SOUTH AFRICAN RESERVE BANK

An address by Fundi Tshazibana,
a Deputy Governor of the South African Reserve Bank,
at the Bloomberg Sustainable Finance Conversations.

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Sustainable finance and the shifting risk landscape

Good morning, everyone.

It is a privilege to be at Bloomberg to discuss a subject at the nexus of human well-being and our financial future: sustainable finance amid a shifting landscape of climate- and nature-related risk.

I want to explain how central banks are preparing as climate and nature risks intensify. I have three key takeaways:

- Climate risk is part of nature risk. We should adapt climate-risk tools to capture material nature-related drivers, especially water, and strengthen the resilience outcomes that our climate work seeks to achieve.

- We also need shorter assessment horizons. Alongside long-term pathways, short-term scenarios can show how climate shocks interact with business cycles, inflation, interest rates, trade and financial conditions.

- The task is not to attach an environmental, social and governance (ESG) label to existing activity. It is to identify material risks, trace how they move through the economy and financial system, and give decision-makers credible information.

Some context

The climate risks materialising across the world are unprecedented, but not unexpected. The science has long been clear: climate change will increase the frequency and severity of extreme events.

Delayed mitigation means we must now adapt as these risks materialise alongside geo-economic confrontation, misinformation and disinformation, social polarisation, rapid technological change, the rise of artificial intelligence (AI) and growing cyber-risk.

Climate and nature risks become macro-critical when they transmit into the financial system: infrastructure damage disrupts supply chains; agricultural losses raise inflation and reduce output; insurance losses increase financial sector vulnerabilities; and wider economic losses add to fiscal pressure and threaten both growth and stability.

When climate risks affect price and financial stability, they concern central banks. But central banks are not environmental policymakers; we do not use monetary policy or credit allocation to pursue climate objectives at the cost of inflation, financial losses or institutional credibility.

Our concern is the economic and financial impact of climate- and nature-related risks where they intersect with our mandates. Recent examples from sub-Saharan Africa show how these risks transmit.

In 2022, there were severe floods in KwaZulu-Natal (KZN) and the Eastern Cape. Lives were lost, households displaced and infrastructure damaged. Logistics and supply chains were disrupted; agricultural output fell; manufacturing production declined by 6%; and KZN's economic losses were estimated at about 1.8% of

Durban's gross domestic product (GDP).[1] Bank branches closed temporarily, while our largest general insurer recorded its largest flood-related losses in 105 years.[2] Claims strained assessors, repair capacity and reinsurance markets, delaying settlements and increasing rebuilding costs and pressure on future cover. Poor urban planning, weak maintenance and inadequate early-warning systems worsened the damage and created liability risks.

Similarly, in late 2025 and early 2026, floods in Limpopo and Mpumalanga had an estimated economic cost estimated at around R4 billion.[3] Whether reflected as economic loses in absolute terms or as a percentage of GDP, the costs I have highlighted do not fully reflect the human element and the hardship that come with income displacement, forced migration and the reality of underinsurance.

Let me turn to Zambia, where a severe drought in 2023/24 showed how a physical climate shock can move rapidly through the economy and into the financial system. The impact reflected Zambia's economic structure. Water is essential not only for households and agriculture, but also for mining and industry. Mining accounts for 12% of Zambia's GDP and more than half of its gross exports, so water stress can affect output, export earnings and wider financial conditions. Zambia's dependence on hydropower amplified the shock. Lower reservoir levels caused blackouts of up to 21 hours a day and increased energy imports. At the same time, lower agricultural output weakened GDP and intensified inflation pressure in an economy where food and beverages make up 54% of the consumer price index (CPI) basket. [4] The effects reached insurance. Weather index payouts strained agricultural microinsurance while high claims and processing delays weakened trust. Resilience depends not only on insurance, but also on timely, credible protection when shocks occur. Finally, credit quality deteriorated and liquidity came under pressure. The Bank of Zambia responded with a 5 billion kwacha stabilisation facility.[5]

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[1] Presidential Climate Commission, *A Critical Analysis of the Impacts of and Responses to the April–May 2022 Floods in KwaZulu-Natal,* 2023.
[2] Santam, Santam Pays Unprecedented R14.2bn in Claims, 2024.
[3] ReliefWeb, South Africa: Floods - Jan 2026 | ReliefWeb, 2026.
[4] Trading Economics, Zambia Inflation Rate, 2026.
[5] Zambia Monitor, Bank of Zambia launches K5billion stability, resilience facility to bolster financial sector amid drought impact | Zambia Monitor, 2024.

The lesson is clear: country-specific vulnerabilities can turn a climate shock into a financial stability event.

