

LEGAL UPDATE

Prudential Authority Issues Guidance on Climate-Related Governance/Risk Practices and Disclosures for Insurers

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On 10 May 2024, the Prudential Authority ("PA") issued Guidance Notice 1 of 2024: "Guidance on climate-related governance and risk practices for insurers" ("**Guidance Notice 1**") and Guidance Notice 2 of 2024: "Guidance on climate-related disclosures for insurers" ("**Guidance Notice 2**"). The guidance notices provide guidance to insurers regarding the integration of climate-related risks into insurers' governance and risk management frameworks, and climate-related disclosures, respectively.

Guidance Notice 1 places the responsibility for the effective governance of climate-related risks ("**CRRs**") on an insurer's board of directors. The board and senior management of the insurer are tasked with the review and oversight of CRR management systems and the implementation of climate-related policies. An insurer's Own Risk Solvency Assessment ("**ORSA**") is regarded as a "*useful tool*" to assess the adequacy of the insurer's Enterprise Risk Management framework and capital position in light of CRRs. Insurers may use scenario analysis and stress testing as a supplementary risk and capital tool for identifying, monitoring and assessing risk, and scenarios should be designed with a "*forward-looking perspective*". Furthermore, the internal policies of insurers must be adapted, and training programmes implemented, to ensure that the impact of CRRs on the insurer's risk profile is properly understood. Guidance Notice 1 sets out the responsibilities of the insurer's compliance, actuarial and internal audit functions in respect of CRRs, and deals with the importance of transition plans as a tool for managing CRRs and achieving commitments to climate targets.

Guidance Notice 2 stresses the imperative for insurers to –

"build the necessary capacity and capabilities to assess, manage, and disclose climate-related risks and opportunities within existing risk management and governance frameworks, including any metrics or targets developed by the insurer".

Guidance Notice 2 sets out the overarching requirements for disclosures of CRRs and opportunities, including that disclosures must, *inter alia*, focus on relevant and material information, and be complete, objective, accurate, clear, balanced, understandable, consistent and timely. Insurers must, accordingly, ensure that their CRR disclosure reports meet the aforementioned criteria, and disclose how CRRs and opportunities impact on the business model, strategy and decision-making of the insurer. Furthermore, insurers are required to –

- *"describe the climate resilience of the insurer's strategy and business model taking into account climate-related scenario analysis";*
- *"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";*
- *"disclose metrics and targets that enable stakeholders to evaluate the insurer's exposure, measurement and management of climate-related risks"; and*
- *"disclose Scope 1, 2, and 3 greenhouse gas (GHG) emissions in accordance with the Greenhouse Gas Protocol, unless legally required to use a different method by another jurisdictional authority or exchange where the insurer is listed".*

The PA has encouraged insurers to be "proactive" with regard to CRR management and disclosures, particularly in light of the potential for climate-related disclosures to become mandatory in future.



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