

# FAQ document

## **PART I) GENERAL QUESTIONS (CHAPTERS 1-4)**

### Introduction

#### **1. What are insurance-associate emissions?**

- Insurance-associate emissions are Greenhouse gas (GHG) emissions in the real economy, which are associated with specific re/insurance policies aggregated in the re/insurance portfolio. As such, insurance-associated emissions are a form of virtual accounting for real economy GHG emissions.
- This definition is for accounting purposes only. It is not intended, and should not be interpreted as, an admission of liability by any re/insurer for any emissions caused, or contributed to, by an insured or an insured activity.

#### **2. What is the PCAF Insurance-Associated Emissions Standard and how does it relate to the existing PCAF Standard for financed emissions**

- The PCAF Insurance-Associated Emissions Standard provides detailed methodological guidance for the measurement and disclosure of insurance-associated emissions for the insurance industry. The adoption and use of the methodologies discussed or included in this Standard is completely voluntary and must be determined independently by each company.
- PCAF's Financed Emissions Standard covers methodologies for measuring and reporting the GHG emissions with loans and investments. The insurance industry is in a unique position with asset owner and underwriting activities on the same balance sheet. For their asset owner and management activities, they can use the [PCAF Financed Emissions Standard](#) subject to their existing regulatory requirements.

#### **3. Who are the expected users of this PCAF Standard?**

- Insurance companies
- Reinsurance companies
- Anyone interested in understanding the emissions associated with re/insurance underwriting portfolios may use the Standard. This may include financial institutions with ancillary insurance business, brokers, managing general agents, etc.

#### **4. What process has this PCAF Standard gone through in its development?**

- The Standard was developed by the PCAF Insurance-Associated Emissions Working Group. The Working Group was facilitated by the PCAF Secretariat and comprised 16 insurers and reinsurers of different sizes and from different regions.
- The Working Group has, at all times, sought to ensure that the accounting methodologies and reporting requirements proposed in this Standard are compatible with applicable law, including antitrust laws.
- The work leading to the adoption of this Standard has included public consultation on the proposed methodologies for measuring and reporting insurance-associated emissions. The consultation was open to all interested parties including regulators, participants from across the re/insurance industry, brokers, policy makers, data providers, consultants, academia, non-governmental organizations (NGOs), associations of insureds, and civil society as a whole.
- The Working Group considered the input and feedback received during the consultation process to the extent it was feasible and implementable and compatible with applicable laws and regulations.

#### **5. What are the next steps of this PCAF Standard and how will it develop?**

- This first Standard constitutes Part C of the 'Global GHG Accounting & Reporting Standard for the Financial Industry.' This document will continue to iterate over time

as further Standards are developed for the financial industry, including where additions are made to existing standards to include new asset classes or lines of business.

- Specific to the Standard, there is further scope to develop methodologies for additional lines of business as well as refine the first version of the accounting methodology or reporting requirements over time.
- This Standard is not applicable for Life and Health insurance lines at this time. For these lines, the PCAF Secretariat recommends focusing on the asset owner activities and to measure and disclose the financed emissions using Part A: "Financed Emissions Standard – second version".

#### **6. How could this PCAF Standard be used?**

- The PCAF Insurance-Associated Emissions Standard provides guidance for measuring and disclosing insurance-associated emissions.
- Users have the flexibility to decide where they want to start with measuring and disclosing their insurance-associated emissions—for instance, at a specific line of business level or by sector. Flexibility in reporting is allowed largely as a consequence of limitations in data availability and quality.
- These reporting requirements complement existing frameworks such as TCFD, GRI, Sustainability Accounting Standards Board (SASB), generally accepted accounting principles (GAAP), and International Sustainability Standards Board (ISSB). It is supplementary to and builds upon the reporting requirements set out by the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

#### **7. Where can more information on PCAF be found?**

- Further information on PCAF can be found on their website [here](#).

#### **8. Where can more information on the GHG protocol be found?**

- Further information on the GHG Protocol can be found on their website [here](#).

### GHG accounting in re/insurance

#### **1. What lines of business are covered by this PCAF Standard?**

- In the first version of the PCAF Standard for insurance-associated emissions, the majority of commercial and personal motor lines of business are covered. In future versions, PCAF expects to cover other lines of business.
- Full details on the scope of this Standard can be found in Table [5-1] in the Standard.

