Marius Botha

Partner
Financial Risk Management: Actuarial

Tel: +27 77 602 4371
Email: marius.botha@kpmg.co.za

Heidi Martinho

Manager
Financial Risk Management: Actuarial

Tel: +27 72 251 1137
Email: heidi.martinho@kpmg.co.za

Can your Own Risk and Solvency Assessment (ORSA) report form the basis from which your net zero transition plan is formulated?

The Prudential Authority's guidance notice on climate risk management issued in 2024[1] provides directives for South African insurers on how to develop and implement effective transition plans.

Sitting separately to environmental, social and governance (ESG) reporting, transition plans are typically external-facing documents that outline the initiatives organisations are pursuing to meet their decarbonisation goals. It sketches how a company will preserve and create value in an envisaged net zero economy.

With various insurers having publicly declared to achieve net zero targets on a 2050 time horizon or having submitted science-based targets, investors and the public can use transition plans to understand the steps an insurer has taken or intends to take to lower carbon emissions. Initiatives that would typically be included in a transition plan include climate aware investing, decarbonising in underwriting or electrifying a fleet. More generally, decarbonising efforts are focused on own operations, investments and underwriting as the primary areas in which targets are defined.

From our observations, many South African insurers continue to progress on their journey towards formalising such transition plans, while others are reluctantly engaging on the topic.

The view of insurance companies is varied in that the formulation of transition plans may be seen to be premature, irrelevant or unnecessary, or that these initiatives may result in over-regulation. Many insurers are questioning the value of setting net zero emissions targets, as insurance companies have no direct control over financed or insured emissions[2] and promote transition planning action to be taken only once there are regulated emission targets for South African firms. The Trump administration's withdrawal from international climate agreements has equally left the global business community wondering if decarbonisation should remain a strategic priority.

In our view regulatory requirements will remain and continue to evolve and a pragmatic approach to formulating such a plan has merit. Transition plans can play a constructive role in driving strategy, as compiling a transition plan provides insurers the opportunity to understand their decarbonisation activities holistically. The question is therefore, how best to respond in developing a transition plan for a South African insurer?

This article outlines how an ORSA report can provide a baseline in the development of a robust transition plan. In particular, the macroeconomic analysis that goes into an ORSA can help insurers begin their transition planning journey.

Understanding how an insurer's net zero commitments integrate with its business planning and growth objectives will provide increased confidence to key stakeholders that the company will be sustainable in the long-term.

[1] Prudential Authority Guidance Notice 1 of 2024, Guidance on climate-related governance and risk practices for insurers Ref.: 15/8/6/2 (https://www.resbank.co.za/content/dam/sarb/what-we-do/prudential-regulation/climate-related-risk/2024/G1%20Insurers%20Climate%20Guidance_Risk.pdf)

[2] Scope 3 emissions, with reference to the Greenhouse Gas Protocol, are "all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company [insurer], including both upstream and downstream emissions" – Task Force on Climate-related Financial Disclosure, Guidance on Metrics, Targets and Transition Plans, October 2021 (https://www.fsb.org/upload/P141021-2.pdf).

KPMG

What is a transition plan?

The Glasgow Financial Alliance for Net Zero (GFANZ) defines a net-zero transition plan as:

> *"a set of goals, actions, and accountability mechanisms to align an organisation's business activities with a pathway to net-zero GHG [greenhouse gas] emissions that delivers real-economy emissions reductions in line with achieving global net zero."* [3]

This highlights the strategic importance of transition plans as:

(1) a roadmap developed by institutions to align its business model and operations with transitioning towards a low-carbon, climate-resilient economy, and

(2) as a board and management tool, detailing specific objectives and practical actions to illustrate the institution's commitment to net-zero.

Transition plans generally outline the steps to be taken over time to reduce GHG emissions, adapt to regulatory and market changes and manage associated financial and underwriting risks and opportunities. As a published document, it articulates a firm's deliberate commitment to contributing towards a client resilient economy and provides transparent steps to which key stakeholders (e.g. investors and regulators) can hold it accountable.

