

## **JURISDICTION: SOUTH AFRICA**

### **AUTHORITY: PRUDENTIAL AUTHORITY (PA)**

#### **Background**

February 2011 saw the publication of a policy paper titled ‘A safer financial sector to serve South Africa better’, which proposed the Twin Peaks model of regulation. The Twin Peaks model seeks to attain regulatory efficiency by creating specialist peaks for prudential and conduct regulation respectively. The foundational legislation underpinning this regulatory approach, namely the Financial Sector Regulation Act 9 of 2017 (FSR Act), was signed into law on 21 August 2017. The FSR Act makes three significant changes to the South African financial sector regulatory landscape. The South African Reserve Bank (SARB) is in the first instance granted an explicit mandate to lead the process of protecting and enhancing financial stability. Furthermore, and in the second instance, the FSR Act establishes a prudential regulator, the *Prudential Authority* (PA), to promote the safety and soundness of individual financial institutions and in the third instance, the FSR Act also establishes a market conduct regulator, the Financial Sector Conduct Authority (FSCA), to ensure that customers of financial products and services are treated fairly. The PA, the FSCA as well as other financial sector regulators play a major role in supporting the financial stability mandate of the SARB.

The PA was established on 1 April 2018, and is a juristic person operating within the administration of the SARB. As such, the PA supervises banks, insurance companies, cooperative financial institutions (CFIs) as well as securities and derivative market infrastructures. It consists of the following four departments:

- Banking, Insurance, CFIs and FMIs Supervision Department;
- Financial Conglomerate Supervision Department;
- Risk Support Department; and
- Policy, Statistics and Industry Support Department.

#### **Sustainability objectives**

In line with the increased prominence of sustainable finance and climate change issues on the agendas of international regulatory organizations, the Prudential Authority (PA) actively participated in related discussions through its membership in the SIF and the Basel Committee on Banking Supervision. In July 2019, the South African Reserve Bank (SARB) formally joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The SARB (including the PA) is also an active member of key NGFS workstreams to address climate-related supervisory practices, develop analytical climate risk frameworks, and develop green taxonomies.

In September 2020, the Prudential Authority Climate Think Tank (PACTT) was established and consists of members across the four PA departments. Its mandate is to promote, develop and coordinate the PA’s regulatory and supervisory response to climate risks that will impact entities regulated and supervised by the PA and to drive these interventions in a coordinated and collaborative way within the PA, the SARB and with other relevant stakeholders.

## Sustainability work highlights

In 2019, the PA surveyed the domestic banking and insurance sector on its implementation of the recommendations of the TCFD. A [report](#) was published in April 2020, containing the results of this survey. The main conclusions drawn from the survey indicate:

- an acute awareness among financial institutions (banks and insurers) that climate change will have a significant impact on their business, although awareness is higher in the insurance sector; and
- a need for more comparable climate-related reporting to enhance the industry's understanding of climate risk to better inform business planning and strategy conversations.

## Membership of any other initiatives/networks working on sustainability

- IAIS
- NGFS (SARB is a member)

## Recent engagement with SIF

The PA attended both the 8th SIF meeting in Basel in February 2020, and the SIF virtual meetings in May 2020, providing valuable information and feedback which contributed to SIF's future work plan. PA contributed a case-study to the [SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures](#), published in February 2020.

The PA also provided an in depth update on their work for SIF's half yearly update report released in June 2020. In addition, the PA provided feedback to SIF for the SIF/IAIS Application paper on the Supervision of Climate-related Risks in the Insurance Sector, to be published in early 2021.

