PA Update

Sep 2024

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South African Reserve Bank
Prudential Authority

Agenda

1. Looking Back
2. Published Guidance Notices
3. FOTY Outcomes
4. Work in Progress
5. Looking Ahead

Looking Back

Looking Back

Timeline of activities to date:

2020 Climate Disclosure Survey: Report on banking and insurance sector's implementation of the Taskforce for Climate-related Disclosures (TCFD) recommendations

2021 Climate Risk Survey: Report on banking and insurance sector's awareness and approach to climate-related risks and opportunities

2022 Annual industry engagements

2022 PA Communication on climate-related risks: Signalled the PA's intent to integrate climate-related risks within its regulatory and supervisory mandate

2023 Supervisory guideline on climate-related risks (internal)

2023 Discussions with Board of Directors of 22 financial institutions on climate risks

2023 Industry workshop on climate risk indicators

2023 Draft Guidance Note on climate risk practices and governance for the banking and insurance industry published for public comments

2023 Draft Guidance Note on climate-related disclosures for the banking and insurance industry published for public comments

Representation and participation in key committees:

- Basel Committee on Banking Supervision (BCBS) Taskforce on Climate Risks
- International Association of Insurance Supervisors (IAIS) Climate Risk Steering Group

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And key networks

- Network for Greening the Financial System (NGFS)
- Sustainable Banking and Finance Network (SBFN)
- Sustainable Insurance Forum (SIF)
- Intergovernmental Sustainable Finance Working Group (ISFWG)

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Published Guidance Notices

Published Guidance Notices

- First published for public consultation in August 2023
  - Virtual industry engagements through industry associations
  - 45 written submissions received covering 4 notices
    - 28 entities
    - Industry associations
  - Bilateral engagements with key stakeholders
    - FSCA
    - ISFWG (SARB, NT, DFFE, SARS)
    - ISSB
    - DTIC
    - Financial Standards Reporting Council

Published Guidance Notices

- Key Questions:
  - Does the Guidance Notice provide an appropriate level of ambition?
  - What are your current or major anticipated challenges to implementing the guidance?
  - Whether there are any key areas the guidance notice does not cover?

Published Guidance Notices

Table 1: Summary of the responses to the questions the PA asked regarding the climate Guidance Notices

1. Level of ambition	2. Key Challenges	3. Additional areas
• Appropriate and reasonable • Differentiated and proportionate approach • Alignment to ISSB • Challenges in scenario analysis and stress testing	• Access and availability of credible, accurate, consistent data • Skills and expertise, particularly for scenario analysis • Coordination with global developments	• South African specific scenarios • Biodiversity • Exit lists • Investment policies • Climate specific competencies

Published Guidance Notices

- Key Comments Received
  - Alignment with ISSB
    - Most comments for the Guidance Notice on climate-related disclosures requested closer alignment to the ISSB standards.
  - Technical Clarity
    - There were comments requesting clarity on technical aspects of disclosures, governance and risk practices.
  - Implementation
    - Numerous comments raised queries around implementation challenges and practicalities, including proportionality and applicability

Published Guidance Notices

- Key Comments Received on G1
  - Technical Clarity
    - Governance
    - International alignment
    - Transition plans
    - Capital adequacy
    - Scenario analysis and stress testing
    - Legal risk

Published Guidance Notices

- Key Comments Received on G2
  - Alignment with ISSB
    - Materiality
    - Governance structure
    - Additional guidance not included in ISSB
    - Metrics and targets
  - Technical Clarity
    - Prescribe methodologies and time periods
    - Additional metrics
    - Scenario expectations
    - Group and branch disclosure
    - Value chain reporting
    - Reporting period
    - Inclusion of sustainability, biodiversity, and other environmental risks

