

Ref.: 15/8/6/2

## Financial Sector Regulation Act, 2017

### Guidance Notice 3 of 2025

#### Guidance on Climate-related Disclosures for Insurers

##### **Objectives of this Guidance Notice**

*The purpose of this Guidance Notice is to provide updated guidance to insurers regarding climate-related disclosures, taking into consideration the International Association of Insurance Supervisors' (IAIS) application paper on the supervision of climate-related risks in the insurance sector and the International Financial Reporting Standards (IFRS) climate-related disclosures standard. This Guidance Notice includes an illustrative, non-exhaustive list of climate-related indicators.*

*The disclosure of climate-related risks and opportunities promotes 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 their existing risk management and governance frameworks, including any metrics or targets developed by the insurer.*

*This Guidance Notice replaces Guidance Notice 2 of 2024.*

## **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 as well as transition risks given, among 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. The disclosure of climate-related risks and opportunities promotes 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 more inclusive insurance.
- 1.4. This Guidance Notice builds on domestic and international initiatives on climate-related disclosures, specifically the standards developed by the IFRS, which were built on the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). Guidance Notice 2 of 2024 was published on 10 May 2024. This updated Guidance Notice incorporates the recommendations of the IAIS's application paper on the supervision of climate-related risks in the insurance sector<sup>1</sup> published in April 2025.
- 1.5. This Guidance Notice replaces Guidance Notice 2 of 2024.

## **2. Principles and conceptual foundations of disclosures**

- 2.1. The disclosure of climate-related risks and opportunities continues to evolve as methodologies are being developed and improved. Without being prescriptive of the methodologies, the following principles and conceptual foundations usually form the basis for the disclosure of 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 can 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 methodology, the assumptions and/or the 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 over time. Any changes in approach should be described where necessary to enable stakeholders to understand the reasons for any differences.
  - 2.1.5. Disclosures should be timely and produced within appropriate time periods.
  - 2.1.6. Disclosures should provide information relevant to current decisions and be future-focused.
  - 2.1.7. Disclosures should be for the same reporting entity and reporting period as the

---

<sup>1</sup> Published in April 2025: <https://www.iais.org/activities-topics/climate-risk/>

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. As a minimum, insurers should produce climate-related disclosure reports that reasonably satisfy the principles above as well as relevant supervisory expectations.
- 3.2. Insurers should produce high-quality and decision-useful disclosures in order to increase transparency and confidence about an insurer's approach to climate-related risks and opportunities.
- 3.3. 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. Insurers should disclose how these identified climate-related risks and opportunities impact on their business model, strategy and decision-making. The insurer should provide sufficient detail on:
  - 4.1.1. the governance structure<sup>2</sup> 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 of Directors (Board) ensures that the appropriate skills and competencies are available to oversee the 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 its relevant committees consider climate-related risks and opportunities when overseeing the insurer's strategy, its decisions on major transactions, risk management processes and related policies, including how trade-offs associated with those risks have been considered; and
  - 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. Insurers should disclose the role of management in the governance processes, controls and procedures used to monitor, manage and oversee material climate-related risks and opportunities, including information about:

---

<sup>2</sup> 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.

- 4.2.1. whether the role is delegated to specific management-level positions or committees;
- 4.2.2. how oversight is exercised over that position or committee; and
- 4.2.3. 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. Insurers 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 whether and to what extent any parts of its 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 that the insurer has identified, the insurer should explain whether it considers the risk to be a climate-related physical risk or climate-related transition risk.
  - 5.2.2. For each climate-related risk identified, the insurer should specify the time horizons – short, medium or long term – over which the effects of each material climate-related financial risk could reasonably be expected to occur.
  - 5.2.3. The insurer should define short, medium and long term, and indicate how these definitions are linked to the insurer's strategic planning horizons.
- 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 material climate-related risks and opportunities on the insurer's business model and value chain; and
  - 5.3.2. a description of where in the insurer's 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 material climate-related risks and opportunities on the insurer's strategy and decision-making as well as how the insurer has responded 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 that the insurer has, including information about the key assumptions used in developing its transition plan and the dependencies on which the transition plan relies;
- 5.4.4. information regarding climate-related targets for these plans, including the process for reviewing these 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. Insurers 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, as well as 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. Insurers 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; and
  - 5.6.6. the effect of the insurer's current and planned investments in climate-related mitigation and adaptation for climate resilience.
- 5.7. Insurers 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 those scenarios and their relevance;

- 5.7.2. whether the chosen scenarios are aligned to the latest international agreement on climate change and science-based targets;
- 5.7.3. the scope of operations used in the analysis (e.g. the operating locations and business units); and
- 5.7.4. the key assumptions used, the time periods, and whether the scenarios covered physical or transition risks (or both).