#### **2. What is the difference between absolute insurance-associated emissions and emission intensity?**

- Absolute emissions are the share of an insured's absolute emissions that is associated with a re/insurer's underwriting portfolios, expressed in tonnes CO<sub>2</sub>e.
- Emission intensity represents this as an average of the emissions for a unit of measure relevant to the entity being considered (e.g., revenue of the insured or physical activity), for example:
  - For a vehicle, the emissions intensity may be represented as the average mass of GHG of CO<sub>2</sub> emitted by a vehicle when it drives one unit of measure, usually expressed in gCO<sub>2</sub>/km
  - For a company, the emissions intensity may be represented as the average mass of GHG of CO<sub>2</sub> emitted by a company per unit of revenue, usually expressed in gCO<sub>2</sub>/€M

#### **3. How do insurance-associate emissions differ from financed emissions and real economy emissions?**

- Both insurance-associated emissions and financed emissions are form of virtual accounting of GHG emissions generated from real economy activities.

- However, the relationship between a re/insurer and the insured is fundamentally different from the relationship between an investor and their investee (see Box 4-1 of the Standard). The attribution factors applied across the financed emissions and insurance-associated emissions workstreams therefore necessarily differ to reflect the difference in the underlying relationship.

## GHG accounting can be used as a basis to achieve business goals

### 1. What business goals can be achieved by measuring insurance-associate emissions?

- The existing PCAF Standard for financed emissions highlights four of the major business goals of financial institutions which GHG accounting could support. This set of business goals is voluntary in nature and by no means exhaustive.
- The four business goals outlined in the Standard for insurance-associated emissions are:
  - Business goal 1: Create transparency for stakeholders
  - Business goal 2: Manage climate-related transition risks
  - Business Goal 3: Develop climate-friendly insurance products
  - Business goal 4: Ensuring re/insurance underwriting portfolios are compatible with climate targets
- Further information can be found in Chapter 3 of the Standard for insurance-associated emissions.

### 2. How can this PCAF Standard be used to support baselining?

- The PCAF Standard is solely used as an accounting and reporting tool to measure emissions associated with underwriting activities. For the purposes of baselining, re/insurance companies can use this PCAF Standard as a method to calculate their IAE to understand where they are in their sustainability journey.

## Principles and requirements of GHG accounting for re/insurers

### 1. How does this PCAF Standard relate to the GHG Protocol?

- The current Technical Guidance for Calculating Scope 3 Emissions (version 1.0) from the GHG Protocol expresses that insurance companies may account for emissions from insurance contracts under Scope 3, Category 15 (Investments, other investments or financial services). The Working Group proposes that insurance-associated emissions are reported as a supplementary accounting note within the re/insurers' scope 3 category 15.
- This first version of the PCAF Standard provides additional guidance for how re/insurers would incorporate the emissions associated with insurance contracts in their downstream scope 3 inventories.

### 2. How should IAE be reported under the GHG Protocol?

- Insurance-associated emissions shall be reported under scope 3, category 15 (Investments). Since re/insurers also have investments as asset owners, it is recommended that insurance-associated emissions are reported separately from financed emissions from investments (as a supplementary accounting note).
- Further information on the reporting of insurance-associated emissions can be found in Chapter 6 of the Standard.

### 3. What is the "follow the risk" principle and how is it relevant to this PCAF Standard?

- The "follow the risk" principle reflects the relationship between re/insurers and the insured and is a key tenet for accounting of insurance-associated emissions.
- This relationship and how it relates to insurance-associated emissions is outlined in Chapter 4.2 of the Standard.

#### **4. Where is double counting relevant to insurance-associate emissions and how can this be treated?**

- Double counting, which occurs when GHG emissions are counted more than once in the inventory of insurance-associated emissions of one or more insurance companies, should be avoided as much as possible. Double counting of insurance-associated emissions can occur due to several reasons. As this is virtual accounting, and not intended for summing up absolute GHG emissions in the real world, the impact of double counting will not affect the intended use.
- Further detail can be found in Box 4-2 of the Standard.

#### **5. What data is needed for the PCAF Standard?**

- Re/insurers shall use the highest-quality data that is reasonably available for each line of business for calculations, and, where relevant, improve the quality of the data over time. PCAF recognizes that high-quality data can be difficult to obtain when calculating insurance-associated emissions, particularly for certain lines of business, insured activities and or segments (e.g., SME – Small Medium Enterprises). However, data limitations should not deter re/insurers from taking the first steps toward preparing their inventories.

PCAF's web-based emission factor database provides a large set of emission factors for Options 2 (physical activity-based emissions) and 3 (economic activity-based emissions). This can help re/insurers get started with estimating the insurance-associated emissions of their commercial lines portfolios.