What are the minimum regulatory requirements of a transition plan?

The above-mentioned Prudential Authority guidance note elaborates on the need for South African insurers to integrate climate risk considerations into their overall risk management strategies and objectives. It outlines the essential components and steps for consideration to formulate an effective transition plan to ensure readiness to tackle climate-related challenges and opportunities.

Looking at the guidance note in detail, there are several sections that reference transition plans:

Section 3.1: Integrated approach to risk management

This section emphasises that climate risk is multifaceted in nature and can impact the solvency position of an insurer. It specifically cautions that climate-related risks **may affect the valuation of assets and liabilities** in both life and non-life insurers and the expectation is that this will not only emanate from physical risk exposures but also from transition risk. Climate-related risks should therefore be adequately accounted for in a board-approved risk management framework.

Section 3.8: Transition planning

The transition planning specific section notes that transition planning is a forward-looking strategic and risk management **tool that is becoming increasingly important in managing climate risk**. It aids insurers with a plan to track how to **adjust the business model over time to align with a low carbon economy** and deal with the effects of physical risk exposure:

> *"3.8.1. Transition plans, and the process of transition planning, is an important tool to manage climate-related risks and achieve commitments to climate targets. There is an emerging consensus on the general concept of transition plans as an articulation of an insurers forward-looking approach to the transition to a low carbon economy and the increasing physical effects of climate change."*

It also advises that such transition plans need to be **proportionate to the size, business model and complexity of the insurer** (or group entity):

> *"3.8.2. As part of climate-related risk management, insurers should undertake transition planning and consider compiling transition plans in proportion to their size, business model and complexity."*

It highlights that (financial) **resilience testing and scenarios covering transition pathways** should be an essential part of the transition plan:

> *"3.8.3. Transition planning should support practices to test the resilience of an insurers strategy and understand and manage the risks associated with various transition pathways and potential changes in business models. Transition planning should consider geopolitical considerations, government policy and the structural changes required in the real economy. International frameworks should be considered where applicable."*

[3] Financial Institution Net-zero Transition Plans, Fundamentals, Recommendations, and Guidance, November 2022, (Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf)

Section 4.3: Stress testing and scenario analysis

The requirement on resilience testing and scenario analysis is expanded on in section 4.3 and mentions, inter alia, that a transition plan:

- may help an insurer in understanding the **potential impact of climate-related risks on its business model and strategy** when estimating and quantifying the potential exposure to transition risks (Section 4.3.2).
- is to include an assessment of transition risks (separate from physical risks and liability risks) to **estimate resilience to financial losses as a result of climate-related risks** (Section 4.3.4).
- should include **an assessment of how increases in carbon taxes, stricter environmental regulations and a global transition to low-carbon economies** would impact both assets and liabilities (Section 4.3.4.2).

Whilst it may seem like an unnecessary regulatory burden to also have a transition plan at this stage, it is clear there are familiar dimensions that insurers are already working on. The introduction to the guidance notice also provides the rationale for considering transition planning as a key imperative:

> ***Climate change*** *may result in physical* ***and transition risks*** *that could* ***affect the safety and soundness of insurers*** *and* ***have broader financial stability implications for the financial sector****. To this effect, it is imperative that insurers take active steps to address climate-related risks."*

What is new?

With the exception of carbon-specific metrics, a transition plan is in some respects very similar to what insurers are already required to submit as part of its ORSA reporting to the regulator. One could view a transition plan as an evolution of the ORSA report but with climate specific targets leading to defined actions to achieve these within an appropriate timeline, or at least extracts thereof that an entity would be willing to publish and provide transparency on for various stakeholders. While we are not suggesting that ORSA reports and transition plans serve the same purpose and stakeholder needs, our view is that the development of a transition plan that leverages the information already contained in an insurer's ORSA report creates a pragmatic approach to help develop a credible transition plan.