Taken together, these examples show climate and nature shocks moving through economies and financial systems. The channels differ, but the need to understand vulnerabilities, strengthen resilience and coordinate action is shared.

This is a global problem requiring a global response.

No jurisdiction can address these challenges alone.

The Sustainable Insurance Forum and the Network for Greening the Financial System (NGFS) bring central banks and supervisors together to deepen understanding and develop practical tools.

Since 2017, these platforms have moved climate and sustainability into the mainstream of central banking and supervision. They have produced long- and short-term scenarios, research, guidance and practical tools, while enabling peers to test ideas and learn from one another.

As we have advanced supervisory thinking and practice, climate-related risks have been integrated in the Basel Core Principles for Banks and the Insurance Core Principles, with tangible progress in areas such as climate disclosures.

This work has required innovation. Ten years ago, data was limited, methodologies were still developing, and supervisory practice was only beginning to emerge. Today, these collective efforts have helped build a stronger international community, a deeper body of knowledge and a clearer basis for supervisory action.

How we have responded: the approach of the South African Reserve Bank

These forums have helped the South African Reserve Bank (SARB) move from awareness and capacity building to supervisory guidance, regulatory integration and active contribution to international practice.

Our response centres on three priorities:

- Strengthen climate and nature risk intelligence.
- Embed this into mainstream risk management.
- Support a resilient, credible and investable transition.

I will highlight what we as the SARB are doing, where your work matters, and our shared goal of building climate resilience.

Strengthening climate and nature risk intelligence

Climate and nature risks do not occur in isolation. They interact with wider economic and financial pressures. We need stronger risk intelligence to locate vulnerabilities, understand how risks combine, and trace how they could move through the financial system.

We build that intelligence through scenario analysis and stress testing. These are not forecasts; they reveal vulnerabilities, challenge assumptions and show where risk management must improve. They must cover long-term pathways and shorter decision horizons.

The NGFS's short-term scenarios bridge that gap. They test how climate policy, extreme weather and macro-financial dynamics could affect resilience over the next five years – the horizon for many financial decisions.[6]

Intelligence must also reflect country-specific circumstances. In 2025, the SARB conducted its first climate risk stress test applying three long-term scenarios.[7] Unlike many global approaches, our exercise included retail exposures given African banks' large retail books. Whilst the exercise revealed significant data gaps, it also illustrated innovations in incorporating retail exposures as a significant domestic market concern.

[6] Network for Greening the Financial System, NGFS Short-term Climate Scenarios for central banks and supervisors | Network for Greening the Financial System, 2025.
[7] South African Reserve Bank, First Edition 2025 Financial Stability Review, 2025.

As we work to close data gaps, we can keep developing proportionate, context-specific tools focused on the risks that matter most.

Nature-related intelligence must go further. Land use, water stress, pollution, invasive species and climate change interact in location- and ecosystem-specific ways, making them harder to model. The NGFS is developing practical approaches.

Water stress is a clear example. South Africa and many other African countries face uneven supply, inadequate infrastructure and increasing climate variability.

Risk intelligence must also reflect regional vulnerabilities. Africa's protection gap is one example: insurance penetration is roughly 3.5% of GDP and many households remain excluded. We need to know where protection is weakest, how shocks will be absorbed and where losses will fall.

Closing the gap requires accessible products and better analytics. We need to understand:

- how catastrophe, climate and insurance data can reveal risk concentrations and future vulnerabilities; and
- whether companies, municipalities and projects are investing in measures that reduce losses from floods, droughts, wildfires and other hazards.

This evidence can guide public-private programmes, clarify how risk is shared, and show where more investment or protection is needed.

Embedding climate and nature into mainstream governance, strategy and risk management in financial institutions

Climate- and nature-related risks must move into mainstream governance, strategy and risk management. Where material, they should be considered through institutions' established arrangements for managing credit, market, insurance, operational and strategic risks.

The Prudential Authority's (PA) guidance for banks and insurers covers climate disclosures, governance and risk practices.[8] We are building on global frameworks to support interoperability as well as our industry engagements which revealed growing concern over climate-induced credit and insurance risks coupled with the underdevelopment of climate-resilient financial instruments.

The PA's guidance sets out our minimum supervisory requirements for governance, strategy and risks, including liability, compliance and transition planning. It takes a proportionate, graduated approach, recognising the challenges, particularly the lack of comparable, granular and reliable data such as credit registries and detailed credit line information.

However, more disclosure does not automatically mean better information. The emphasis is therefore on materiality, governance, data ownership, methodological transparency and credible internal controls. Disclosure must support risk pricing and help us make better-informed decisions.