## **6. Risk management**

- 6.1. Insurers 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; and
  - 6.1.2. the process(es) for prioritising climate-related risks, including how materiality determinations are made within the insurer.
- 6.2. Insurers should describe the processes and related policies that the insurer uses to identify, assess, prioritise and monitor climate-related risks, including information about:
  - 6.2.1. the input parameters it uses (e.g. data sources and 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 (e.g. 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; and
  - 6.2.6. whether the insurer has changed the processes it uses from the previous reporting period.

## **7. Indicators and targets**

- 7.1. Climate-related risk indicators (or metrics) are measures used to quantify and communicate the nature, scale and complexity of specific risks posed by climate change to an insurer. Consistent with ICP 20.6, indicators can help insurers to more effectively communicate their exposures.
- 7.2. Insurers should disclose indicators 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.

7.3. Indicators currently used typically relate to physical and transition risks. The following examples, although not comprehensive, are illustrative of indicators that insurers should consider in their disclosures:

7.3.1. *physical risk indicators*, such as:

7.3.1.1. the frequency and severity of natural disasters and chronic weather-related changes: indicators measuring the incidence and impact of events like tropical cyclones, floods, wildfires and droughts as well as the incidence and impact of weather-related changes such as heat stress, humidity and an increase in vector-borne diseases;

7.3.1.2. geographical risk exposure: assessing the vulnerability of geographic areas to climate events for life and non-life exposures;

7.3.1.3. different physical risk scenarios that can be used to produce a range of potential impacts on insurance liabilities and investments;

7.3.1.4. the projected financial impact of an increase in frequency and/or severity of weather events: estimating how frequent and how severe weather-related events (e.g. tropical cyclones, floods and droughts) may become under different warming scenarios and how they may affect financial outflows for insurers for life and non-life business as well as the necessary premium changes for business continuity;

7.3.1.5. the annual average loss (AAL) and probable maximum loss (PML) metrics: the AAL is commonly used to estimate the average expected loss in any year due to catastrophic events like floods or storms, while the PML is commonly used to estimate the worst loss at different return periods (e.g. 1 in 100) from catastrophic events like floods or storms; and

7.3.1.6. asset-specific risk assessments: evaluating the susceptibility of individual assets, asset categories (e.g. equities, corporate or sovereign debt) and/or economic sectors to climate-related risks (e.g. real estate exposure).

7.3.2. *transition risk indicators*, such as:

7.3.2.1. legal and regulatory risks: assessing the potential for litigation or regulatory penalties associated with the transition;

7.3.2.2. exposure to high-carbon industries: assessing the proportion of the investment portfolio (e.g. financed emissions) or underwriting activities (e.g. insurance-associated emissions) linked to fossil fuels or other high-carbon sectors;

7.3.2.3. different scenarios: analysing the potential impact of various transition risk scenarios (e.g. an orderly transition versus a delayed response) on insurance liabilities and investments, particularly those in carbon-intensive industries, as well as the sensitivity of impacts to different carbon prices; and

- 7.3.2.4. technological developments: for example the projected financial impact of technological improvements or innovations and shifts in supply and demand for certain commodities, products and services, and estimating how these changes may occur under different transition scenarios and how they may affect financial outflows for insurers for life and non-life business.
- 7.4. Insurers 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. Insurers should disclose the quantitative and qualitative targets they have set and performance against these targets. Specifically, insurers should disclose:
- 7.5.1. the objective(s) of the target(s) (e.g. mitigation, adaptation or conformance with science-based initiatives), the metric(s) used to set the target(s) and the part of the insurer to which the target applies (e.g. sector, geographical location or portfolio levels), including details relating to whether targets are absolute or intensity-based;
  - 7.5.2. the time horizon for each target, including the baseline and any interim or milestone targets (where any updates or changes to targets should be specified with an appropriate rationale for the changes, including how the targets compare to international agreements); and
  - 7.5.3. information about any carbon credits they plan to use in achieving a net greenhouse gas (GHG) emissions target (where relevant).

## **8. Additional considerations**

- 8.1. Where relevant, disclosures should describe whether and 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 taxonomy.<sup>3</sup>

## **9. Assurance requirements**

- 9.1. The Prudential Authority (PA) does not require these disclosures to be subjected to independent external assurance at this time, but insurers should work towards a future state in which external assurance is expected.
- 9.2. To ensure data quality, these disclosures should be subjected to internal governance processes and controls, as used for financial reporting.

## **10. Implementation**

- 10.1. The PA 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 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 delayed implementation.

---

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



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, the insurer may choose not to disclose such information. The insurer should, however, consider the possibility of disclosing the information in such a manner that it would not jeopardise the potential economic benefits the insurer would otherwise be able to realise (e.g. at an aggregated level).

Fundi Tshazibana  
**Chief Executive Officer**

Date: