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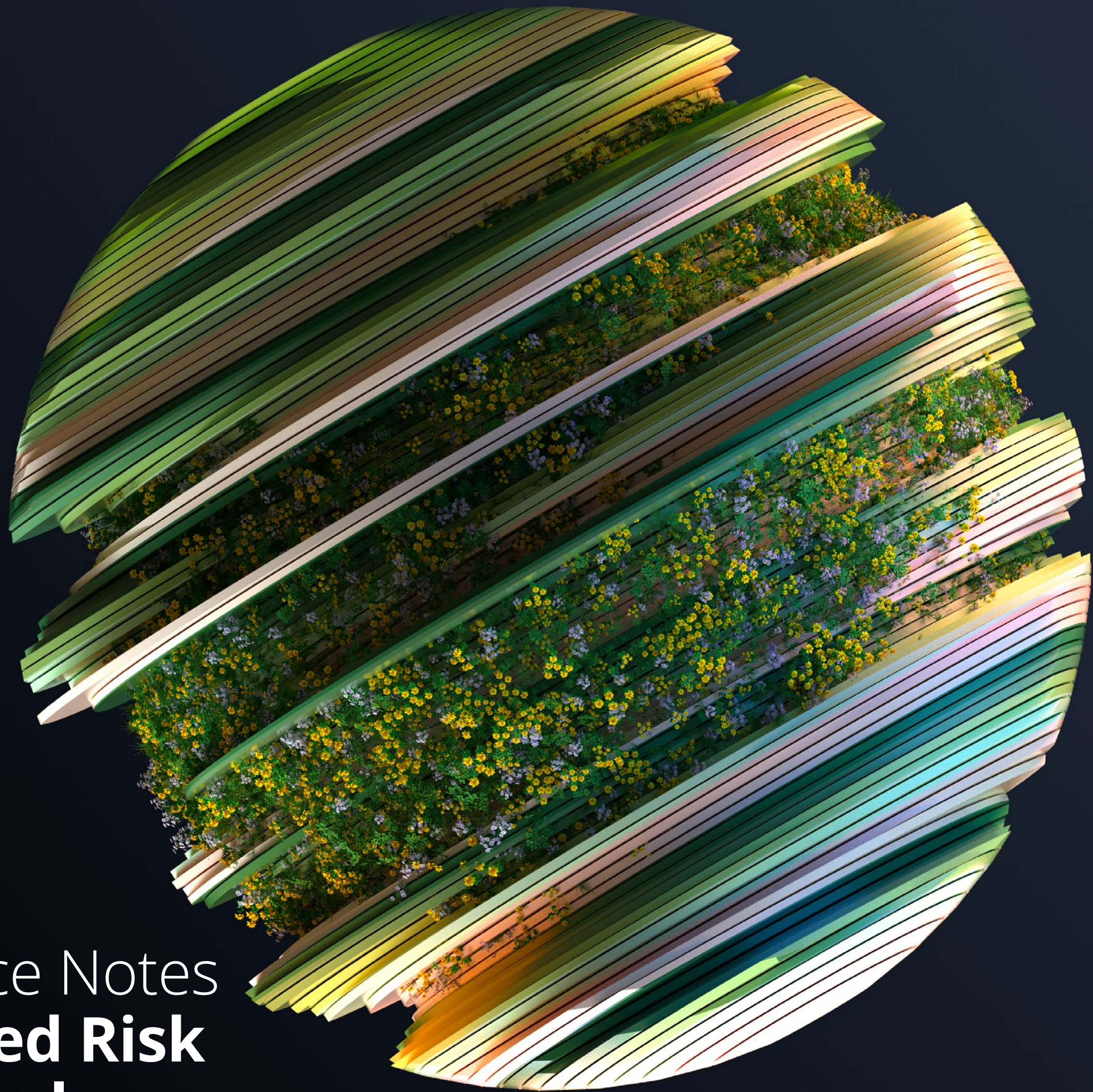

Proposed Guidance Notes on **Climate-related Risk Practices and Disclosures for Insurers**

August 2023

MAKING AN IMPACT THAT MATTERS since 1845

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Foreword – who is this viewpoint paper for, and what does it set out to do?

Climate-related risk is fundamentally affecting the economic models that have been developed over the last two centuries and requires a systematic change from all sectors of the economy as to how we work and live. To drive some of this change, financial services regulators worldwide are moving to ensure that banks, insurers and asset managers identify risk exposures from climate change and establish strategies and adjust business models to manage them.

The insurance operating model provides very specific products to the market, has long term financial and underwriting risk time horizons, and highly regulated asset holding and liability determination requirements. Because of this, insurers' responses to climate-related risk need to take these specific aspects into account in addition to the responses that are required by other global corporate citizens. Moreover, insurers have amassed decades of expertise in risk pooling and management of emerging risks. Insurers are, therefore, simultaneously both more exposed to financial risks from climate change than many other financial institutions, and uniquely positioned to manage and mitigate the catastrophic effects that climate change could have on the economy and society.

On August 3, 2023, the **Prudential Authority (PA)** issued two proposed Guidance Notes (GN) for insurers that cover **climate-related risk practices** and **climate-related disclosures**. Deloitte has unpacked these guidance notes, and this paper analyses the regulatory climate-related expectations in the four areas of climate-related risk, viz. ***governance, risk management, strategy and metrics and targets***. It explores, at a practical and non-technical level, the various ways an insurer can respond to these expectations in their practices and disclosures. In addition, this report highlights related topics associated with the proposed guidance notes and areas where the insurer might be already be focusing on.

Lastly, this paper provides example challenge questions in each of these areas, and examples of positive and negative indicators that we think the PA is likely to use in assessing whether an insurer is responding adequately to its climate-related risk profile. This paper's intention is to help insurers fulfil this leadership role, in a manner that meets regulatory expectations.

This viewpoint paper is specifically targeted at insurance company C-suite and associated boards, recognising the challenges they face in both meeting developing regulator expectations and mitigating and responding to rapidly developing climate-related risks.

Introduction

The Prudential Authority has issued two draft Guidance Notes(*), one covering Climate-related **Risk Practices** and one covering Climate-related **Disclosures**.

GUIDANCE NOTE ON CLIMATE-RELATED RISK PRACTICES

This GN has been issued specifically to assist insurers in complying with GOI 3 (Risk Management and Internal Controls for Insurers) and GOI 3.1 (Own Risk Solvency Assessment (ORSA) for Insurers).

It provides guidance to insurers on integrating climate-related risks (and opportunities) into their governance and risk-management frameworks, including guidance on the insurer's ORSA.

Other areas of consideration when reading these GN's could include:

- Recovery Planning and associated simulations
- Business Continuity and Operational resilience
- Definition and impact of Materiality
- Rating Agency submissions

GUIDANCE NOTE ON CLIMATE-RELATED DISCLOSURES

This GN does not relate to a specific regulatory insurance standard but builds on international work on climate-related disclosures, specifically the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB). The GN is not particular on the format of the disclosures, but the PA has set out the principles they expect insurers to follow in producing climate-related disclosure reports.

It is important to bear in mind that the ISSB has recently published their final standards on Climate (S2) and Sustainability (S1). The intention is that the TCFD will ultimately be disbanded, and organisations will issue one report aligned with the ISSB Climate S2 Standard. The requirement to report on ISSB Standards is jurisdiction dependent and South Africa has not yet committed. We nevertheless expect our local reporting landscape to align with these standards in time.

Should South Africa adopt the ISSB standards we anticipate that the ISSB S2 and associated industry-based guidance will suffice in complying with the expectations set forth in this proposed GN.

Deloitte's perspective on the PA's expectation of disclosures:

We believe it is crucial for insurers to first establish and embed climate-related risks and opportunities within their business model and use their disclosures to communicate and demonstrate their progress to external stakeholders, including regulators.

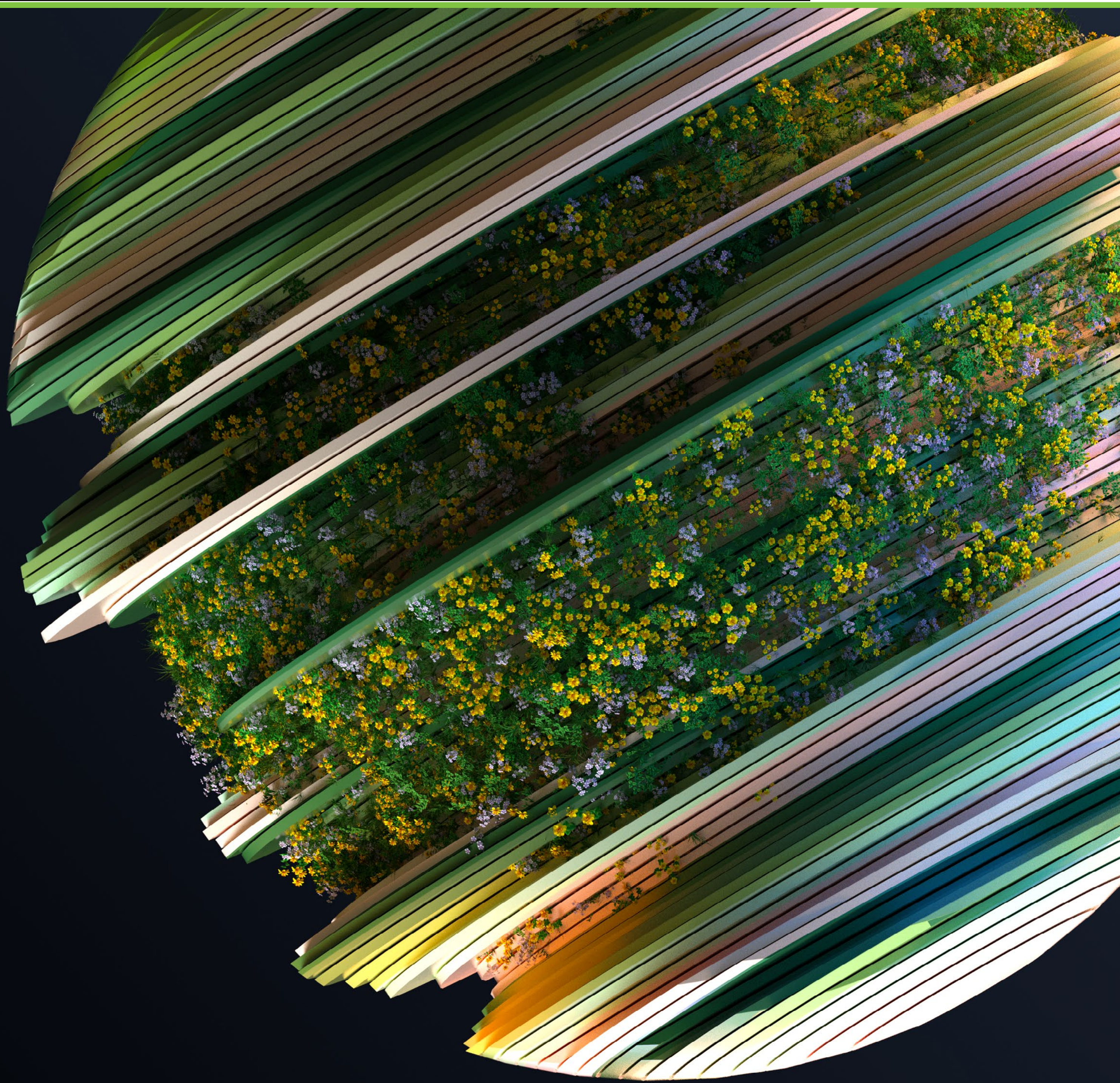
Many listed South African insurers have published their first TCFD reports, with the expectation that the depth of these reports will develop as the industry's climate-related risk practices evolve and mature, and regulatory and reporting standards develop.

We believe that the PA understands that this is a maturing journey and will expect to see constant progression in terms of climate-related risk practices and associated disclosures over time.

Structure of this paper

For ease of reference, and to ensure a holistic approach to managing climate-related risk, this paper has been structured according to the four thematic areas of **governance, risk management (including ORSA), strategy and metrics and targets.**

(*) A Guidance Notice (GN) issued by the PA is a regulatory instrument aimed at assisting insurers in complying with the requirements outlined in the relevant Governance and Operational Standards for Insurers (GOI). Guidance notes do not create any specific legal obligations, but provide clarity on the application of the various Standards.



Governance

Governance

Risk-related Practices

The PA sees governance as key to successful management of climate-related risks. The PA will look for tangible evidence that climate-related risks are assessed, monitored, managed and reported at all appropriate levels.

Our perspective on the GN requirements

The challenges posed by climate change need to be addressed at all relevant levels within an organisation through appropriate governance **structures, policies** and **procedures.**

All climate-related risks within the business are understood and dealt with adequately

It is crucial for both the board and senior management to have the adequate skills and competencies to understand the nuances of climate-related risks.

What needs to happen

- Have the **appropriate skills and competencies**, at Board and Senior Management level, to be able to respond to climate-related risks and opportunities.
- Provide regular and appropriate climate-related **trainings and education** to ensure that the Board and Senior Management:
  - Understand, and can discuss in depth, the implications of climate-related risks to their business, specifically physical, transition and liability risks.
  - Can apply and promote strong internal climate-related risk management and internal controls.
  - Are up to date with developments in the climate-related space.
- **Assign the right individuals** tasked with the oversight and management of risks arising from climate change.
- Clearly defined **Board governance** (terms of reference, mandates and Board charter) to ensure effective oversight of climate-related risks and opportunities.
- Adopt **clear and robust processes and policies** that are commensurate with its risk profile, to be able to manage, monitor and report on climate-related risks impacting the organisation.

Climate risk is embedded in the strategy and is executed on properly

Akin to the "use test" supervisors apply when approving internal models or conducting an ORSA, the PA will expect climate-related information to influence decisions, for example on risk appetite, economic capital and strategy.

What needs to happen

- Ensure that the **strategic planning and budgeting process** adequately considers climate-related risk and opportunity information so that the organisation can act upon this knowledge appropriately.
- Establish clear **climate-related metrics and targets** (both risk and performance) to hold key individuals accountable for progress and to track the relevant risks and opportunities.
- **Align remuneration** of senior stakeholders to climate-related metrics and targets to incentivise appropriate behaviour.

Governance Disclosures

The PA requires detailed information on how these **roles and responsibilities** have been formally assigned to individuals, who these individuals are, whether they have the **right skills and competencies** and how they are **providing oversight**. Furthermore, they want to get an understanding of the **level of discussion** that has been had with regard to climate-related matters and how these risks are being measured and monitored.

What is the PA looking for?

The following are examples of positive and negative indicators that we think the PA are likely to use in assessing whether an organisation is responding adequately to its climate-related risk profile.

Positive supervisory indicators

- The Board is systematically informed about climate-related risk impacts across the organisation and challenges and investigates areas of uncertainty.
- The climate change risk strategy is reflected consistently in organisational arrangements.
- The organisation has established mechanisms for effective cross-collaboration of teams on climate-related risk.
- There is clear accountability with regard to climate-related risk.
- Responsibility for oversight of climate-related risk has been allocated to a relevant member of senior management, who regularly reports to the Board.
- The Board has agreed an approach to integrate sustainability into decision-making for the "non-financial" part of remuneration assessments.
- Negative and positive behaviours in the context of the overall climate change strategy influence remuneration outcomes.

