SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

INSURANCE UNDERWRITING EXPLANATORY NOTE

FOR USERS OF THE SBTi FINANCIAL INSTITUTIONS NET-ZERO STANDARD V1.0

Version 1.0

May 2026

ABOUT SBTi

The Science Based Targets initiative (SBTi) is a corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis.

We develop standards, tools and guidance which allow companies to set greenhouse gas (GHG) emissions reductions targets in line with what is needed to keep global heating below catastrophic levels and reach net-zero by 2050 at latest.

The SBTi is incorporated as a UK charity, with a subsidiary SBTi Services Limited, which hosts our target validation services. Partner organizations who facilitated SBTi's growth and development are CDP, the United Nations Global Compact, the We Mean Business Coalition, the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF).

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VERSION HISTORY

Version	Change/update description	Publication date
1.0	First version of the Insurance Underwriting Explanatory Note for users of the SBTi Financial Institutions Net-Zero Standard V1.0	May 19, 2026

CONTENTS

INTRODUCTION

A.1 Objective of this document

This Insurance Underwriting Explanatory Note is designed as a practical implementation guide to support applying the SBTi Financial Institutions Net-Zero Standard (the Standard) to insurance underwriting portfolios. It contains explanatory guidance, illustrative examples, and case studies.

This informative document includes:

- Section A (Introduction): Intended audience, scope, and usage alongside the Standard and related SBTi resources.
- Section 1 (Financial Institutions' net-zero commitment): How (re)insurers establish their organizational and portfolio boundaries as part of a net-zero commitment.
- Section 2 (Base year assessment): Clarifications on insurance underwriting-associated emissions accounting, including purpose and premium-based attribution, as well as on alignment metrics and data-quality considerations.
- Section 3 (Navigating policies and target-setting options): How (re)insurers may select and apply near-term and long-term target-setting approaches for underwriting portfolios, including alignment and sector-specific targets, and policies.
- Section 4 (Monitoring, recalculation, and reporting): Guidance on reporting requirements, progress measurement, and recalculation triggers.
- Annex: List of common insurance-specific constraints and how to potentially mitigate them.

Section headers indicate which criteria in the Standard they refer to, following the format: "FINZ-C[*number*]." When relevant tables from the Standard are referenced, they follow the format "FINZ-Table [*number*]" to clearly differentiate them from tables used in this Explanatory Note.

A.2 Audience

The Standard applies to companies that generate 5% or more of their total revenue from in-scope insurance underwriting activities. However, companies below that threshold are encouraged to use the Standard. The main intended users of this Explanatory Note are shown in Table 1. These entities may need to separately apply the Standard to both their insurance underwriting and investment (or other in-scope financial) activities, while maintaining consistent organizational boundaries across the group.

Table 1. Main intended users

Stand-alone (re)insurers	Composite (re)insurers	Diversified financial institutions with insurance businesses
Stand-alone insurance companies underwriting commercial risks directly or via delegated authority/managing general agents (MGAs).	Composite (re)insurers offering facultative and treaty (re)insurance for multiple markets and portfolios.	Banking groups or diversified financial institutions owning insurance subsidiaries, branches, or bancassurance underwriting units.
Illustrative underwriting exposures		
• Property • Commercial Motor • Liability (General, Professional, Product) • Directors & Officers • Energy & Power • Marine & Aviation • Agriculture • Construction/Engineering • Specialty Lines (Cyber, Political Risk, Credit)	• Casualty Facultative • Treaty • Multi-line treaties • Global Catastrophe Covers	• Commercial Property • Liability • Bancassurance channel • Simple commercial Motor/Fleet

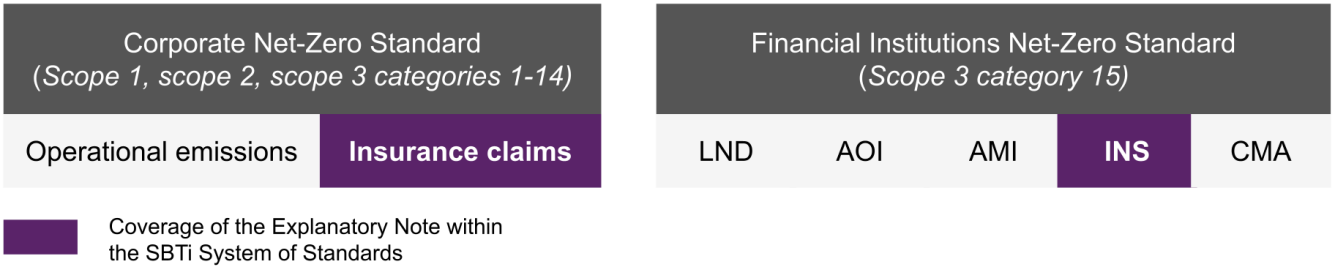
A.3 Scope of the explanatory note

The Financial Institutions Net-Zero Standard covers the following financial activity types:

- Lending (LND)
- Asset owner investing (AOI)
- Asset manager investing (AMI)
- Insurance underwriting (INS)
- Capital market activities (CMA)

Separately, the Corporate Net-Zero Standard applies to scope 1 and 2 operational emissions and, where applicable, to scope 3 categories 1–14 emissions. Targets for insurance claims-related activities may be set according to this Standard.

Figure 1. Illustrated coverage of this Explanatory Note



This Explanatory Note focuses on in-scope insurance underwriting activities as listed in FINZ-Table 1.4 in the Financial Institutions Net-Zero Standard. (Re)insurers involved in multiple financial activity types (LND, AOI, AMI, INS, CMA) would need to assess each independently, with separate segmentation and target setting.

While lending and investment activities may be relevant for (re)insurers, they are not covered in this document.

Users are responsible for meeting or exceeding applicable national, subnational, and regional legal and regulatory requirements.

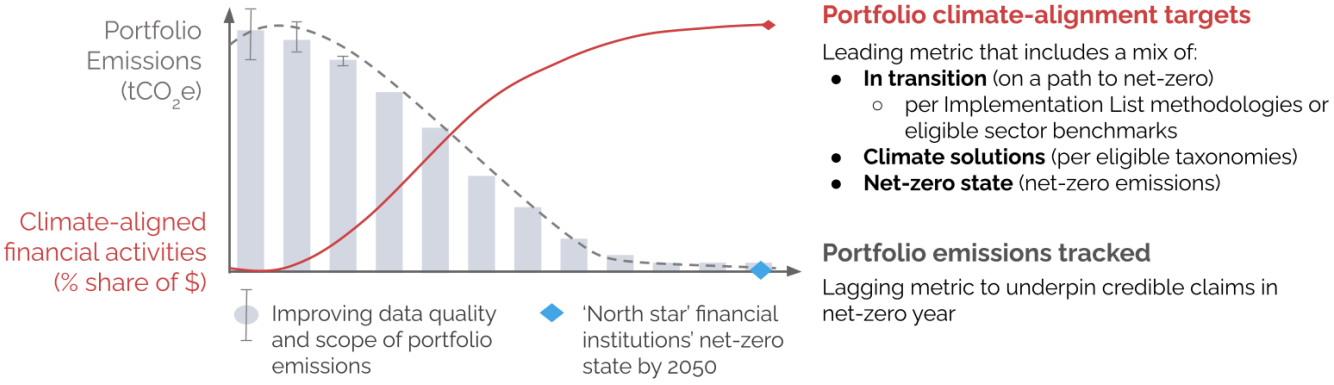
A.4 Key elements of the SBTi Financial Institutions Net-Zero Standard

The Standard provides a science-based framework for financial institutions to align their financial activities with a net-zero by 2050 trajectory. It is structured around a common net-zero journey, in which financial institutions are expected to:

- Define the scope and boundaries of in-scope financial activities.
- Assess base year emissions, climate alignment, and exposure to clean energy, fossil fuels, and deforestation.
- Set near- and long-term targets.
- Disclose targets, policies, and progress in a transparent and consistent manner.

Figure 2 illustrates the conceptual framework, highlighting how increasing portfolio climate alignment acts as a leading indicator to facilitate real-economy decarbonization, with portfolio emissions reducing as a lagging indicator over time, while data and coverage is improved.

Figure 2. Conceptual Framework



Financial institutions must publicly commit to achieving a net-zero state by 2050 or earlier. Long-term targets are set using portfolio climate-alignment metrics to ensure counterparties trend towards a net-zero state. Absolute portfolio GHG emissions are tracked via disclosure as a lagging metric to ensure counterparty emissions reduce to zero or residual levels by 2050.

Alignment may be assessed using different approaches, including exposure to in-transition, net-zero state, or climate solutions activities, as well as based on sector metrics, depending on data availability and portfolio characteristics.

This Explanatory Note must be read in conjunction with the Financial Institutions Net-Zero Standard and other related resources.

1. FINANCIAL INSTITUTIONS' NET-ZERO COMMITMENT

To support (re)insurers establishing their net-zero commitment, this section:

- Explains how net-zero commitments apply to insurance underwriting activities.
- Describes how organizational and portfolio boundaries are defined.
- Outlines how (re)insurers determine which underwriting activities fall within scope of the Standard.

1.1 FINZ-C2: Organizational boundary

(Re)insurers are expected to define an organizational boundary that determines which entities and assets are included in their scopes 1, 2, and 3 emissions inventories.

If there are jurisdictional rules (that a (re)insurer is subject to) on how it must define its organizational boundary for emissions reporting, then those must be followed. Otherwise, a (re)insurer's organizational boundary is defined in accordance with the GHG Protocol Corporate Standard or its financial statements. This choice determines which legal entities, branches, and underwriting platforms are included, and how underwriting exposure is consolidated at the group level.

For example, if the operational control approach is used:

- Entities that a (re)insurer has operational control over would be consolidated into the (re)insurer's organizational boundary. These entities' emissions would be included at 100% in the (re)insurer's emissions and any in-scope financial activities undertaken by these entities would be considered a part of the (re)insurer's financial activities.
- Entities that a (re)insurer has an investment stake in but does not have operational control over would be considered a portfolio company (e.g., as an equity investment under AOI) and would otherwise not be consolidated into the (re)insurer's organizational boundary.

In the SBTi Services Financial Institutions Net-Zero Standard submission form, institutions must list which subsidiaries are included in their organizational boundary and indicate any exclusions with a brief explanation (e.g., the subsidiary is not included in their financial statements).

Case Study 1. Defining the organizational boundary for a group with multiple entities

A composite (re)insurer group operates through multiple regulated underwriting entities, representative offices, shared service entities, a subsidiary from the United Kingdom (UK), and a separate asset management arm.

Step 1	Step 2	Step 3	Step 4	Step 5
Map the group structure List all legal entities and operating units: • Subsidiaries • Branches • Representative offices • Underwriting platforms • MGAs • Service companies • Asset management arms	**Select and document the boundary approach** Confirm whether the operational control, financial control, or equity share approach is used to delineate the organizational boundary. Confirm what consolidation perimeter is used in the institution's financial statements. In this example, the (re)insurer uses the financial control approach to match the consolidation perimeter used in audited statements.	**Test edge cases** Identify entities for which there is uncertainty whether they should be included in the organizational boundary. In this example, the (re)insurer identifies uncertainty around representative offices (with no underwriting revenue), an asset management branch, and an overseas subsidiary.	**Apply boundary decision consistently** Boundary decisions are applied consistently using a financial-control-aligned organizational boundary. **Example A: Representative offices** Representative offices are local offices that act as group liaisons and are included in the organizational boundary when the legal entity they belong to is consolidated in the group's financial statements. In that case, relevant emissions are covered in the boundary. **Example B: Asset management branch** The asset management branch is included in the group organizational boundary under a financial-control aligned approach; however, their financial activities are covered under a separate financial activity type (AOI/AMI). **Example C: UK subsidiary** The UK subsidiary operates under a distinct regulatory regime with separate underwriting governance and decision-making processes. The parent entity has a stake in the subsidiary but does not exercise operational control over its underwriting decisions and the subsidiary is not consolidated in the group financial statements. The subsidiary is therefore considered an investee but otherwise not included within the organizational boundary.	**Create a boundary coverage table** Capturing: • Entity name • Activity type • Consolidation method (GHG & financial statements) • % of group underwriting exposure (if relevant) • Rationale for exclusions

1.2 FINZ-C3: Portfolio boundary and segmentation

1.2.1 Portfolio boundary: in-scope and out-of-scope insurance underwriting activities

In-scope activities refer to the financial activities that are covered by the SBTi's frameworks, as per Tables 1.1-1.5 of the Financial Institutions Net-Zero Standard. If the aggregate in-scope portion within a financial activity type (i.e., lending, asset owner investing, asset manager investing, insurance underwriting, capital market activities) generates 5% or more of their total revenue, then it needs to be covered by targets. If it generates less than 5% of total revenue, then it is recommended but optional to include that financial activity type within the target boundary. Where an insurance group has multiple financial activity types (e.g., insurance underwriting and asset-owner investing), each activity must be scoped, segmented, and assessed separately.

Out-of-scope insurance underwriting activities as per FINZ-Table 1.4 of the Standard include:

- Personal lines insurance
- Life and health insurance
- Insurance brokers and intermediary services (these entities may use the SBTi Corporate Net-Zero Standard to set targets for their brokerage activities, if they are not also risk carriers)
- Alternative risk transfer and capital-markets-based insurance structures

For certain types of insurance, the table below lists additional nuances to identify in-scope or out-of-scope activities.

Table 2. Treatment of nuances

Type of insurance	In scope	Out of scope
Home-insurance underwriting through housing associations	n/a	☑️ While booked as commercial insurance, the underlying insured activity and emissions profile are comparable with personal home insurance.
Employer-purchased (group) travel insurance	n/a	☑️ The underlying insured activity and emissions profile are comparable with personal travel insurance.
Employer-purchased (group) personal or worker accident insurance	☑️ If covered as part of Directors and Officers (D&O) insurance as it covers individuals in their corporate leadership capacity, which thus has commercial line substance.	☑️ If the underlying insured is an individual (personal injury/accident benefits).

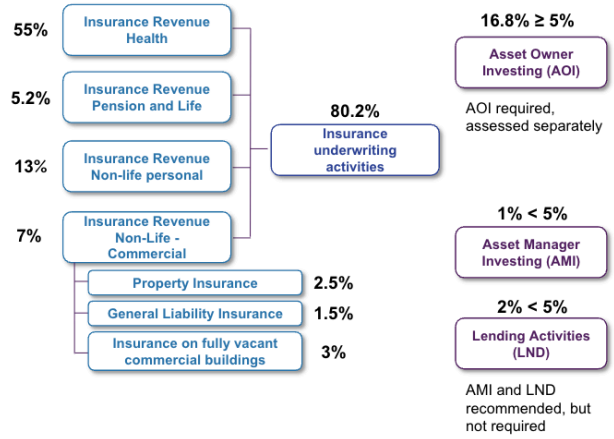
For the purpose of the 5% revenue threshold assessment, the following two metrics are allowed:

- Gross Written Premium (GWP) representing the total value of premiums written during the reporting period.
- Insurance contract revenue (ICR) reflecting revenue recognized under IFRS 17, which may differ from GWP due to adjustments relating to service components, expected claims, and contractual service margins.

The insurance underwriting portfolio boundary establishes which insurance underwriting activities are assessed against all applicable criteria of the Standard.

Case Study 2. Applying the 5% revenue threshold to determine the portfolio boundary

A diversified insurance group operates across insurance underwriting, asset owner investing, asset management investing, and lending. The group seeks to determine whether and which insurance underwriting activities fall must be included in its underwriting portfolio boundary and covered by portfolio targets.

Step 1	Step 2	Step 3	Step 4	Step 5
Analyze total company revenue Use base year revenue figures for each financial activity as reported in financial statements, in accordance with applicable accounting standards. If there are differences in accounting treatment across activities (e.g., reported on a gross basis versus a net basis), then provide both calculations (based on 'net revenue' and 'reconstructed total revenue' figures) to SBTi Services using the same revenue basis in the numerator and denominator (i.e., net over net, or gross over gross). If a financial activity type exceeds the 5% threshold in either case, it should be covered by targets.	**Identify total insurance underwriting revenue** All insurance underwriting revenue streams are identified prior to any scoping exclusions, including: • Non-life commercial insurance • Non-life personal (personal lines) insurance • Life, pension, and health insurance If the group makes investments related to these lines of business, such activities are assessed separately under AOI or AMI.  	**Identify in-scope insurance underwriting activities** Apply the underwriting scoping rules defined in FINZ-Table 1.4: <u>In scope for insurance underwriting</u>: • Non-Life Commercial Property Insurance (2.5%) • Non-Life Commercial General Liability Insurance (1.5%) <u>Out of scope for insurance underwriting</u>: • Non-life personal / personal lines insurance (13.0%) • Pension & life insurance (5.2%) • Health insurance (55%) • Non-life commercial: Insurance on fully vacant commercial buildings (3%) (no operational emissions).	**Determine materiality of in-scope insurance underwriting activities** Assess whether the aggregated revenue (GWP or ICR) of in-scope insurance underwriting activities generates ≥5% of total group revenue. Non-life Commercial Property Insurance (2.5%) + Non-life Commercial General Liability Insurance (1.5%) = 4%	**Interpret the result** **If ≥5%:** Apply the Standard to the in-scope insurance underwriting activities. **If <5%:** The company is encouraged, but not required to apply the Standard to the in-scope insurance underwriting activities. In this example, in-scope insurance underwriting activities generate 4%, which is below 5%. Therefore, the company is encouraged but is not required to apply the Standard to its insurance underwriting activities.

How to treat insurance claims

The Standard distinguishes two cases:

- Pureplay financial institutions that generate 95% or more of their revenue from financial activities for which scope 3 categories 1–14 emission targets (including for insurance claims) is optional but recommended.
- Multifaceted financial institutions that generate 5% or more but less than 95% of their revenue from financial activities for which covering scope 3 categories 1–14 emissions with targets (including for insurance claims) is required.[1]

The recommendation to cover insurance claims is particularly relevant for (re)insurers that can exercise operational influence over claims-related emissions, such as through repair standards, preferred supplier networks, or replacement and repair policies.

Insurance claims-related targets, if set, should follow the SBTi Corporate Net-Zero Standard.[2] Claims-related emissions may fall under different scopes depending on whether activities are performed in-house or outsourced and on the insurer's organizational and operational boundaries:

- **Outsourced management:** Emissions associated with third-party claims handling, repair, and replacement services should be classified in accordance with the GHG Protocol Scope 3 category definitions (often aligning with upstream categories such as Category 1 purchased services and Category 4 and 5 related transport/waste where applicable).
- **In-house management:** Emissions from claims handling, repair, or reconstruction activities managed directly by the (re)insurer may be considered under scope 1, scope 2, and/or scope 3, categories 1, 2, 4, 5, 6 and or 7, depending on the nature of the service.

Case Study 3. Managing claims-related emissions in a motor insurance portfolio

A European (re)insurer covers a portfolio of 100,000 vehicles, mixing personal and fleet lines. The (re)insurer's business model includes comprehensive motor insurance and claims management for repairs, total losses, and vehicle replacement. Claims-related emissions (those arising from repair activities, replacement, and recycling) are relevant due to the scale of the portfolio and the (re)insurer's operational influence over claims outcomes.

Step 1	Step 2	Step 3	Step 4
Assess insurance claims management model The (re)insurer distinguishes between	**Estimate insurance claims-related emissions** The (re)insurer breaks down estimated emissions from: **Small claims:** Emissions from repairs,	**Set targets** For (re)insurers generating 95% or more of revenue from financial activities, setting targets for scope 3 categories 1–14 emissions (including claims-related emissions) is optional but recommended, especially where claims management is material and	**Use operational influence** The (re)insurer engages with repair networks, suppliers, and clients to improve data quality and reduce claims-related emissions over time. This

[1] This document provides more detail on the relation between the Financial Institutions Net-Zero Standard and Corporate Net-Zero Standard.

[2] Targets covering insurance underwriting shall use the target-setting methods available in the SBTi Financial Institution Net-Zero Standard. Targets covering insurance claims payments shall use the target-setting methods available in the SBTi Corporate Net-Zero Standard. This would still apply if the scope 3 category of the two activities were to change in the future.

outsourced and in-house claims management and identifies the relevant scope 3 categories.	including parts, labor, and logistics. **Total losses:** Emissions from vehicle replacement, recycling, and disposal. The (re)insurer uses historical claims data to estimate average emissions per repair and per total loss.	influence is significant. For (re)insurers generating 5% or more but less than 95% of revenue from financial activities, covering scope 3 categories 1–14 emissions with targets is required. The (re)insurer transparently reports claims-related emissions, sets targets on them in line with the Corporate Net-Zero Standard, and documents progress in annual sustainability disclosures.	may include: • Setting minimum environmental standards for repair shops. • Promoting recycling and sustainable disposal practices. • Encouraging the use of low-emission replacement parts and materials.

1.2.2 Segmentation of insurance underwriting portfolios

Segmentation is based on a combination of the lines of business and the economic activities (i.e., sector) of the insured client or project/asset insured. (Re)insurers are required to assign in-scope underwriting exposures to Segments A–D using the segment definitions provided in the Standard, as summarized in Table 3.