This requires incorporating specialist environmental knowledge with the work of credit and investment teams, enterprise risk functions, financial planning and capital management teams. The governance, materiality assessment and client engagement approaches developed for climate risks provide a strong foundation and practical entry point in exploring nature-related risks. Nature-related risks are often location- and ecosystem-specific as well as dependent on supply chains. They therefore require additional attention to sectors, locations and ecosystems that may not be within existing focus and expertise. Exploratory analysis by financial institutions using globally developed tools and frameworks demonstrates how this can be practically done.

We can acknowledge data gaps without allowing imperfect data to become a reason for inaction. We must balance the urgency of these risks with the standards of evidence, governance and transparency applied to consequential financial decisions.

Supporting a resilient, credible and investable transition

[8] Prudential Authority, Climate Related Risk, 2024.

Current investment remains far below what is needed. South Africa's climate finance flows are less than half of the annual requirement, while Africa receives only 23% of what is needed.[9]

Scaling up finance is imperative, but finance will flow at the required scale only if the transition is resilient enough to reduce vulnerability, credible enough to earn trust and investable enough to attract private capital.

Our contribution as a central bank is to help build robust financial markets supported by macroeconomic stability, credible institutions, transparent regulation and market infrastructure that channels private capital into productive investment. This is not separate from climate action; it is central to our mandate: credible monetary policy, low and stable inflation, and a predictable regulatory environment. With limited fiscal space across many African countries, deeper capital markets are essential to mobilise private savings and long-term investment.

These investments must embed adaptation and resilience into transition planning. A credible transition is not achieved by simply reclassifying assets; institutions must show how their strategies, risk frameworks, financing decisions and client engagements will respond to material risks over time. For African financial institutions in particular, water stress is likely to be one of the most material transmission channels, especially in agriculture, mining, energy generation and food processing.

The SARB is currently assessing water risks through multiple angles, including through its analysis of critical water infrastructure for financial stability as well as drought and flood risks within climate stress testing. On the prudential side, we are doing further work on insurance protection gaps, starting with property insurance and flooding.

Under South Africa's Group of Twenty (G20) Presidency in 2025, the Sustainable Finance Working Group recommended integrating adaptation and resilience into

[9] Climate Policy Initiative, The South African Climate Finance Landscape 2025 - CPI, 2025; and Climate Policy Initiative, Landscape of Climate Finance in Africa 2024 - CPI, 2024.

transition plans and disclosures. A key recommendation is to set measurable adaptation objectives through a maturity pathway that tracks both inputs and outcomes: what resources are committed, and whether they are reducing vulnerability and strengthening resilience.[10]

Institutions do not need to wait for regulations; they should undertake transition planning which evolves from mitigation-only into comprehensive climate and nature resilience strategies. Considering adaptation and nature also provides several opportunities for financial institutions, such as:

- adaptation-linked lending for sustainable agriculture;
- loans for water infrastructure projects;
- insurance products that reward adaptation measures; and
- resilience-focused financial products and services such as ecosystem restoration and nature-based solutions.

A 2025 study of 320 adaptation investments found that these projects deliver a triple dividend of economic, social and environmental benefits with average returns of 20–27%.[11] Resilience is therefore note only protective; it can also be investable.

Analysts play a compelling role in assessing the credibility of these plans, reporting on progress, and converting data into analysis that informs national policies.

Conclusion

The SARB's role is not to replace the decisions of investors, financial institutions or elected policymakers. Our role is to deepen understanding of material risks, strengthen resilience within the financial system, and contribute to the information and analytical foundations on which sound decisions can be made.

[10] Network for Greening the Financial System, SFWG-P2a_Adaptation-and-Transition-Plans-2.pdf, 2025.
[11] World Resources Institute, Strengthening the Investment Case for Climate Adaptation: A Triple Dividend Approach | World Resources Institute, 2018.

Over the next year, the SARB will strengthen its data and analysis. Alongside monitoring the adoption of International Sustainability Standards Board (ISSB) disclosures in South Africa, this will include integrating climate data into regulatory data drawing on supervisory case studies and Basel recommendations as well as a climate risk dashboard encompassing macro- and firm-level indicators on physical and transition risks, which will expand over time to incorporate green asset indicators, nature indicators and social indicators.

Through the Sustainable Finance Initiative, we are also surveying nature risks to understand industry progress, challenges and emerging practices.

As we consider sustainable finance in this shifting risk landscape, the task is not to attach an ESG label to existing activity. It is to strengthen climate and nature risk intelligence, embed material risks in mainstream decision-making, and support a transition that is resilient, credible and investable.

Together, we must move the financial sector and real economy from awareness to implementation: price the risks, finance resilience, and turn sustainable finance into real-world change.

Thank you.