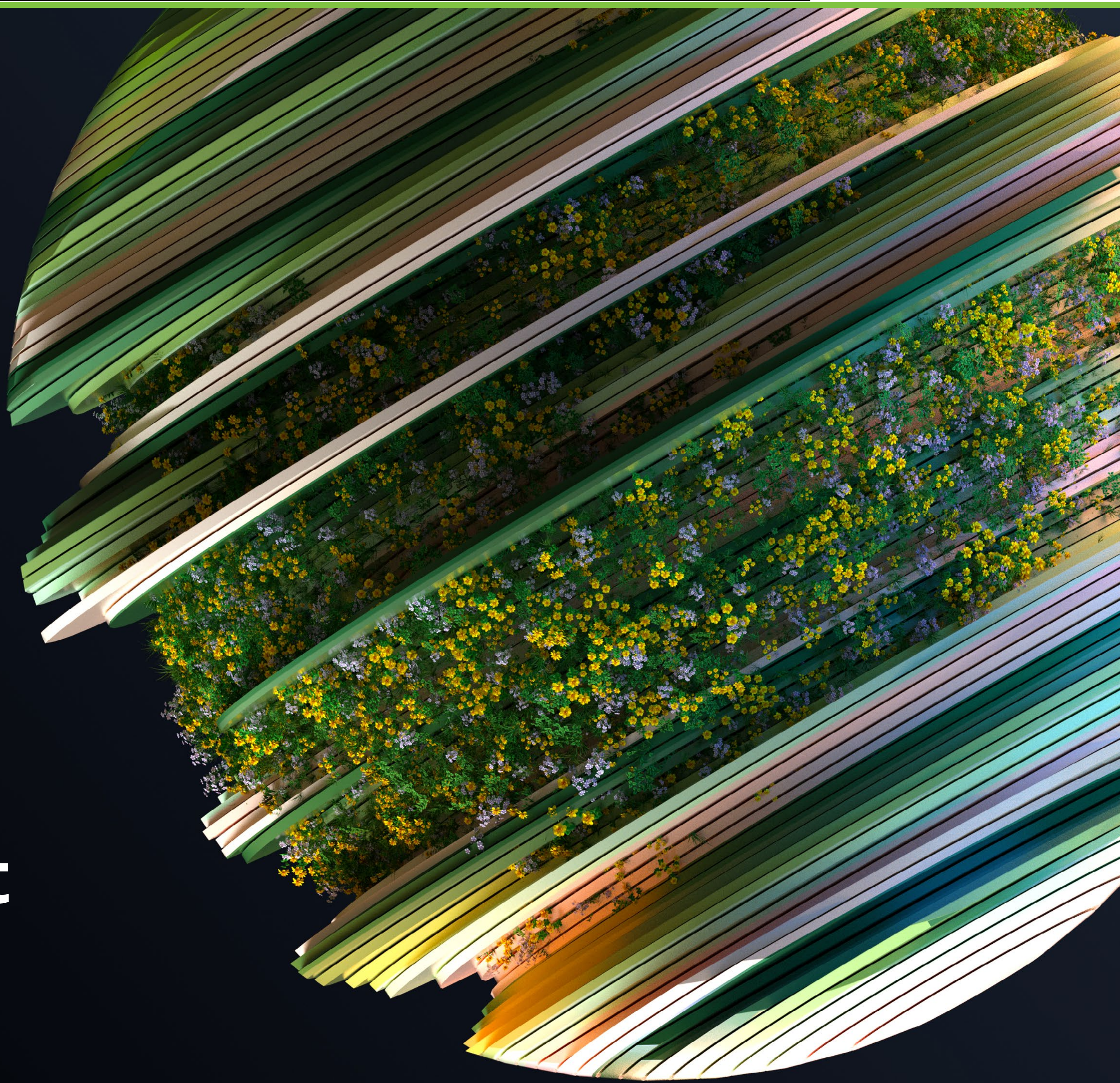
Negative Supervisory indicators

- The Board does not challenge, or constantly defers to a single individual with regard to climate-related issues.
- There is no clear accountability for climate-related risk issues.
- Discussion of climate change at Board level is narrowly focused, for example by considering only one particular aspect of climate-related risk (e.g. underwriting or investment strategy).
- The Board does not take clear decisions on climate-related risk issues.
- Climate strategy is not driven by the Board, but rather emerges and is implemented in a 'bottom-up' fashion in various departments.
- Climate strategy is not understood or implemented consistently across the organisation.

Questions for Boards and Senior Management

The PA will look for tangible evidence that the Board encourages a culture that takes climate change risks seriously. They will likely examine how the Board sets a “tone from the top” which facilitates and encourages climate change discussions. Climate-related issues should be understood and embedded at all levels of the organisation and across the three lines of defence.

1. Do we discuss climate change enough?
2. Do we consider climate change throughout our decision making?
3. Are there important decisions on how we manage climate change risk that we are not taking?
4. Do we need more skills on the Board in order to challenge climate change issues effectively?
5. Do we really understand what our management teams and departments are doing in relation to climate change risk?
6. Do our performance assessment and bonus processes encourage staff to manage climate change risk over the long term?
7. How does our Board effectiveness review assess how effective we are in tackling climate change risks?
8. Are there material climate issues that we would expect to have been escalated to the Board and have not been?
9. Are our views and approach on climate change issues sufficiently visible to the rest of the organisation?



Risk Management

Risk Management

Risk-related Practices

The PA have set forth an integrated and holistic approach to climate-related risk management. They expect that all control functions should be able to identify and account for climate-related risks in their mandates. The business continuity of outsourcing service providers is also of concern. The PA expects that organisations undertake transition planning to manage climate-related risks and achieve commitments.

Our perspective on the GN requirements

Insurers are potentially significantly exposed to climate-related risks from both an asset and liability perspective. In addition to being exposed to physical and transition risks, insurers are exposed to liability risks of climate-related claims under liability policies as well as direct action against insurers for failing to manage climate risk. Climate-related risks are cross-cutting in nature, can impact the more traditional risk types and has the potential to impact on the solvency of the organisation.

Adequate identification and assessment of climate-related risks across the organisation and incorporation into enterprise-wide risk-management frameworks

All functions need to be well equipped to identify and account for climate-related risks. Organisations should be able to demonstrate how they have embedded climate risk management within their frameworks to identify, measure, monitor, manage and report on their exposure to climate risks against a well-defined risk appetite that considers the current balance sheet and business model risk.

What needs to happen

- **Identify** climate-related risks in meeting strategic objectives.
- **Assess the materiality of climate-related risks** both:
  - Qualitatively, by assessing transmission channels and consequential impact on existing traditional risk types. Develop a materiality matrix considering three dimensions of the impact, the probability and time horizon.
  - Quantitatively, to transform material risks into anticipated financial consequences. Develop quantitative climate risk modelling capabilities.
- Articulate and implement appropriate **climate-related risk metrics**, including early warning indicators and triggers.
- Expand **risk appetite statements** to include climate-related risk exposures and thresholds the insurer is willing to take to pursue its business objectives.
- Monitor changes to the insurer's **risk profile** due to outside–in climate-related factors.
- Enhance current risk dashboard and risk reports to include **climate-related risk indicators.** The insurer should be able to use some of the climate risks indicators proposed by the PA as a starting point, and thereafter build on these metrics to formulate bespoke metrics.
- Ensure there are proper **controls and oversight** in place across the 3 Lines of Defence, specifically the Risk Management, Compliance, Actuarial, Internal Audit and other Control functions.
- Formulate these practices in the enterprise **risk-management frameworks** and **policies**. Where relevant, a **climate risk policy** should be implemented.

Transition plans as a valuable tool to manage climate-related risks and achieve climate target commitments

The establishment of credible and actionable transition plans are likely to be a key priority for the financial services organisations, their stakeholders as well as the PA.

What needs to happen

- Take a holistic, firm-wide approach that incorporates all functions and business lines and is commensurate with its size, complexity and level of risk.
- Develop the details of the transition plans, **including setting sector-specific pathways**, validating **science-based targets** and **deepening the assessment of financed emissions**.
- As plans are developed, ensure:
  - Clarity of senior management ownership.
  - Robust data checks to enable compliance with regulatory reporting and disclosure requirements.
  - Clear science-based targets for reaching net zero by 2050 are set, along with key interim milestones, and establish external assurance/verification in setting targets.
- Enhancing corporate governance and accountability, avoiding **greenwashing**.
- Demonstrating a credible, validated and Board approved Transition Plan for all relevant stakeholders, including **rating agencies**.

Strengthening transition planning and disclosures

Risk Management Disclosures

The PA expects firms to disclose how they are identifying, assessing, measuring, and monitoring climate-related risks and how well embedded and integrated climate-related risk is in their existing risk-management controls, processes, policies and supporting frameworks. How climate-related risk is integrated into the business strategy will be of interest to the PA.

What is the PA looking for?

The following are examples of positive and negative indicators that we think the PA are likely to use in assessing whether an organisation is responding adequately to its climate-related risk profile.

Positive supervisory indicators

- A ground-up assessment of the full nature and extent of potential asset and liability exposures to climate-related risk has been performed and outcomes documented.
- Material areas of uncertainty have been identified and documented, including deep dives of its most material climate-related risk exposures. A process to revisit material risk exposures periodically or considering new developments should be established.
- Climate-related considerations are incorporated into all relevant processes such as supplier due diligence and business planning.
- Climate-related risk exposure limits and thresholds are incorporated into the organisation's wider risk appetite.
- Factors such as long-term financial interests of the organisation and results of stress and scenario testing have been considered when integrating climate change into risk appetite.
- The Board has challenged, discussed and approved the climate-related risk appetite and reviews it regularly considering new risk exposures.
- The Board monitors actual exposures against risk appetite thresholds and is evidenced in relevant Board management information and meeting minutes.
- The scope of insurance cover on existing policies potentially exposed to climate change-linked events is regularly reviewed and challenged.