The urgency to formalise a coherent transition plan is underscored by the Prudential Regulatory Authority's (regulatory authority of financial services institutions in the United Kingdom) caution that "*the longer that meaningful adjustment to a lower emissions path is delayed, the more disruptive transition is likely to be*".[4] From our engagement with South African regulators, it is clear that regulators will continue to push for standardised, transparent and verifiable transition plans with a move to mandatory disclosures for financial institutions and insurers in the near future.

Transition planning your ORSA

What are the practical steps that insurers can take?

A starting point would be to review the current ORSA approach, processes and report and consider its various elements from a transition risk perspective.

The definition of "transition risk" in the Prudential Authority's guidance note provides a useful reference point. It defines transition risk as:

> *Transition risks are* ***financial risks*** *which* ***can result from the process of adjustment towards a lower-carbon and more circular economy****, prompted,* ***for example****, by* ***changes*** *in climate and environmental* ***policy****,* ***technology****, or* ***market sentiment****."*

What is clear is that transition risk is a financial risk, and insurers should consider the impact of various developments emanating from climate risk, climate policy and investor expectations on its strategy, business model and financial resilience.

The Prudential Regulatory Authority's consultation paper referenced above adds additional dimensions in its definition of climate-related transition risk:

> *Transition risk… can lead to stranded assets, defaults on loans, or impacts on asset pricing and demand."*

This definition also indicates the inter-relationship of transition risk with underwriting risk, and not only with financial risks.

[4] Bank of England: CP10/25 – Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19, 30 April 2025 (https://www.bankofengland.co.uk/prudential-regulation/publication/2025/april/enhancing-banks-and-insurers-approaches-to-managing-climate-related-risks-consultation-paper)

Set out below is a comparison we performed of a typical ORSA report outline to that of a comprehensive transition plan. However, we recognise that insurers may only report what is deemed necessary and required, depending on regulatory expectations.

This ORSA report description column is based on what we see being developed by insurers as part of their ORSA reporting. The transition plan description column summarises the transition plan details from the GFANZ's recommendations and guidance[3].

Theme/Section	ORSA description	Transition plan description
Executive summary	• A concise overview highlighting key findings, conclusions and significant risks the insurer is exposed to. • Details the inter-relationship of projected solvency and emerging risks.	• A concise overview of an insurer's plans to preserve and create value in a net zero economy. • It includes a review of key risks anticipated in the transition journey to a green economy (including pace thereof). • It primarily focuses on climate risk management considerations and developments as climate risk processes evolve.
Introduction	• Explains the purpose and scope of the ORSA, its alignment with the insurer's overall risk management framework and the relevance of the report with reference to regulatory requirements. • ESG themes are already prevalent in most insurers' ORSA reports.	• Sets out the firm's integrated climate change strategy, in particular decarbonisation targets and high-level levers/strategic initiatives selected to decarbonise the business model, strategy, operations and value chain. • Explains the purpose and scope of the transition plan, its alignment with the insurer's overall risk management framework and the relevance of the transition plan to regulatory requirements and climate goals. • Highlights the impact of climate-related political, economic, social, technological, environmental and legal changes on the business model, strategy, value chain, assets and operations.
Governance framework	• Details the governance structure overseeing the ORSA process, including roles and responsibilities of the board, senior management and risk committees. • Includes information about the internal control environment and integration of the ORSA report into decision-making processes.	• Details the governance structure overseeing the transition planning process, including roles and responsibilities of the board, senior management and risk committees. • Includes information about the internal control environment and integration of the transition plan into decision-making processes. • References sub-committees of the board and governance structures working on climate risk, ESG and disclosures. • Focuses on maturity of climate-related governance, strategic integration, risk management processes and metrics and targets (i.e. Task Force on Climate-related Financial Disclosures (TCFD) domains) in relation to regulatory frameworks and best practice guidance. • Remuneration targets related to sustainability targets are also often highlighted.
Risk management framework	• Describes the insurer's risk management strategy, policies, processes and tools. • Outlines how risks are identified, assessed, monitored and managed. • Many insurers have already incorporated the qualitative link between climate risks and other risks and have started developing climate risk management policies.	• Describes the insurer's climate risk management strategy, policies, processes and tools. • Outlines how climate risks are identified, assessed, monitored and managed. • Incorporates the qualitative link between climate risks and other risks, with many insurers having started to develop climate risk management policies.

Theme/Section	ORSA description	Transition plan description
Risk identification and assessment	• Identifies key risks relevant to the insurer, encompassing underwriting, market, credit, operational, liquidity and other relevant risks. • Provides qualitative and quantitative assessments of these risks, including methodologies used for evaluation, e.g., stress tests and scenario analysis. • Qualitative assessments of climate risks have matured and attempts at starting to quantify climate risk have been observed, although primarily short- to medium-term scenarios.	• Identifies key climate risks the insurer is exposed to, encompassing underwriting, market, credit, operational, liquidity and other relevant risks and attempts to quantify the impact of these. • Demonstrates quantitative assessments of these risks, including methodologies used for evaluation, e.g., stress tests and scenario analysis over the medium- to long-term time horizon. • Attempts and progress to quantify climate risk have been observed, although primarily short- to medium-term scenarios. • Separately evaluates transition risks (policy development, legal, reputational, market and technology) and physical risks (acute and chronic). Describes the assumptions set on transition pathway uncertainties and implementation challenges.
Solvency position	• Presents the insurer's current solvency position, including available capital and solvency capital requirement calculations. • Includes detailed analysis of capital adequacy and buffers under normal and stressed conditions.	• High level anticipated impact of climate change on the insurer's solvency is presented, with a key focus on climate risk management mitigation. • Considers stakeholder engagement, overall cost to implement climate change strategies and potential cost of failure to implement transition plans.
Risk appetite and tolerance	• Defines the insurer's risk appetite and tolerance levels. • Discusses how these levels are determined and how they guide risk-taking activities and strategic decisions. • We have not yet observed climate-specific risk appetite statements being included; mostly argued to be incorporated implicitly in other risk appetite metrics, e.g. as part of underwriting risk.	• Defines the insurer's climate-specific risk appetite and tolerance levels. • Discusses how these levels are determined and how they guide risk-taking activities and strategic decisions. • Incorporates climate-specific risk appetite metrics implicitly in other risk appetite metrics, e.g., as part of underwriting risk. • Establishment of internal data collection, management and learning processes that monitor emissions, climate-related risks and opportunities and progress against strategic targets is presented.
Forward-looking analysis	• Projects business plans and future solvency positions based on different scenarios and stress tests. • Includes assessments of emerging risks and the potential impact on solvency over a strategic planning horizon, e.g., three to five years.	• Identifies opportunities for resource efficiency, green energy sourcing and adjustments to products and services to support transition to a green economy. • Includes assessments of emerging climate risks and the potential impact on business planning and solvency over a strategic planning horizon, e.g., three to five years and longer-term time horizons. • Presents emission scenario sets that reflect existing underwriting strategies along with anticipated business growth that could impact established emission baselines. • Highlights results of modelling pathways to net zero by 2050 using various reduction levers such as exclusion policies, green underwriting principles and innovative insurance products, while also considering extraneous emission reduction.
Capital management	• Outlines capital management plans, including strategies for maintaining adequate capital levels and responding to capital needs. • Discusses contingency plans and management actions in case of adverse developments impacting solvency. • It can be argued this would become critical areas for climate risk management.	• Capital management details do not generally feature in a transition plan. However, the impact on the investment strategy (especially related to sectoral exposures) for both clients and the entity itself is generally discussed (including potential loss of asset value on non-green bonds or equity) and how it could impact solvency if not addressed. • Typically framed as positive statements on investment strategy plans. • Shows alignment of investment portfolios with underwriting liabilities and net zero goals. • Also includes outlay of capital committed to the execution of decarbonisation strategies, i.e. mobilisation of financial resources for climate change.