Published Guidance Notices

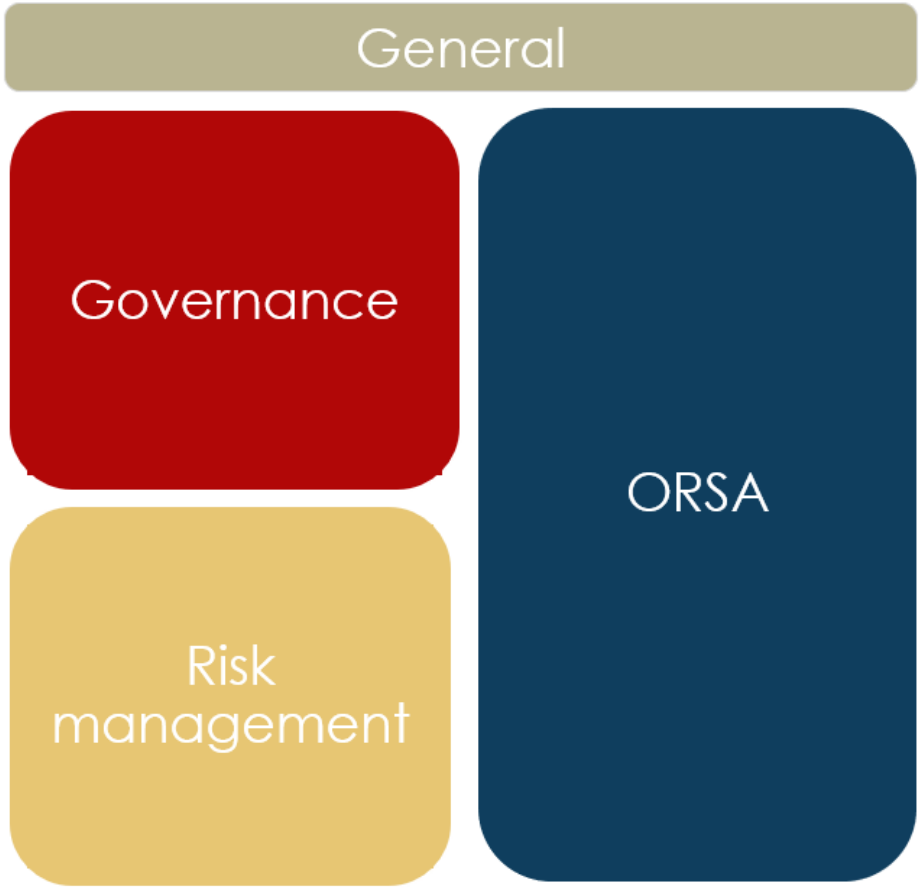
- Key Comments Received on both G1 and G2
  - Implementation
    - Proportionality
    - Applicability
    - Resources to support institutions
    - Mandatory?
    - Supervision
    - Other reporting

Published Guidance Notices

- Published in May 2024
- Insurers
  - *Guidance Notice 1 of 2024* - Guidance on climate-related governance and risk practices for insurers
  - *Guidance Notice 2 of 2024* - Guidance on climate-related disclosures for insurers
- Banks
  - *G2/2024* - Guidance on climate-related governance and risk practices for banks
  - *G3/2024* - Guidance on climate-related disclosures for banks
- PA Feedback on Climate Guidance

Published Guidance Notices

G1 – Governance + Risk Management



G2 - Disclosures

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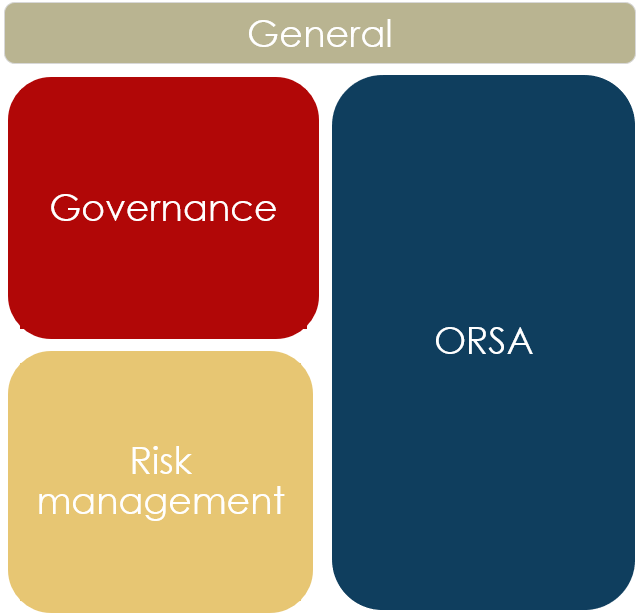
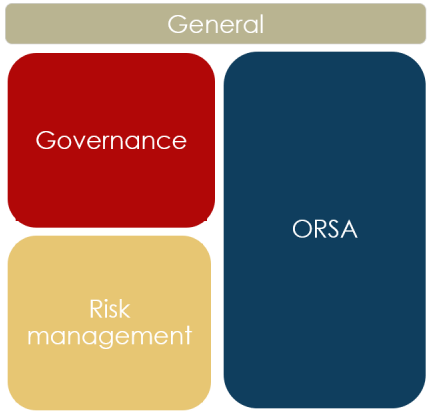
Published Guidance Notices (G1)