Negative Supervisory indicators

- The Board adopts a "wait and see" approach to climate-related risk.
- Climate change is mentioned only superficially in the organisation's risk appetite.
- Existing assumptions about asset and liability exposures are not challenged.
- Absence of evidence of independent discussion and challenge of climate-related risk appetite by the Board.
- There are no defined metrics to track transition and physical climate-related risk exposures in the investment portfolio in line with agreed investment risk appetite.
- No clear definition of the organisation's actual tolerance for specific climate-related risks. Exposure limits or capital allocations have not changed as a result of a changed climate-related risk appetite.
- Lack of measurable key metrics to monitor how climate-related risk is managed against overall risk appetite.
- Climate-related risk appetite reflects broad sentiments and trends, rather than being based on a thorough process of evaluation.

Risk Management – ORSA

Risk-related Practices

The PA have positioned the Own Risk and Solvency Assessment (ORSA) as a useful tool for an insurer to assess the adequacy of its enterprise risk-management framework and capital position relative to climate-related risks.

Our perspective on the GN requirements

The ORSA is a key business and risk-management tool that insurers have established and refined for over a decade. The ORSA provides a foundational process for achieving a forward-looking view of the insurer's overall risk profile and testing the resiliency of the organisation under various extreme but plausible events. By its definition, the ORSA should address all material risks to the organisation, including climate-related risks. The PA has placed a particular focus on incorporating climate-related risks into stress and scenario testing, and we believe this serves two purposes:

Stress testing and scenario analysis for risk-management purposes

Stress and scenario testing are important tools for assessing climate resilience and establishing appropriate risk mitigating actions.

What needs to happen

- Consider the **time horizon** that climate-related risk is expected to arise, and design extended scenarios accordingly. This is likely to arise beyond the usual business planning horizon.
- Design **climate stress tests** that are relevant to all the material climate-related risks identified (key focus on physical, transition and liability risk). As a starting point, its useful to leverage the global industry wide climate stress tests that were performed.
- Start to qualitatively and gradually evolve in more sophisticated **quantitative modelling techniques**. The regulator would want to see consistent progress in this regard.
- **Document modelling assumptions and constraints** adequately to ensure that the output of the modelling is understood in its entirety. This does not only relate to the insurance/finance/statistical models being used to calculate the financial impact of climate-related risks but are also equally important for the integrated assessment models (IAM) being used, NGFS being an example.
- Design and perform **reverse stress tests**.

Stress and scenario analysis to drive business strategy

Stress and scenario testing should also be used to identify opportunities, manage risk and drive business strategy.

What needs to happen

- Use scenario analysis to **drive business strategy** – assess the impact climate-related risks will have on performance metrics and identify new business opportunities.
- Use climate pathways (RCPs for physical risk, SSPs for transition risk and socioeconomic impacts) to understand the **performance of assets/liabilities under different climate scenarios**. Outcomes of this exercise and results inform a new strategy (underwriting and investment).
- Use of climate scenarios to **identify opportunities** for new business/products, e.g., different scenario pathways can provide insight into changes in demand for insurance products.

Reporting requirements in respect of an ORSA

The PA expects firms to clearly document and explain, within their ORSA documentation, the process followed to identify, assess, monitor and report on climate-related risks. They expect to see an analysis of the risks identified, transmission channels and associated financial risks. They will look for an explanation of the anticipated impacts on the insurer's strategy, solvency position, liquidity and profitability. These should be accompanied by details on appropriate climate-related stress and scenario tests performed as well as the risk-management strategies identified to mitigate and manage these risks.

The reporting requirements in respect of an ORSA are closely aligned to the risk-management disclosures the PA has set out in the proposed climate-related disclosure guidance note. **In our view, the ORSA process provides a foundational framework for housing appropriate climate-related risk practices, and the ORSA report the foundational communication tool for supporting climate-related risk disclosures.**

What is the PA looking for?

The following are examples of positive and negative indicators that we think the PA are likely to use in assessing whether an organisation is responding adequately to its climate-related risk profile.*

Positive supervisory indicators

- Demonstrate how scenario analysis has been embedded into their risk- management and business planning processes, and how the results are being used in practice, including their impact on strategic and business decision-making.
- The insurer's ORSA provides sufficient contextual information to allow a reader to understand analysis of climate risks and capital.
- The ORSA report provides adequate disclosure of methodologies and underlying assumptions, judgements, proxies, and consequent uncertainties.
- The ORSA report provides sufficient detail on their stress testing calculations and methodologies to allow a reader to assess whether assumptions and judgements are appropriate, and whether outputs are being correctly factored into the firm's climate decisions.
- The ORSA report explains how the insurer gained comfort that material climate risks are appropriately capitalised and discusses key dependencies, assumptions and relevant management action.

Negative Supervisory indicators

- Scenarios not designed to be relevant to firm's business and specific vulnerabilities.
- Lack of integration of outputs from scenario analysis into ORSA and risk appetite.
- Not providing sufficient contextual information in the ORSA to enable the reader to fully understand their analysis.
- Providing minimal information on modelling approaches, underlying assumptions, proxies, consequent uncertainties.

* Incorporating insight from the PRA's" Dear CEO Letter" on "Thematic feedback on the PRA's supervision of climate-related financial risk and the Bank of England's Climate Biennial Exploratory Scenario exercise", published October 2022

Questions for CRO's and Senior Management tasked with the oversight of climate-related risks

The PA will look for tangible evidence that climate-related risks are assessed, monitored, managed and reported at all appropriate levels within the insurer. The PA will want to see how the insurer has integrated climate-related risk into their established strategy, risk, capital and governance frameworks.

1. How do we know we have looked widely enough for potential climate-related risk exposures and mapped these against different scenarios?

2. Are we too reliant on our usual processes and sources of risk identification and expertise?

3. Currently, what unidentified exposures have we actually identified, and do those give us any indication of where/how we might look for others?