Table 3. Economic activities segmentation

Economic Activities	Lines of Business			
	Commercial Insurance to listed and private corporates	Project Insurance		Commercial Insurance to small- and medium-sized enterprises (SMEs)
Fossil fuel activities	Segment A			
Emissions-intensive non-fossil sectors (i.e., Power generation, Air transport, Maritime, Land transport, Cement, Steel, Residential buildings and commercial buildings, Forest, Land and Agriculture)	Segment B	Segment B	Segment D for existing buildings	Segment D
Other corporates (i.e entities in other sectors including the financial sector)	Segment C	Segment C		Segment D

The Standard allows flexibility in how the sector of the insured activity is attributed (i.e., based on the primary economic activity of the insured company or the specific project/asset insured), provided the chosen approach is disclosed and applied consistently throughout the near-term target period. For example, when providing commercial motor insurance for a fleet of transport vehicles owned by a steel manufacturing company, (re)insurers may assess underwriting:

- At the company level and therefore attributed to the company's sector (in this case, the steel sector); or
- At the project or asset level and therefore attributed to the specific sector of the asset or project (in this case, the automotive sector).

The Standard also provides flexibility for (re)insurers to self-determine and document their own sector-to-segment mapping, using the Standard's segment definitions and emissions-intensive sector lists in FINZ-Tables 1.4 and 2 as the primary reference. The *INS Segmentation* tab in the Financial Institutions Net-Zero Standard Target-Setting Tool is then used to format and disclose this information for official target submission to SBTi Services.

To inform segmentation, (re)insurers, for example, may use established industry classification frameworks such as:

- NACE (European Union, EU)
- NAICS (North America)
- ISIC (international)

These classification systems differ in structure, scope, and level of granularity. Given the global applicability of the Standard, (re)insurers are expected to document how such classification frameworks, internal counterparty taxonomies, or other sources of information are used to map underwriting exposures to Segments A-D.

In practice, (re)insurers often start from regulatory and internal portfolio views, such as Solvency II Lines of Business (LoBs, as defined in Annex I to Delegated Regulation (EU) 2015/35), product families, and (re)insurance structures, which describe the type of insured risk rather than the economic activity of the insured counterparty. Solvency II LoBs therefore do not map directly to the Standard's Segments A-D. In practice, (re)insurers could:

- For direct insurance: Segment exposures using the counterparty's (primary) economic activity, irrespective of the LoB under which the policy is written.
- For facultative (re)insurance: Follow the classification of the underlying direct risk, applying the same counterparty-sector logic.
- For treaty (re)insurance: Segment using the best available information on the underlying portfolio; where granular sector information is not available, apply documented assumptions and sector-proxy approaches consistently and disclose transparently.
- For underwriting conducted under delegated authority: Segmentation must reflect the economic activities associated with the risks written under that authority, consistent with the (re)insurer's organizational boundary and portfolio boundary approach.

The CRO Forum Carbon Footprinting Methodology also provides illustrative examples of how (re)insurers have approached the aggregation of underwriting portfolios by economic sector for climate-related analysis. While this methodology does not constitute a standard and is distinct from the requirements, it can provide helpful context on common data limitations and mapping challenges.

Case study 4. Segmenting mixed and service-based underwriting activities

The following examples illustrate how segmentation can be applied in practice where insured counterparties carry out mixed activities or service-based activities linked to emissions-intensive sectors. The examples highlight the flexibility available to (re)insurers.

Example A: Liability covers for a diversified energy group

A (re)insurer provides liability insurance for offshore oil rigs and renewable energy generation assets to subsidiaries of a diversified energy company.

Step 1	Step 2	Step 3	Step 4	Step 5
Identify in-scope underwriting activities The (re)insurer identifies all of the underwriting activities provided to the energy company as in scope.	**Map activities to sector definitions** The (re)insurer assesses the sector of the insured activity at the company level. **Fossil fuel subsidiary:** The offshore oil rigs are linked to the fossil fuel sector (i.e., exploration and extraction of oil). **Renewable energy subsidiary:** The renewable energy generation assets are linked to the power sector (i.e., electricity generation from renewable sources).	**Allocate to Segments A–C** The (re)insurer carries out a sector-to-segment mapping. **Fossil fuel subsidiary:** Activities directly associated with fossil fuel value chain-related activities are mapped to Segment A. **Renewable energy subsidiary:** Activities associated with other emissions-intensive sectors are mapped to Segment B.	**Define Segment D (where relevant)** Any SME directly involved in fossil fuel-related value chain activities or assets must still be allocated to Segment A. If the fossil fuel-related activities are not in scope of the Standard's fossil fuel value chains, then the SME may be assigned to Segment D.	**Calculate financial exposure using GWP** The (re)insurer calculates the absolute and percentage exposure to each segment using GWP.

Example B: Insurance coverage for an environmental consultancy providing GHG accounting services to fossil fuel companies

A (re)insurer underwrites professional indemnity and liability insurance for a consultancy whose core business is providing GHG accounting, emissions monitoring, and sustainability reporting services to oil and gas companies. The consultancy does not own, operate, or extract fossil fuels, nor does it provide engineering or operational maintenance that directly enables extraction.

Step 1	Step 2	Step 3	Step 4	Step 5
Identify in-scope underwriting activities	**Map activities to sector definitions** The (re)insurer assesses the primary economic activity of the insured	**Allocate to Segments A–C** Because the activity relates to GHG accounting and	**Define Segment D (where relevant)**	**Calculate financial exposure using GWP**

The (re)insurer identifies professional indemnity and commercial liability underwriting as in scope.	counterparty, focusing on the nature of services provided rather than the downstream use of the assets serviced. The activity is mapped as professional/technical services rather than fossil fuel extraction or production.	sustainability consulting rather than directly enabling fossil fuel extraction, processing, or expansion, the exposure is not classified under Segment A. The underwriting exposure is instead allocated to the most appropriate segment based on the insured service activity (i.e., Segment C for other service sectors). Where the majority of the company's services are exclusively tied to fossil-fuel infrastructure, the (re)insurer documents this linkage but maintains the segmentation based on the insured professional activity of the counterparty.	If the insured counterparty is not considered to be in the fossil fuel sector and satisfies SME threshold definitions, then the (re)insurer may apply Segment D treatment as a pragmatic implementation choice.	The (re)insurer calculates the absolute and percentage exposure to each segment using GWP.

Example C: Insurance provided via trade unions or collective arrangements

A (re)insurer provides commercial motor and liability insurance to multiple logistics companies through sector-specific trade unions. Insurance contracts are negotiated and administered at union level, while insured activities are carried out by individual member companies operating diverse logistics and transport businesses.

Step 1	Step 2	Step 3	Step 4	Step 5
Identify in-scope underwriting activities The (re)insurer identifies the commercial motor and liability insurance provided as in scope.	**Map activities to sector definitions** The (re)insurer looks beyond the trade union entity and assesses the economic activities or assets of the member companies whose risks are insured: • Road freight transport; • Specialized logistics services; or • Sector-specific transport activities.	**Allocate to Segments A–C** Segmentation is performed based on the underlying logistics activities carried out by the member companies. Transport activities linked to fossil fuel value-chain exposure are assessed for potential classification under Segment A (e.g., if transporting LNG). Other freight and logistics activities are typically classified under Segment B (transport), or Segment C where the insured services or assets are not associated with emissions-intensive sectors. The trade union itself is not treated as a separate segment.	**Define Segment D (where relevant)** Where member companies are SMEs in non-fossil fuel sectors, the (re)insurer may elect to treat the exposure under Segment D.	**Calculate financial exposure using GWP** The (re)insurer calculates segment-level exposure using GWP, aggregating exposure across underlying insured counterparties rather than at intermediary level.

How to approach SMEs within portfolio segmentation

The Standard focuses on segmentation by insured activity and does not require a single global “SME” definition. For operational consistency, (re)insurers may use relevant national or regional regulatory definitions. For instance, in the EU, a common reference is the European Commission Recommendation 2003/361/EC, which defines micro, small and medium-sized enterprises as set out in the table below. The Standard requires financial institutions to segment in-scope financial activities as part of establishing the portfolio boundary.

Table 4. Segmentation of SMEs example in the EU

SME type	Indicative thresholds	Treatment under the Standard (segmentation)
Micro Enterprise	<10 employees and turnover or balance sheet ≤€2m	SMEs engaged in fossil fuel activities: **Segment A**. All other types of SMEs: **Segment D**. With sufficient information on sector (per FINZ-Table 2), (re)insurers **optionally** may choose to categorize them into Segments B or C instead.
Small Enterprise	<50 employees and turnover or balance sheet ≤€10m	
Medium-size Enterprise	<250 employees and ≤€50m turnover or ≤€43m balance sheet	

For (re)insurance underwriting portfolios, SME exposures are often aggregated across cedants[3], lines of businesses, and geographies, with limited counterparty-level emissions or sector data. In line with FINZ-Table 1.4 and the Standard’s Frequently Asked Questions (FAQs), SMEs should segment primarily based on the economic activity of the underlying insured risk, using best available portfolio-level information and apply approximations where granular data is not available.

As a result, SME underwriting can be allocated to Segments A, B, C or D. While SMEs are often placed in Segments A or D, allocation to Segments B or C is possible but not mandatory where the insured activity and available information support it.

[3] A cedant is an insurance company that transfers, or "cedes," a portion of its risk portfolio to a reinsurance company.

Case study 5. Segmenting agriculture underwriting to SMEs and large agri-businesses

A (re)insurer underwrites agricultural risks across its portfolio, including:

- Primary agriculture risks for small and medium-sized farms (e.g., crop insurance, livestock insurance); and
- Commercial insurance coverage for large agri-businesses involved in food processing and global supply chains.

Both types of exposure fall within the broader agriculture and food system, which may be recognized as emissions-intensive per FINZ-Table 2.

Step 1	Step 2	Step 3	Step 4	Step 5
Identify in-scope underwriting activities The (re)insurer identifies agriculture-related underwriting as in scope.	**Map activities to sector definitions** The (re)insurer maps the insured activities to the agriculture and food sectors, distinguishing between: • Primary agricultural production at the farm level. • Industrial-scale food and agri-business operations.	**Allocate activities to Segments A–C** At the sector level, agriculture is recognized as emissions-intensive and would normally fall within Segment B. However, segmentation is refined further based on counterparty characteristics: • Large agri-businesses (e.g., multinational food and agriculture companies with complex value chains and significant emissions footprints) are classified under Segment B, reflecting their scale, emissions intensity, and availability of emissions- and transition-relevant data. • Underwriting for small and medium-sized farms is assessed further in Step 4.	**Define Segment D (where relevant)** Where the insured are SMEs, such as smallholder or family-owned farms, the (re)insurer may classify this exposure under Segment D, as a subset of the agriculture sector, based on: • Limited data availability; • The fragmented nature of SME agricultural portfolios; and • The need for a more gradual transition pathway consistent with Segment D characteristics. Segment D treatment does not alter the underlying sectoral context (agriculture), but allows a differentiated approach to segmentation and, subsequently, to target coverage and ambition.	**Calculate financial exposure using GWP** The (re)insurer calculates allocates GWP by: • Segment B (large agri-businesses); and • Segment D (SME farming portfolios).

2. BASE YEAR ASSESSMENT

This section provides guidance on how (re)insurers may approach base-year assessment:

- Guidance on choosing a representative base year across different activities.
- Approaches to assessing insurance-associated emissions, base-year climate-alignment, and financial exposure to clean energy, fossil fuels, and deforestation.
- The use of premium-based attribution across underwriting portfolios, including SME-heavy and data-constrained books.
- The application of estimates, proxies, and transparent assumptions to address data gaps and methodological constraints.
- Progressive data-quality improvement over time.
- Documentation to support validation, monitoring, and future recalculation.

2.1 FINZ-C5: Base year selection

The following outlines requirements and recommendations on selecting a base year.

Requirements:

- One base year is used to determine organizational and portfolio boundaries (e.g., relevant subsidiaries, 5% revenue threshold, segmentation, portfolio target coverage).
- One base year is used across all financial activities for the climate-alignment assessment, portfolio climate-alignment targets, GHG emissions inventory, and financial exposure assessment per FINZ-C8. This can be the same or different from the year used to determine organizational and portfolio boundaries.
- Financial institutions select a base year(s) that is representative of their activities, avoiding years with anomalies or unusual economic conditions, and is no earlier than 2020.

Recommendations:
The following are optional:

- The most recent year is used as the base year.
- Where possible:
    - Use the same base year for target setting and for determining organizational and portfolio boundaries;
    - For sector targets, use the base year selected for climate-alignment targets; and
    - Use a consistent base year across all scopes 1, 2, and 3 targets and GHG emissions inventories.

2.2 FINZ-C6: Insurance-associated emissions accounting

(Re)insurers are required to establish an insurance-associated GHG emissions inventory to increase transparency and improve data robustness. Emission inventories may increase in the near-term, for example from increased financing to emissions-intensive sectors for decarbonization purposes. However, as climate-aligned activities increase, these emissions should reduce over time. Portfolio emissions are not expected to be known completely or

accurately in the base year. Emissions accounting can be seen as a journey where data availability and accuracy improve over time.

The Standard requires (re)insurers to calculate emissions separately for each in-scope financial activity, covering at a minimum Segments A, B, and C by initial validation, and expanding to all segments (A–D) by 2030.

To operationalize this, (re)insurers should:

- Define portfolio segments that align with how underwriting exposure is managed internally (e.g., by line of business, product type, or underwriting platform).
- Ensure that emissions calculations are performed consistently within each segment across the portfolio.

(Re)insurers are required to calculate:

- Gross portfolio absolute GHG emissions.
- The share of in-scope underwriting activities for which emissions have been quantified, expressed in financial terms (such as GWP, underwriting exposure, and other portfolio-level financial indicators).
- Treat any data gaps transparently.

Calculation of gross portfolio absolute GHG emissions shall exclude:

- Deduction or netting of negative emissions from carbon removals.
- Deduction or netting of emissions from the use of carbon credits.
- Deduction of any form of avoided emissions.

The Standard does not prescribe a specific attribution methodology. However, (re)insurers are expected to use GHG-Protocol-aligned approaches. The PCAF Insurance Associated Emissions Standard (Part C) provides a practical basis to:

- Attribute a share of counterparties' emissions to underwriting activities using financial relationships (e.g., using premium-to-revenue ratios or equivalent financial proxies to determine attribution to commercial lines); and
- Ensure that emissions are anchored in the economic exposure of counterparties.

Case study 6. Conducting an initial insurance-associated emissions (IAE) inventory and hotspot analysis for an SME underwriting portfolio	
(Re)insurer with a predominantly SME-focused commercial motor portfolio can calculate its IAE inventory and perform hotspot analysis, despite limited counterparty-level emissions data availability.	
Step 1	**Define the SME underwriting scope** In this example, the scope is limited to commercial motor insurance written for SME counterparties, which represents a material part of the underwriting portfolio. Motor insurance personal lines are explicitly excluded per FINZ-Table 1.4. SME exposures are treated primarily under Segment D, reflecting the aggregated nature of the portfolio and the limited counterparty data availability. Optionally, (re)insurers may categorize this SME exposure in Segment B (land transport).
Step 2	**Select a pragmatic IAE approach** Given the absence of reliable emissions data at an individual SME level, the (re)insurer adopts a portfolio-level, proxy-based approach to IAE estimation. To operationalize this approach, the (re)insurer relies on vehicle-type emission factors as a proxy

	for underlying emissions. Vehicle classification data are typically available in motor insurance underwriting and provide a robust starting point for emissions differentiation. The PCAF Database also provides motor vehicle emission factors which may be leveraged. The selected methodology is aligned with the PCAF Part C hierarchy.
Step 3	**Calculate emissions inventory (proxy-based)** The (re)insurer calculates an initial IAE inventory by disaggregating the SME commercial motor portfolio according to vehicle type, expressed in financial terms. GWP is split across categories representing internal combustion engine (ICE) vehicles, hybrid vehicles, and fully electric vehicles. For each vehicle type, the (re)insurer applies emissions intensity proxies that reflect emissions associated with vehicle operation and lifecycle, based on recognized datasets.
Step 4	**Calculate financial exposure using GWP and conduct 'hot spotting'** • Based on the emissions inventory, the (re)insurer conducts a hotspot analysis to determine which parts of its portfolio contribute most significantly to insurance-associated emissions. In this example, fleets dominated by ICE vehicles clearly emerge as the primary emissions driver, both in absolute terms and relative to GWP share. • The (re)insurer refines the analysis by examining broad SME sub-segments, such as logistics, construction, or trades-based businesses, where vehicle usage patterns are more emissions-intensive and opportunities for transition may be more material. Hotspots are ranked based on their estimated share of portfolio emissions and their relevance to transition pathways, rather than on absolute emissions alone. • This hotspot analysis enables the (re)insurer to identify priority areas for action, such as refining underwriting guidelines, engagement strategies, incentives for fleet electrification, or improving data-collection.

Premium-based emissions attribution and edge cases

For commercial portfolios, attribution is based on the portion of the annual emissions of the customer determined by the ratio between the (re)insurance premium for that customer and the revenues generated by the customer. For motor insurance, attribution is determined based on the ratio of the insurance premium received to the vehicle total cost of ownership.

For example, an (re)insurer provides coverage as part of an all-risk commercial insurance programme for an industrial company. The policy is part of a pooled risk-sharing arrangement where the (re)insurer covers 20% of the total risk. As a result of this 20% line, the specific (re)insurance premium received is EUR 1 Million. The industrial company's total annual revenue is EUR 300 million, corresponding to an attribution factor for this specific (re)insurer of 0.33% (EUR 1 million / EUR 300 million). If the insured activities generate 100,000 tCO_2e of annual emissions, the (re)insurer would attribute 333 tCO_2e (i.e., 0.33%) to its underwriting portfolio.

Premium-based attribution may be applied across different underwriting structures within the organizational boundary, including direct insurance, facultative (re)insurance, and delegated authority arrangements.

To note, attributed emissions may increase due to rising climate risks that drive up premiums. For example, if premiums increase after a climate disaster, then attributed emissions may also rise, even though clients' actual emissions have not changed. Nevertheless, emissions accounting for insurance underwriting is intended to support a portfolio-level assessment and its evolution over time, with the ultimate goal of enabling real economy transition, rather than solely "reducing" insured emissions.

2.3 FINZ-C7: Approach to base year portfolio climate-alignment assessment for insurance underwriting

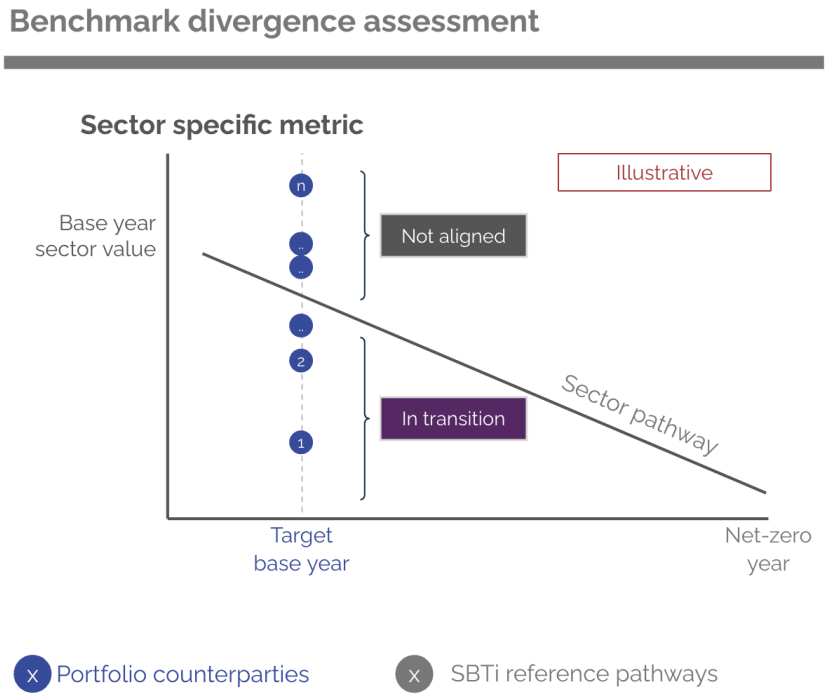
(Re)insurers need to assess in-scope financial activities using the required climate-alignment assessment categories and to calculate climate alignment as the share of total in-scope exposure (GWP) classified as “climate solutions,” “in transition,” or “net-zero state” – referred to as Metric 2 (see FINZ-Table 4.1 and FINZ-Table 4.2).

The applicable assessment approach depends on the segment (A-D) of the in-scope underwriting activity and the nature of the underlying exposure (e.g., entity-level versus project or asset-level), consistent with the alignment category definitions set out in FINZ-Table 4.2. For example, a commercial property policy covering a specific solar farm can be assessed at the asset level, whereas a general liability policy covering the parent company could be evaluated at the company level.

For validation purposes, (re)insurers must ensure that:

- Climate-alignment methodologies listed in the Implementation List are used, where applicable, to identify “in transition” counterparties; or
- Sector metrics in FINZ-Table 4.3 are used, where applicable, to identify “in transition” counterparties via a Benchmark Divergence Assessment (BDA) (see figure 3 below and the SBTi Financial Institutions Net-Zero Standard Target-Setting Methods and Tool Documentation); or
- Eligible taxonomies listed in the Implementation List are used, where applicable, to identify “climate solutions;” and
- Methodological choices, data sources, assumptions, proxies, and limitations are disclosed.

Figure 3. Benchmark Divergence Assessment



The BDA evaluates a counterparty’s GHG emissions intensity or technology share against a net-zero aligned reference benchmark for a specific year (e.g., the base year). It only applies

to companies, projects, or assets in the following emission-intensive sectors referenced in FINZ-Table 4.3: power generation, air transport, maritime, automotive, cement, steel, buildings, and forestry, land and agriculture (FLAG). It may not be used for sectors where absolute contraction or phaseout target methods are applicable (i.e., coal, oil, and gas).

For example, a (re)insurer underwrites insurance coverage for a power generation asset. It chooses to apply the BDA approach. If the asset's emissions intensity in the base year is equal to or lower than the applicable sector benchmark, then the exposure may be classified as "in transition." Where the asset's performance exceeds the benchmark threshold, the exposure would not be considered aligned.

Treatment of data gaps and partial coverage

(Re)insurers may proceed with climate-alignment assessments, even when eligible methodologies do not fully cover all counterparties or underwriting exposures. Where data gaps exist (see table in FINZ-C7.1):

- Exposures that cannot be assessed using eligible climate-alignment methodologies or due to data gaps may be classified as "not assessed" for Segments C and D prior to 2030. From 2030 on, "not assessed" will not be permissible.
- For Segments A and B, alignment must be assessed using an eligible methodology. If data gaps exist, then they must be classified as "not aligned."

2.4 FINZ-C8: Exposure assessment for clean energy, fossil fuels, and deforestation

The Standard requires assessment and disclosure of exposure to clean energy, fossil fuels, and deforestation-linked activities for each in-scope financial activity type, including insurance underwriting. Where data availability is a challenge, estimates may be used for disclosure requirements, provided (re)insurers are transparent about their estimation method and consistent during the near-term target period. The expectation is for data quality to improve over time.

2.3.1 Exposure assessment for clean energy and fossil fuels

(Re)insurers are required to:

- Calculate and disclose a clean energy–to–fossil fuel exposure ratio using a measure such as premiums, sums insured, or insured value/exposure values, based on:
    - Absolute exposure to clean energy activities; and
    - Absolute exposure to fossil fuel activities; and
- Disclose, and exclude from the ratio, exposure relating exclusively to the permanent decommissioning of fossil fuel production capacity (without replacement); and
- Where no fossil fuel exposure exists, publish the exemption language exactly as specified in Annex B of the Standard.

Corresponding definitions:

- Clean energy exposure: 'Clean' includes solar, wind, hydropower, nuclear, geothermal, bioenergy from biowaste, hydrogen produced from renewable energy sources-only as fossil fuel replacement in industrial processes), while 'energy' includes generation, storage, transmission, and distribution infrastructure.

- Fossil fuel exposure: All in-scope financial activities in the fossil fuel sector, as specified in FINZ-Table 2.

For integrated energy companies that generate revenue both from clean energy and fossil fuel activities, project insurance should be allocated based on whether the known use of proceeds go to clean energy or fossil fuels. General purpose insurance can be proportionally allocated based on the split of the company's revenues from clean energy vs. fossil fuel if data is available, or based on the split in energy production source.

At the entity level, oil and gas companies may be identified according to Urgewald's Global Oil & Gas Exit List (GOGEL) and coal companies according to the Global Coal Exit List (GCEL); see SBTi Financial Institutions Net-Zero Standard FAQs for more details.

Treatment of differing policy terms and multi-year policies

(Re)insurers may adopt a pragmatic, reporting-year-aligned approach, provided it is applied and documented consistently and transparently. In practice, this may include:

- Calculating the ratio using an annualized exposure measure for the reporting year (e.g., annualized GWP or equivalent exposure metric), regardless of the underlying policy term.
- Including multi-year policies based on the portion of exposure attributable to the reporting year, rather than the full contract duration.

2.3.2 Exposure assessment for deforestation

For deforestation exposure assessments, (re)insurers are required to:

- Commit to assess and annually publish deforestation exposure within two years of validation or by 2030 at the latest.
- Publish the required exemption language, exactly as specified in Annex B of the Standard, where no deforestation exposure exists.

(Re)insurers are required to publicly disclose the deforestation definition applied, which must, at a minimum, be defined as in-scope underwriting activities linked to the loss of natural forest resulting from:

- Conversion to agriculture or other non-forest land use;
- Conversion to tree plantations; or
- Severe and sustained degradation associated with critical deforestation-linked commodities: beef, palm oil, soy, cocoa, and timber/wood fibre.

(Re)insurers are encouraged to adopt stricter or broader definitions, including land conversion of other high biodiversity areas (e.g., peatland) and other deforestation-linked commodities such as coffee, rubber, and leather.

(Re)insurers are also required to publicly disclose the methodologies, metrics, and data sources used for assessing deforestation exposure. Recognized approaches from organizations such as WBCSD, the Accountability Framework Initiative (AFi), CDP, WWF, ForestIQ and MSCI may be referenced to support identification of high-risk sectors or counterparties. Where client or asset-level data is unavailable, (re)insurers may apply sector-level proxies in line with PCAF standards.

How to determine whether deforestation exposure is “significant”

As covered later, (re)insurers are required to publish a no-deforestation engagement plan if they have significant deforestation exposure. They may, however, define their own definition of “significant deforestation exposure” as long as they disclose the methodology and assumptions used, as well as any data limitations. For example, they may apply internal criteria or use the Forest IQ methodology, which provides two screening dimensions:

- **Exposure to deforestation and conversion of natural ecosystems**: Forest IQ assesses companies’ exposure to deforestation/conversion (e.g., by estimating the volume of commodities produced, sourced, or used with risk of deforestation) and assigning them exposure categories of Moderate, High, Very High or Critical.
    - (Re)insurers can apply a counterparty screening criteria by identifying High, Very High, and Critical as “significant" exposure, and quantifying their underwriting exposure (e.g., GWP / limits / sums insured) to associated counterparties.
- **Financial materiality**: Forest IQ assesses the financial materiality of company exposure (e.g., by estimating how much a company’s revenue depends on commodities produced or sourced with deforestation risk) and assigns them to materiality categories (e.g., Moderate, High, Very High, Critical).
    - (Re)insurers can use this as a sector/commodity dependency screening criteria (e.g., commodity-linked value chains and high-risk geographies), and set an underwriting exposure threshold above which the institution considers deforestation exposure as significant.

(Re)insurers may adopt one or both of these thresholds and use them as screening tool(s) to identify exposure hotspots and inform engagement prioritization.

2.5 FINZ-C6 to C8: Data quality and improvement pathway

Under the Standard, (re)insurers must establish initial emissions inventories. To avoid delaying near-term action, (re)insurers may start with partial data using a combination of counterparty-reported data, and where granular underwriting data is unavailable, apply sector-level, activity-level, or portfolio-level factors, proxies, or assumptions, as long as they are transparently documented and applied consistently. Over time, (re)insurers are expected to progressively expand the scope and improve the data quality of their inventories.

Depending on portfolio composition and data availability, (re)insurers may draw on a range of third-party and industry sources to support the use of proxies, such as:

- Counterparty-reported disclosures (e.g., sustainability reports, transition plans, regulatory filings).
- Industry and sector datasets published by organizations such as PCAF, WBCSD, CDP, or other recognized industry initiatives.
- Public sectoral benchmarks, emissions-intensity datasets, or activity-based factors published by international organizations or regulators.

Practical approaches to addressing data limitations

Example approaches include:

- Mapping underwriting exposure (e.g., premiums, insured values, or limits) to sectors or activities associated with fossil fuels, clean energy, or deforestation risk.
- Applying conservative, transparent assumptions where client-specific data is not available.
- Using third-party datasets, sector screening tools, or industry classifications to identify potential exposure hotspots within underwriting portfolios.
- Transparently disclosing relevant assumptions, methodologies, and data limitations to enable stakeholders to meaningfully interpret and contextualize reported metrics.

