

# PCAF Insurance-Associated Emissions



**The Partnership for Carbon Accounting Financials (PCAF) released the first global standard for measuring and reporting insurance-associated emissions on 16 November 2022. The Standard supplements and builds on the requirements of the GHG Protocol, which has developed broad market adoption over the years.**

## The need for a standard

The insurance industry is both a major global asset holder and enables economic activity through its insurance activities, which have no ownership or direct control over activities in the real economy. Because of this, insurers require a new emissions measurement and reporting standard distinct from financed emissions approaches, which PCAF has now provided.

## Guidance overview

The guidance provides insured-emissions calculation approaches for commercial lines and personal motor insurance. In general terms, insurance-associated emissions will be calculated by multiplying an attribution factor by an insured company's emissions.

The guidance uses **attribution factors** to determine the insurer's share of an insured customer's absolute emissions. Insurers can use industry data provided by PCAF or portfolio-specific metrics. A different attribution factor applies for commercial lines and personal motor portfolios:

- **For commercial lines**, the attribution factor is determined from the insurance premium as a ratio of the customer's revenue.

## Formula to calculate insurance-associated emissions

$$\text{Insurance-associated emissions} = \text{Attribution factor}_i \times \text{Emissions}_i$$

$$\text{Attribution factor}_i = \frac{\text{Re/Insurance premium}_i}{\text{Customer revenue}_i}$$

Source: Insurance-Associated Emissions, the Global GHG Accounting & Reporting Standard, Part C, Partnership for Carbon Accounting Financials, November 2022.

- **For personal motor portfolios**, the attribution factor is determined by the ratio of the insurer’s revenue received from the insured (insurance premium) to the annual costs associated with vehicle ownership.

$$\begin{aligned}
 & \text{Insurance-associated emissions} = \text{Attribution factor of portfolio} \times \text{Emissions of insured vehicles within portfolio P} \\
 & \text{(Industry) Attribution factor}_p = \frac{\text{Insurance industry's total premium from the motor line of business}}{\text{Total costs associated with vehicle ownership of all vehicles}}
 \end{aligned}$$

Source: Insurance-Associated Emissions, the Global GHG Accounting & Reporting Standard, Part C, Partnership for Carbon Accounting Financials, November 2022.

## Key considerations in applying the Standard

**Increased data requirements:** For the first time, insurers will need to consider Scope 3 emissions associated with their core underwriting business activities. Collecting insured emissions presents some difficulties due to potential data misalignment between insured legal entities and their emissions and revenue reporting data. Once the data is collated and analyzed, insured emissions should be reported as a supplementary accounting note to Scope 3 category 15 (Investments), though not aggregated.

**The guidance has significant gaps:** The guidance is an iterative process and currently excludes key business lines, such as: reinsurance; life and health; household; structured trade credit; surety; construction engineering lines; corporate life and pensions; and other personal lines. PCAF have indicated that some additions will be included in Phase 2.

The full guidance can be found on the PCAF website: <https://carbonaccountingfinancials.com/>

## How KPMG can help

KPMG’s team of climate and carbon accounting professionals work alongside KPMG insurance professionals assisting insurance, financial services and the corporate sector with their Scope 1, 2 and 3 emission calculations. They draw upon their experience to help effectively navigate the challenges that will inevitably arise when implementing an insured-emissions program.

Contact one of our professionals to learn how KPMG can help.

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