4. When is it necessary for us to take action in order to mitigate potential adverse impacts of climate change that have not yet materialised?

5. What would our underwriters be worried about if they were insuring us?

6. What is our level of confidence in the exposures we have identified, and what is the margin of uncertainty?

7. Are there any areas of the business that we think will not be affected by climate change? Why and have we challenged these assumptions sufficiently?

8. What lessons about our risk exposures can we learn from class actions?

9. Do we need to buy reinsurance against any of the new risks we have identified?

10. How do the changes to our risk appetite and risk exposure limits map to the climate-related risks we have identified and how they affect our existing risk universe and risk profile?

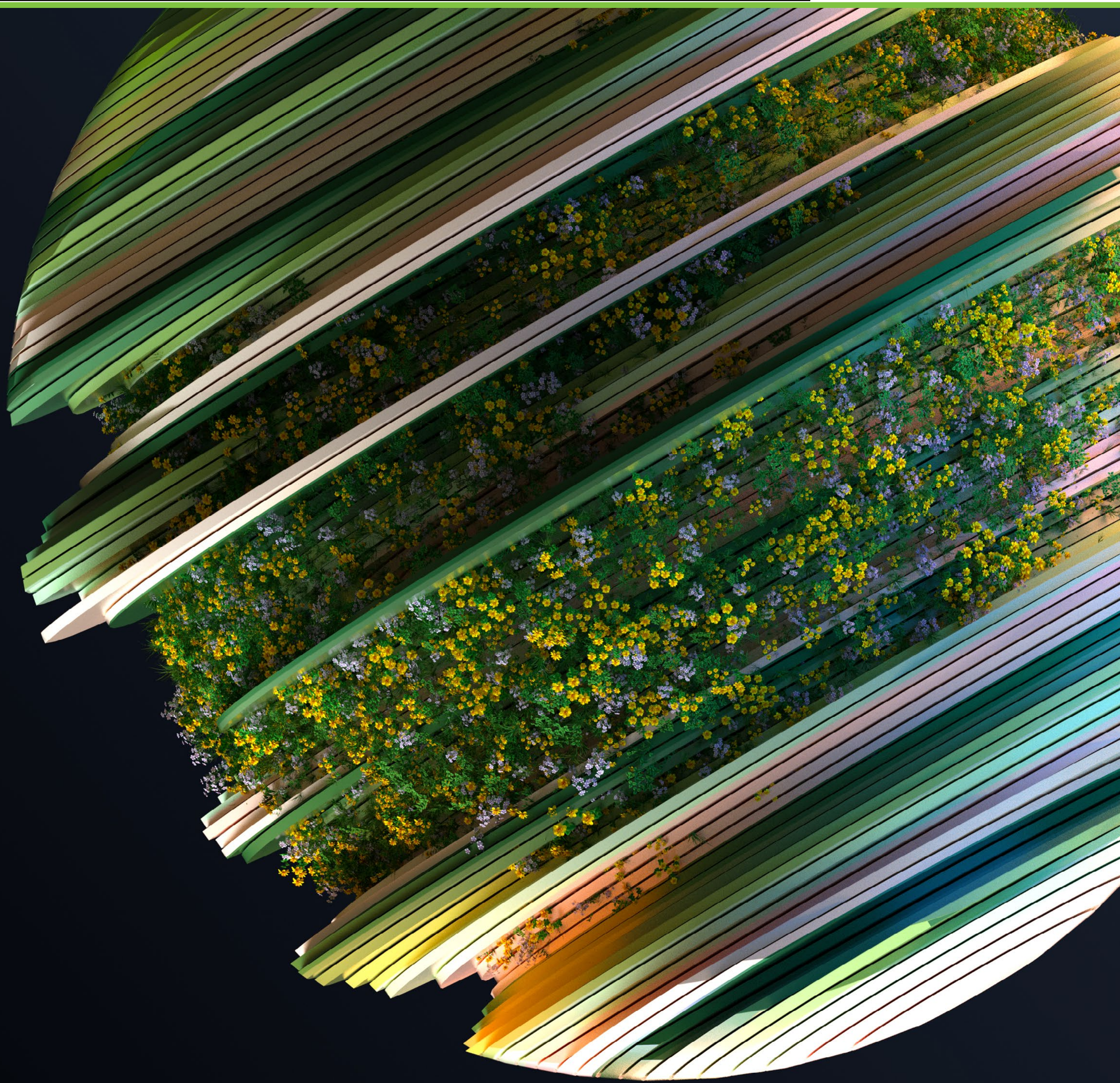
11. What management actions have we identified to manage climate-related risks, and what triggers do we monitor?

12. How objective and robust are the metrics that we use to monitor climate-related risk exposures against risk appetite?

13. Do we review our climate-related risk appetite sufficiently frequently?

14. What management information do we have to understand where we sit against our climate risk appetite(s)?

15. How have changes to risk appetite affected our capital management plan? If there is no capital impact, how is that justified?



Strategy

Strategy

Risk-related Practices

The PA believe that insurers have a key role to play in the just transition and they want to understand the extent to which the insurer's strategy considers the value added, preserved or eroded for the institution, its stakeholders, society and the environment.

Our perspective on the GN requirements

Failure to address climate-related risks and respond to changing market demand risks harming an insurer's financial performance, competitiveness and market share. In this context, the PA is likely to probe some key strategic concerns around how climate-related risks and opportunities are managed within their overall business strategy and risk appetite. They will look to understand how integral climate considerations are within their underwriting and investment strategies.

Embed climate considerations into the organisation's business strategy and financial planning

Given the nature of climate-related risks, a climate strategy cannot be independent of the business strategy. Having a clearly defined strategy, which intrinsically incorporates climate-related risks and opportunities is imperative in setting the tone from the top.