- Governance
  - Roles and responsibilities for Board of Directors
  - Roles and responsibilities for senior management
  - Strategy
  - Policies
- Risk management
  - An integrated approach
  - Risk management function
  - Compliance function
  - Actuarial function
  - Internal audit function
  - Control function competencies
  - Outsourcing
  - Transition planning
- ORSA
  - General
  - Time horizon
  - Stress testing and scenario analysis
  - Reporting

Published Guidance Notices (G1)



- Actuarial function
  - The actuarial function is instrumental in providing assurance over the quantification of climate-related risks in terms of the valuation of assets and the calculation of insurance liabilities with concomitant capital requirements. In providing this assurance, the actuarial function should express an opinion to the Board of Directors on:
    - The appropriateness of methodologies and models used to assess climate-related risks;
    - The assumptions made and approximations and judgments used in the assessment of climate-related risks; and
    - The sufficiency and quality of data used in the assessment of climate-related risk, in particular in the calculation of technical provisions and capital requirements

Published Guidance Notices (G2)

- Strategy
  - Current and anticipated impacts
  - Describe climate-related risks that could affect business model, strategy and financial planning
  - Describe how insurer has responded and plans to respond to these risks
  - Describe effects on financial position and financial performance
  - Describe resilience of insurer's strategy and business model
  - Scenario analysis
- Governance
  - Structure responsible for oversight of climate-related risks
  - Skills and competencies
  - Tracking and monitoring
  - Role of management

Published Guidance Notices (G2)

- Risk management
  - How climate risk management is integrated into overall risk management
  - Describe processes and related policies
- Metrics and Targets
  - Disclose metrics and targets that enable stakeholders to evaluate the insurer's exposure, measurement, and management of climate-related risks
  - GHG emissions (scope 1, 2 and 3)
  - Remuneration policies
  - Investment management and underwriting
  - Quantitative and qualitative targets

FOTY Outcomes

FOTY Outcomes

- Climate risk selected as 1 of 2 flavour-of-the-year topics in 2023
- 23 Institutions were Targeted
- Observations Report published in May 2024

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FOTY Outcomes

- Transversal and cross-cutting
- Urgent / Strategic / Global / Systemic / Material
- Top-down endorsement of climate strategy
  - Usually within broader ESG agenda
- Acknowledges:
  - Challenges and uncertainties
  - Learning journey
  - Work in progress

FOTY Outcomes

- Integrated into existing frameworks and structures at board level
  - Usually within risk and social committees
- Some dedicated structures at senior management level
  - May have broader sustainability objectives
- Upskilling / Training initiatives for board members and senior management
- ESG specific KPIs

FOTY Outcomes

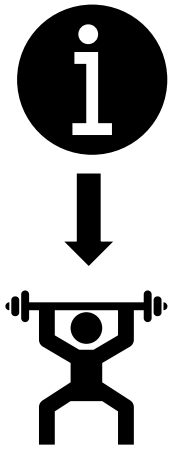
- Recognising impact on risk profiles
- Amplifies/influence existing risk categories
- Integrated into existing frameworks
  - Part of day-to-day activities
  - Physical and transition risks
  - Legal/liability risks not well developed yet
- Climate risk appetite developed
- Portfolio monitoring: Exposures / Concentrations
- Geolocation considerations underwriting / pricing
- Reinsurance / Risk mitigation strategies

FOTY Outcomes

- Financed / underwritten emissions
- Measurement of emissions from own operations
- Thresholds and concentration limits developed
- Policy wording adjustments (exclusions)
- Reinsurance / Risk mitigation strategies