- The PCAF Standard includes a data quality score which provides a 1 to 5 score for the data quality and enables clarity in reporting as well as enables financial institutions to improve data over time.
- More information on issues related to data quality and how to employ the hierarchy for each line of business can be found in Chapter 5 and in Annex 2.

## **PART II) QUESTIONS ON METHODOLOGY TO MEASURE IAE (CHAPTER 5)**

### **1. What is an attribution factor?**

- This Standard defines attribution factors that reflect a share of the total annual GHG emissions from insured companies that can be associated with re/insurance underwriting portfolios.
- The approaches for commercial and personal motor insurance portfolios are based on a conceptually similar idea: the attribution factor is determined based on the importance of insurance as production factor for an asset or client/company. For commercial portfolios, the ratio of premiums and revenues of a client/company/asset is used to determine attribution. For personal motor portfolios, the attribution is calculated based on the share of insurance in the total cost of ownership of running a vehicle.

### **2. What scopes of emissions should be considered within the methodology?**

- Following the logic of the GHG Protocol, the GHG accounting methodology for insurance-associated emissions should at least focus on the scope 1 and scope 2 emissions of the clients of re/insurers. Absolute scope 3 emissions should also be taken into account to the extent that such numbers are available and represent reasonable and verifiable estimates.
- To avoid double counting, the insurance-associated emissions relating to client scope 1 and 2 emissions shall be disclosed separately from the customers' scope 3 emissions; where the data allows for an accurate and fair account of insurance-associated emissions over time, and where reporting in this manner is not

unreasonably burdensome. If re/insurers do not report scope 3 emissions of their customers, PCAF recommends that re/insurers should explain why.

- 3. For commercial lines portfolios, how should emissions be attributed under the IAE Standard?**
  - Full details can be found in Section 5-2 of the Standard
- 4. For commercial lines portfolios, what data is required and how should a data quality score for the data be used?**
  - Full details can be found in Section 5-2 of the Standard
- 5. For personal motor portfolios, how should emissions be attributed under the IAE Standard?**
  - Full details can be found in Section 5-3 of the Standard
- 6. For personal motor portfolios, what data is required and how should a data quality score for the data be used?**
  - Full details can be found in Section 5-3 of the Standard

### **PART III)      QUESTIONS ON METRICS + REPORTING RECOMMENDATIONS (CHAPTER 6)**

- 1. Where can one find guidance on how to disclose insurance-associated emissions?**
  - The Standard provides reporting recommendations in Chapter 6.
- 2. How should insurance-associated emissions be reported alongside financed emissions?**
  - The Standard recommends that insurance-associated emissions should be reported as a supplementary note to re/insurers' scope 3 category 15 (Investments) emissions for accounting purposes.

### **Important note**

The Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Insurance Industry ("Insurance-Associated Emissions Standard") derives from the work conducted by the PCAF's Insurance-Associated Emissions Working Group ("Working Group").

These Frequently Asked Questions ("document") derives from the work conducted by the Working Group and seeks to summarize the content of the Standard as well as to support its reading.

The Working Group has, at all times, sought to ensure that the accounting methodologies and reporting requirements proposed in the Standard are compatible with applicable law, including antitrust laws. The development of the methodologies and reporting requirements set out in the Standard, including associated discussions and work undertaken by the Working Group, has been undertaken in compliance with applicable laws, including antitrust laws.

The methodologies and the context provided (e.g., examples of the possible use of such methodologies) in the Standard and in this document are not to be construed as prescriptive. The adoption and use of the methodologies discussed or included in the Standard are voluntary and must be determined independently by each company.

The use of such methodologies by a company is subject to applicable laws, rules and regulations in the jurisdictions in which that company operates. In case of conflict of applicable laws, rules and regulations with the methodologies or the reporting requirements described in the Standard, the applicable laws, rules and regulations shall prevail, but any deviations from the Standard should be highlighted to protect the goal and value of the Insurance-Associated Emissions Standard.

The work leading to the adoption of the Standard included a public consultation on the proposed methodologies for measuring and reporting insurance-associated emissions. The consultation was open to all interested parties, including regulators, participants from across the re/insurance industry, brokers, policymakers, data providers, consultants, academia, non-governmental organizations (NGOs), associations of insureds, and civil society as a whole. The Working Group considered the input and feedback received during the consultation process, which were reflected in this Standard, to the extent it was feasible and implementable and compatible with applicable laws and regulations.