Theme/Section	ORSA description	Transition plan description
Business strategy and risk integration	• Demonstrates how the ORSA is integrated into the insurer's business strategy and planning processes. • Provides insights into how strategic decisions are influenced by risk assessments and solvency considerations.	• Indicates how the insurer's transition towards 'greener' business practices and the resultant natural tension between ensuring sustained financial outcomes and suitably ambitious climate-related commitments will be managed. • Demonstrates how an insurer will balance supporting the transition with reduced emissions to maintain the competitive stance. • Identifies potential revenue opportunities from the shift to a greener economy, e.g. change in product or service solutions. • Demonstrates how the transition plan is integrated into the insurer's business strategy and planning processes. Provides insights into how strategic decisions are influenced by climate risk assessments and solvency considerations. • Includes a benchmark of current state relative to peers, including targets, activities and state of transformation. • Some insurers include examples of how they leverage claims processes on motor policies to support decarbonisation, influencing emission education through repair or replacement decisions and embracing a climate-focused approach. They highlight how they achieve emissions goals by working with suppliers on environmentally friendly practices ("greener claims initiatives").
Documentation and reporting	• Details the processes followed in respect of documentation, reporting and communication of ORSA findings to internal and external stakeholders. • Describes the frequency and format of ORSA reporting.	• Focuses on 'assurance readiness' in line with jurisdictional climate risk management and sustainability disclosure requirements. • Carefully crafted external stakeholder communication of the transition planning work, findings and progress made. • The specific targets set towards transitioning to a low-carbon economy are included and progress tracked regularly against reasonable climate metrics and disclosure requirements. • For GHG emissions targets, the plan indicates the types and scope of GHG emissions included across territories, timeframes or activities. • Articulates planned reductions and removals of carbon credits. • Indicates how minimum regulatory requirements on climate risk have been met. • Impact of above on financial metrics is also highlighted.
Appendices	• Includes additional supporting data, detailed analyses, model descriptions and any other relevant information that provides deeper insights into the ORSA process. • May contain technical documents, regulatory submissions or supplementary reports. • Can include climate-specific appendices.	• References any other relevant information that provides deeper insights into the transition plan process. • May contain supplementary reports and developments underway or in progress.

For more detail on transition plan recommendations, reference can be made to the GFANZ's "Recommendations and Guidance for Financial Institution Net-Zero Transition Plans[3]". This is a useful document to assist in developing transition plans or evolving ORSA reports for that purpose.

From the comparison set out above, many components detailed in the GFANZ framework are already typically covered in an ORSA in some way or form. Therefore, it is reasonable to conclude that making use of information already contained in the ORSA is a good starting point in creating immediate efficiencies in developing a transition plan. In addition, well-established ORSA processes are not expected to be adversely affected by the necessary climate-related adjustments.

The more challenging areas of developing a transition plan is expected to be the sections related to defining climate risk targets, e.g. net-zero or near-zero. Whilst we do not have specific regulatory targets in South Africa yet, the international emissions scope frameworks, such as the GFANZ's emissions scope framework, can be used as a reference point to start planning the areas that would likely need to be covered[3]. The emission scope framework provides guidance around areas where insurers can direct their focus to reduce emissions. Included in this publication is a separate article on "**Climate-related risk metrics and disclosures",** refer to page 80 for further reading.

Key global emissions targets

	Target / Goal	Potential ORSA implication
Paris agreement (2015)	Limit global warming to well below 2°C, preferably 1.5°C above pre-industrial levels.	Consider modeling transition risks under scenarios that align with 1.5°C and 2°C pathways, including carbon pricing, regulatory shifts and market transitions.
Net-zero by 2050	Achieve net-zero GHG emissions by 2025, with interim targets for 2030 and 2040.	Assess the financial impact of aligning business models with net-zero pathways, including capital reallocation and stranded asset risks.

These targets can be incorporated into the ORSA report under scenario analysis, capital planning and strategic response to evaluate capital adequacy under various climate-aligned scenarios and align strategies with emissions targets.