What needs to happen

- Ensure that the strategic planning and budgeting process adequately considers the **climate-related risk and opportunities** identified over the **short, medium and long term** to ensure that:
  - They can be adequately prioritised in the firm's strategy.
  - The impact on financial planning is well understood in terms of operating costs and revenues, capital expenditure and allocation, acquisitions / divestments and access to capital.
- Incorporate scenario analysis to help inform:
  - **Resiliency** of the organisation to the material climate-related risks, and **actions** that need to be taken to address these risks. The resiliency of the insurer needs to be tested under a 1.5-degree Celsius or lower scenario, as well as a greater than 2-degree Celsius scenario for insurers with substantial exposure to weather-related perils.
  - Areas of **opportunity** related to new products and services.
  - **Transition plans** to bridge the gap between where they are compared to where they want to be.
- Incorporate adequate consideration of South Africa's **just transition** and the role that insurers can play. The PA will want to understand not only the value added, preserved or eroded for the institution but also its stakeholders, society and the environment.
- Articulate a **clearly defined strategy** and associated metrics and targets against which to measure, manage and report on the performance of strategy execution.

Implementing strategy implies a wider business transformation

Embedding climate risk means changing the ways an organisation develops its products and targets, interacts with customers, designs its operating model, attracts talent, and measures success. The PA is likely to be most concerned about, and therefore scrutinise strategies in relation to these aspects.

What needs to happen

- The climate-related aspects of the organisation's overall business strategy needs to be translated into granular strategies across the business, such as:
  - **Product development**
    - Design new policies/products to promote responsible actions or behaviour.
    - Identify new opportunities to underwrite new sectors.
    - Review existing product lines exposure to climate-related risks.
    - Assess role of reinsurer across different lines of business.
  - **Investment strategy**
    - Revise investment strategy and sector allocation to be aligned to the objectives and strategy of the insurer.
    - Calculate point-in-time and forward-looking financed emissions to develop transition plans for underlying assets under management.
    - Make use of the Green Finance Taxonomy to assess investments.
  - **Underwriting strategy**
    - Due diligence: Insurers should ideally assess the impact of climate-related risks (both transition and physical risks) on the policyholder's insurance risks at the application point.
    - Enhance underwriting process to include climate-related aspects into the standard pricing process that happens at onboarding as well as at the policy anniversary date.
  - **Policyholder and stakeholder engagement**
    - Engage with policyholders to not only get an understanding of their transition plans but to also support them in their transition.

Strategy Disclosures

The PA expects annual disclosure of the current and anticipated impacts of climate-related risks and opportunities on the institution's business strategy and financial planning. The organisation should describe the resiliency of its strategy to material climate-related risks and their consequential response strategy.

What is the PA looking for?

The following are examples of positive and negative indicators that we think the PA are likely to use in assessing whether an organisation is responding adequately to its climate-related risk profile.

Positive supervisory indicators

- Boards and executives are able to show they understand how the firm is integrating climate considerations into decision-making across their strategy, planning, governance and risk-management processes.
- Business planning and strategy documents evidence that climate-related risk has been taken into account across all core areas of the business.
- Management and staff participate in cross-functional working groups or secondments between core areas of the business to encourage collaboration.
- Feedback loops share ideas and insight between different areas of the business.

Negative Supervisory indicators

- Absence of climate change strategy, or climate change strategy exists as a separate document that is not linked to wider firm strategy, for example, it only covers underwriting.
- Lack of collaboration on climate-related risks across the business.
- All relevant expertise on climate change sits in one function, such as underwriting or risk management.

Questions for Boards and Senior Management

The PA will want to achieve comfort that the organisation has adequately prioritised material climate-related risks and opportunities into their business strategy and financial planning. Institutions should demonstrate a thorough understanding of the resiliency of their strategies to these risks and have adequate response strategies in place.

1. Do we have a good view of the significant climate-related risks and opportunities that may impact our business model, strategy and cashflows over the short, medium and long term?

2. How resilient are we to these risks? What mitigating actions would we take in response to various scenarios consistent with increased physical or transition risks?

3. Do we have a good view of the organisation's most significant positive or negative impact on economy, society and the environment, over the short, medium and long term?

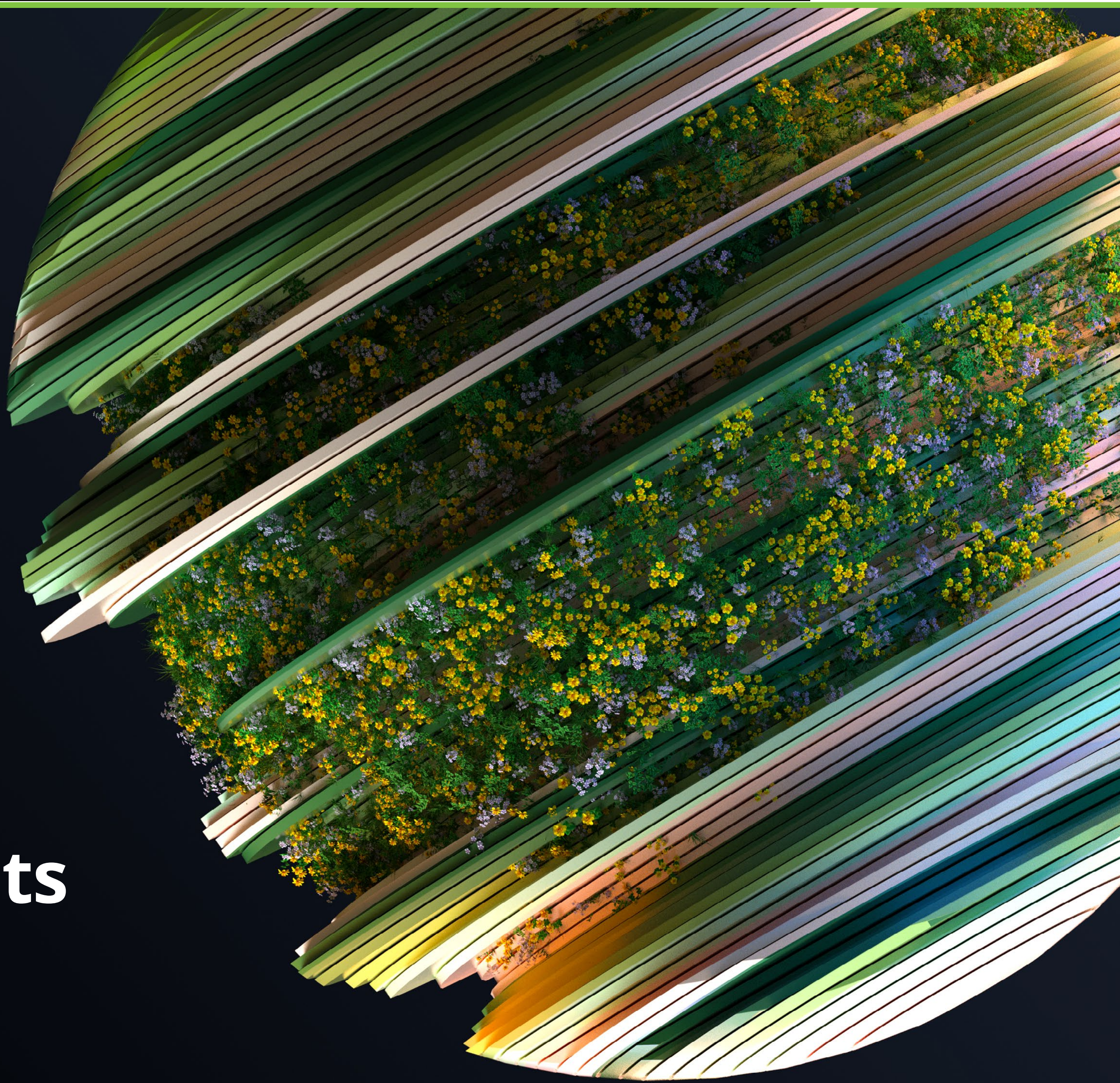
4. Have we adequately considered the impact of climate-related risks across our business such as on products and services, operations, supply chain and value chain?