FOTY Outcomes

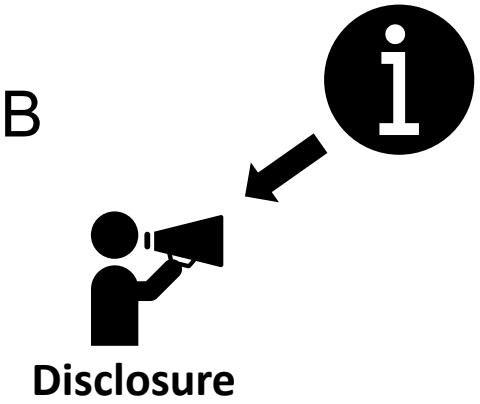
- Mostly still under development
- Objective for insurers:
  - insight into risks and opportunities
  - inform views on transition planning
  - insight into insurance risk exposures
- Inhouse vs outsourced



Stress Testing &
Scenario Analysis

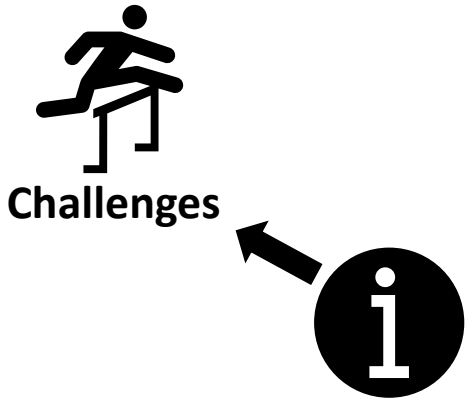
FOTY Outcomes

- Remains evolving practice
- All insurers has some level of disclosure
  - Different levels of detail and scope
  - Mostly qualitative in nature
- Stand-alone or integrated reports
- Often wider ESG focus
- TCFD used as starting point – focus now on ISSB
- Greenwashing and greenhushing
- Alignment and interoperability with international frameworks
- Communication of limitations
- Stakeholder management (education)



FOTY Outcomes

- Complex characteristics
  - lack of historical precedent
  - interconnectedness
  - high degree of uncertainty and
  - potentially longer time horizon
- Data availability, reliability, quality, cost
- Lack of guidance on methodologies
  - Scenario analysis
- Uncertainty in policy and regulatory developments
- Dependency on infrastructure maintenance



Work in Progress

Work in Progress

- Regulatory Workstream
  - Participate in Green Finance Taxonomy case study
  - Green Finance Market Development
  - Carbon Credit Markets
  - Transition planning
  - Nature-related risks
- Supervisory Workstream
  - Climate Risk Indicators
    - 7 institutions selected to participate
    - Data requested – both qualitative and quantitative
    - Refinement of indicators and development of initial dashboard
  - Supervisory Case Studies on Credit Risk
    - 2 banks
    - Methodology developed for climate-related credit risk assessment
    - Apply methodology and write case study reports

Looking Ahead

Looking Ahead

Plans for 2024–2026

Develop climate risk management regulatory and supervisory tools to strengthen financial sector resilience, including:

- Discussion documents
- Guidance notes
- Observation reports
- Climate risk indicators
- Supervisory case studies and training materials

Embed into industry and supervisory practices:

- Industry engagements, workshops and roundtables
- Supervisory training programmes and case studies
- Reporting templates and dashboard

Contributing to:

- Evolving climate data and disclosure ecosystem
- Integration with existing governance, social and ethics requirements

Enhance practices as domestic and international policies and standards progress, to potentially incorporate:

- Sustainability objectives, including nature-related risks and prudential transition planning
- Supervisory risk assessment component and rating tools
- Scenario analysis and stress testing
- Assurance considerations

Ongoing research and knowledge building on sustainable finance market development to support the just transition to a low carbon economy.

Looking Ahead

Governance Arrangements

Frequency	SARB	Prudential Authority	Financial Sector Conduct Authority	Other Stakeholders	
Quarterly	Intergovernmental Sustainable Finance Working Group (ISFWG)				NT, SARS, DFFE
Bi-monthly	SARB Climate Change Programme (CCP)				
		Prudential Authority Climate Task Team (PACTT)			
			FSCA Sustainable Finance SteerCo		
Monthly		FSCA – PA Operational Meetings			
Ad hoc		Sustainable Finance Initiative (SFI)			NT, Industry

THANK YOU