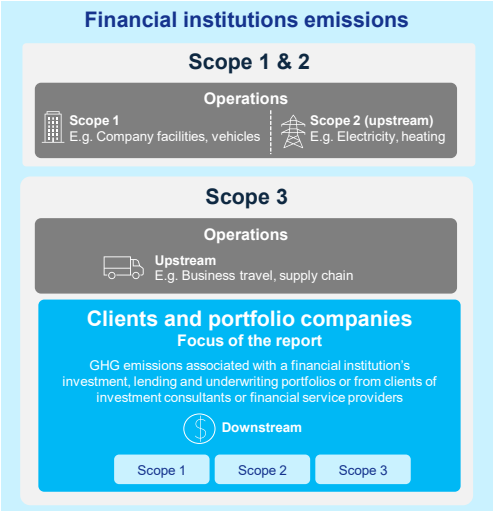
We have noted that leading insurers are not waiting to develop their net-zero (or alternative defined ambition) targets, timelines and priority actions, but are already anticipating reasonable pathways for their business strategy in anticipation of climate risk impacts on the South African economy.

These insurers are considering the available guidance and global direction. The graphic[3] below provides insurers with a view of the areas to target to reduce their financed GHG emissions. These emissions are focused on financial elements, including the insurer's investment, lending and underwriting portfolios.

The starting point for credible climate risk commitments should, at a minimum, include Scope 1 and 2 emissions. Scope 3 emissions, those arising from the insurer's downstream value chain, should also be prioritised by insurers particularly where these are significant.

The GFANZ focuses on external factors impacting transition. While the in-house operations of an insurer are not explicitly addressed by the GFANZ, the framework strongly encourages the active management and transparent disclosure of emissions across all three scopes, as illustrated in the figure adjacent.

Overview of GHG emissions
Scope for financial institutions



The GFANZ report provides recommendations and guidance to a net-zero commitment focused on a forward-looking action plan, as an example. This is where actuaries can start contributing through scenario planning and scenario modelling. Risk management integrates financial risks into risk governance processes and strategies. The GFANZ notes that a net-zero climate transition plan considers alignment of the core business and own risk profile strategically to contribute to a net-zero transition in the real economy.

This specifically illustrates the close relationship between climate-related risk management and transition planning, but also with the ORSA. In both cases, the focus is on alignment with the insurer's business and risk profile. Since climate risk impacts all other key risks in an ORSA, it would make sense to leverage as much as possible from the ORSA.

Gaining a transition plan advantage

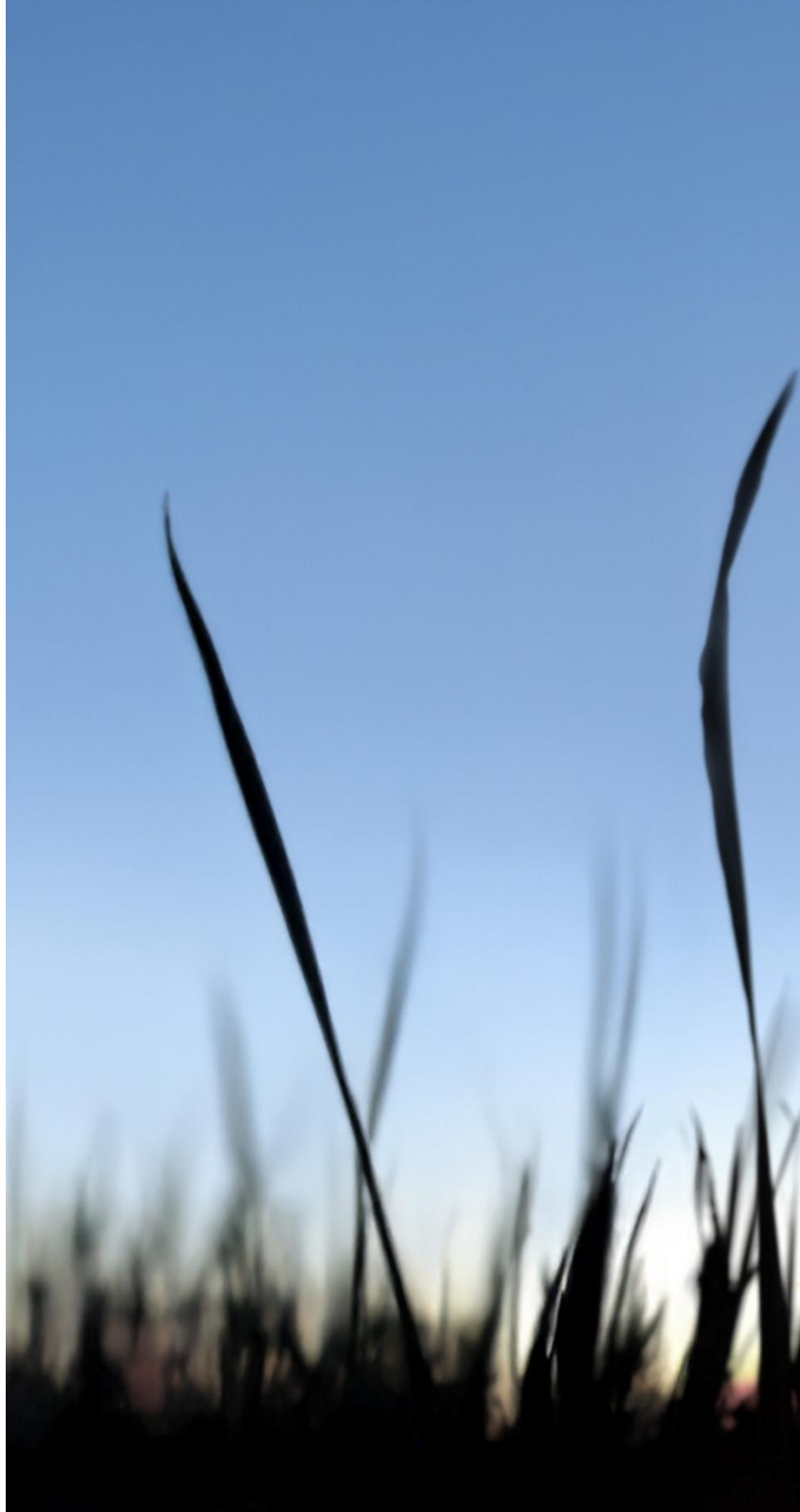
Instead of seeing a transition plan and ORSA report as two separate risk management tools, we have observed many areas of overlap. Consequently, insurers can benefit from adjusting their ORSA reports to close the gap in achieving alignment with the PA's climate-related guidance notice in respect of the development of a transition plan.

It is important for insurers to be mindful that a transition plan serves a distinct purpose and adheres to a different framework when compared to the ORSA report. Where insurers continue to amend or supplement ORSA reports with climate risk related matters, this should be performed with the expectation that key sections within the ORSA report may be required to be separated out in due course and allow these areas to separately evolve over time as part of the transition plan. However, as discussed throughout this article, for those who feel overwhelmed on where to start, much can be achieved by supplementing the ORSA report with additional climate risk features. Although how climate features fit in with the reporting requirements will still need to be assessed.

Whilst South African insurers await on conclusive localised regulatory guidance on carbon emission targets and transition plans, it is beneficial to consider global best practices. The TCFD provides a standardised approach for businesses to disclose their climate-related risks and opportunities, and this aids in the formulation of transition plans (or how to evolve one's ORSA).

Since there have not been any carbon-specific targets released by the PA, broader ESG standards need to continue to be considered to remain globally competitive and relevant.

Conclusion

Both transition plans for climate risk management and ORSA reports for regulatory risk management are crucial in today's risk-informed business environment. While they share a foundational emphasis on forward-looking analyses, governance alignment and strategic planning, their distinct scopes and regulatory intents underline their unique roles in organisational risk management. Integrating both approaches can provide a holistic risk management framework, enhancing resilience and sustainability. As insurers navigate the complexities of climate and regulatory risks, leveraging best practices from both transition plans and ORSA reports can drive a comprehensive and proactive risk management strategy, ultimately fostering long-term viability and stakeholder trust.

KPMG