclusion of its public consultation process. IFRS S2 Climate-related Disclosures is expected to become effective for annual reporting periods beginning on or after 1 January 2024.

IFRS S2 Climate-related Disclosures (published in June 2023)

Following an extensive public consultation process, the IFRS S1 (sustainability) and IFRS S2 (climate) standards were officially issued on 26 June 2023. These standards aim to establish more consistent, complete and comparable and verifiable financial reporting on sustainability and climate-related matters.

Public and private companies can voluntarily apply IFRS S1 and IFRS S2 for all financial years starting on or after 1 January 2024. Some jurisdictional authorities may decide to declare disclosures mandatorily. This is not yet the case in South Africa. Given IFRS S2's incorporation of TCFD, Capitec will consider whether to become an early voluntary adopter of the standards.

(Capitec Environmental Report 2023)

(Capitec Environmental Report 2024)

Climate-related transition risks in financing activities: inherent credit risk profile per industry (transition risk heat map)

Capitec's largest transition risk exposure is in the retail credit book through financing provided to clients employed in the metals and mining sector. The table below categorises sectors in accordance with their inherent risk not only due to the physical impact of climate change thereon, but also due to the extent it will be affected by the transition of supply chains, technological shifts and market demands during a transition to a lower-carbon economy.

Transition risks are continuously monitored to enable proactive adjustments to our credit granting policy and/or credit insurance (retrenchment) policy pricing.

Industry	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue	Overall
Agriculture					
Industrials					
Metals and mining					
Oil and gas					
Power generation					
Real estate					
Services and technology					
Transportation					
High	Moderate high	Moderate	Moderate low	Low	

Inspired by: UNEP FI, 2020. Beyond the Horizon: New Tools and Frameworks for transition risk assessments from UNEP FI's TCFD Banking Program

Scope 3: Indirect emissions

Upstream

Category 1 – Purchased goods and services

4 975

4 418

4 379

Category 3 – Fuel- and energy-related activities

406

429

336

Category 6 – Business travel

0

0

0

Category 8 – Upstream leased assets

2 068

2 054

1 866

0

0

0

Downstream

Category 9 – Downstream transportation and distribution

2 501

1 935

2 177

Additional Questions?

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