5. Do we adequately consider the trade-offs between climate-related risks and opportunities in our decision-making?

6. Are we taking strategic decisions without understanding what they imply for other parts of our business, such as our investment or underwriting strategies?

7. Is our strategy being 'led' by external policy, our competitors, or market expectations?

8. Are our valuation assumptions for assets and liabilities consistent, to the extent they are affected by climate-related risks?



Metrics and Targets

Metrics and Targets

Risk-related Practices

The PA will expect to see metrics and targets defined and aligned to strategy and risk management.

Our perspective on the GN requirements

The insurer needs to be able to demonstrate that climate-related factors are incorporated into their business strategies, planning, governance structures, and risk-management processes. This needs to be supported by relevant metrics and targets that provide an effective measure of vulnerabilities to and opportunities arising from climate-related factors.

Metrics should be used to assess climate-related risks and opportunities

Detailed narratives should support the metrics and targets to be able to manage the risks, opportunities and performance across the business.

What needs to happen

- Establish metrics to assess the **climate-related risks and opportunities**.
- The **climate risk indicators** proposed by the PA can be a useful starting point, but organisations should establish metrics bespoke to their business.
- Determine the targets used to measure and manage **climate-related risks, opportunities, and performance** across the business.
- Evaluate how to establish metrics aligned to the **Green Finance Taxonomy**
- Quantitative information relating to **activities vulnerable to physical and transition risk** should be defined, disclosed and managed closely.
- Adequate levels of **data verification and assurance** needs to be in place for defined metrics and targets.
- Disclosure of metrics and targets should be for **all levels within the organisation**, including subsidiaries, joint ventures and associates and affiliates.
- The **time horizons of the defined targets** should be disclosed including narratives to support the timelines and expected performance against these defined targets. Regular updates and changes to these targets based on outcomes should be tracked.
- **Assumptions and data sources** should be defined for the targets.

Focused and specific metrics for Scope 1,2 and 3 greenhouse gas emissions

Scope 1,2 and 3 Green House Gas (GHG) emissions in line with the GHG Protocol methodology should be disclosed. Related risks and opportunities should also be defined, including loss tolerances, efficiencies and financial aspects.

What needs to happen

- Calculate scope 1, 2 and 3 GHG emissions in line with the **GHG Protocol methodology**.
- **Determine and disclose scope 3 emissions** for all indirect carbon emissions including all financed and insured emissions. This could be calculated using the Partnership for Carbon Accounting (PCAF) proposed methodology for insurers.
- Disclosures should include **historical data and trend analysis**.
- Detailed narratives should support the scope 1, 2 and 3 metrics and these targets should be **supportive of the business strategy**.

Metrics and Targets Disclosures

The PA expects that institutions should disclose metrics and targets that will enable stakeholders to evaluate the organisation's exposure, measurement and management of climate-related risks, and understand how it measures and monitors climate-related opportunities, in line with their strategy and risk-management processes.

What is the PA looking for?

The following are examples of positive and negative indicators that we think the PA are likely to use in assessing whether an organisation is responding adequately to its climate-related risk profile.

Positive supervisory indicators

- The organisation is able to demonstrate that climate-related factors are incorporated into their business strategies, planning, governance structures, and risk-management processes and this is supported by relevant metrics and targets that provide an effective measure of vulnerabilities to and opportunities arising from climate-related factors.
- The organisation has set targets over the short, medium and long term for managing climate-related risk and opportunities and is able to measure and disclose performance against these targets.
- The organisation calculates and discloses scope 1, 2 and 3 GHG emissions, including financed (insured) emissions.
- Climate-related accumulation risk in the investment portfolio is regularly tracked according to a set of key metrics.

Negative Supervisory indicators

- Lack of measurable key metrics to monitor how climate-related risk is managed against overall risk appetite.
- There are no defined metrics to track transition and physical climate-related risk exposures in the investment portfolio in line with agreed investment risk appetite.
- Data sources and methodologies have not been defined for the targets.
- Disclosure of metrics and targets only done at parent company level.

Questions for Boards and Senior Management

The PA will look for information that is comparable between sectors and industries. The approach or methodology for calculating emissions should be disclosed to enable better assessment, and understanding, by regulators and stakeholders.

1 How objective and robust are the metrics that we use to monitor climate-related risk exposures against risk appetite?

2 Do the metrics and targets sufficiently state the organisations level of ambition, from a quantitative and qualitative perspective?

3 How do the metrics and targets align or consider the organisations strategy and risk-management processes?

4 Do the narratives that support the targets and metrics adequately explain the outcomes?

5 Do the targets and metrics make reference to the South African Green Finance taxonomy?

6 How do the metrics and targets enable key stakeholders to evaluate the organisations exposure, measurement and management of its climate-related risks and opportunities?

7 Are the targets and metrics commensurate with the level of complexity and business model of the organisation?

8 Is there sufficient historical and trend data to support the current targets, and performance against them?

9 Are the metrics and targets clear and well understood by the Board and Senior Management?

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