How to operationalize proxy collection for SMEs and data-constrained portfolios

Operational questionnaire

Where counterparty-level sector and activity information is limited (e.g., SME portfolios, delegated authority, or aggregated portfolios), (re)insurers may use a short set of questions to support segmentation and estimation approaches. This is intended to capture minimum viable classification inputs without requesting emissions inventories from SMEs.

Illustrative questions:

- Primary activity and main revenue driver: what is the main activity of the insured (select from an internal sector list or a NACE-like classification)?
- Energy-intensive process indicator: does the insured operate energy-intensive processes (e.g., manufacturing, large heat generation, heavy equipment operations)?
- Fleet and transport involvement: does the insured operate or insure a material vehicle fleet / logistics activity?
- Main operating country: where is the principal operating location for the insured activity?
- Greenhouse gas inventory: has the insured estimated its emissions using a recognized method, such as the SME Climate Hub's Carbon Calculator?
- Exposure to the fossil fuel value chain: does the insured operate in the fossil fuel value chain? If so, does it have any expansion plans?

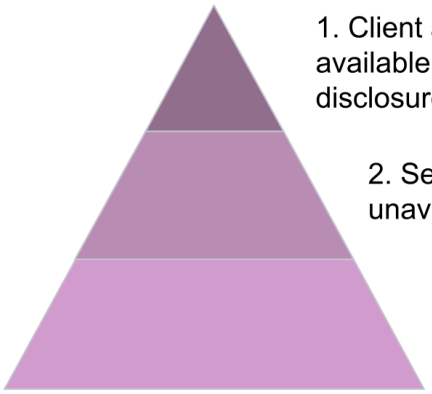
How to use the questionnaire outputs (illustrative):

- Use the primary activity to map to the (re)insurer's documented sector-to-segment mapping (A–D).
- Extrapolate GHG emission responses by size, sector, and geography to credibly estimate GHG emissions attributed to the SME portfolio.
- Use the country to select benchmark factors where proxies are applied.
- Use energy-intensive, fleet/transport, fossil fuel flags to route exposures to appropriate sector proxy methods (e.g., fossil fuels vs. buildings/industry vs. transport) where relevant.
- Use fossil fuel expansion plans only as a screening flag to trigger enhanced due diligence for fossil fuel policy compliance.

Hierarchy of assumptions

When estimating segmentation, emissions, or alignment inputs, (re)insurers should apply

a hierarchy of data sources to ensure consistency and reduce bias from ad-hoc assumptions. A simple hierarchy can be:



1. Client and asset data (highest priority) where available (e.g., insured asset characteristics, disclosures, credible reported data)

2. Sector and country benchmarks where client data is unavailable

3. Global default factors and conservative proxies where sector/country benchmarks are unavailable, with disclosure of limitations

3. NAVIGATING POLICIES AND TARGET-SETTING OPTIONS FOR INSURANCE UNDERWRITING

This section describes near-term and long-term target-setting approaches for (re)insurers, while overcoming common insurance-specific challenges. It:

- Sets out the application of different target-setting methods.
- Provides guidance on near- and long-term target options, flexibility and applicability across different segments, subsectors, and (re)insurers.
- Describes the intent and implementation of policies in the Standard, and how targets and policies work at segment, subsector, and scope level.
- Illustrates how Standard metrics, benchmarks, and methods can be applied in practice.

3.1 FINZ-C12 to C13: Portfolio near- and long-term targets - Method selection and applicability by segment

3.1.1 From segmentation to target method choice

Prior to setting portfolio near and long-term targets, segmentation, as FINZ-C3.2 requires, directly determines:

- Which segments must be covered by near-term targets (and the minimum coverage thresholds);
- Which target options are available by segment;
- Which ambition milestones apply for the chosen target type(s); and
- The required level of disaggregation for target validation.

To support consistent application of the Standard's target-setting requirements, the SBTi Financial Institutions Net-Zero Target-Setting Tool includes both a Climate Alignment Target tab and a Sector Target-Setting tab. The tool replicates the Standard's target options and applies benchmark-based ambition checks, enabling (re)insurers to calculate minimum target ambitions consistently.

The SBTi Financial Institutions Net-Zero Submission Form is available to document policies and targets for validation by SBTi Services. Responsibility for method selection and compliance with the Standard remains with the (re)insurer.

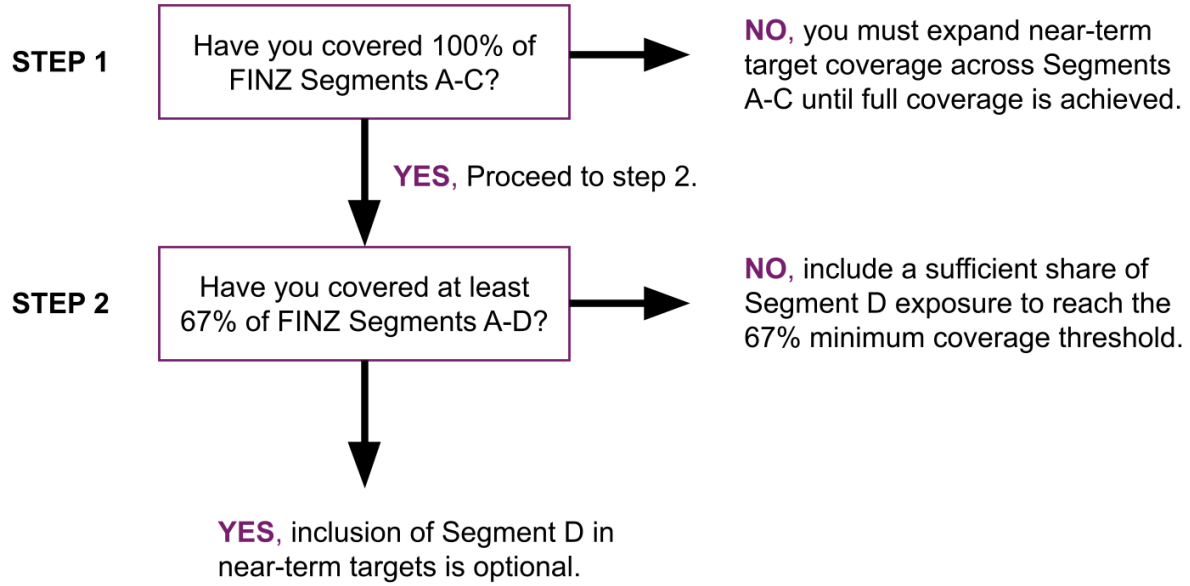
3.1.2 Near-term target setting approach

(Re)insurers are required to set one or multiple near-term targets using eligible target metrics and target-setting methods. For portfolio near-term targets, the Standard requires that (re)insurers:

- Apply a time frame of up to five years and the same target year for all near-term targets.
- Achieve 100% target coverage of Segments A, B, and C, and at least 67% of Segments A-D by financial exposure (e.g., GWP) or GHG emissions.

    - Where an (re)insurer's underwriting portfolio consists only of Segment D (e.g., SME customers), the near-term target must cover at least 67% of overall exposure.
- Set targets that meet or exceed the minimum ambition specified in FINZ-Table 3.
- Select metrics from the eligible climate-alignment or sector-specific metrics for emissions-intensive sectors (see FINZ-Tables 3 and 4.3).
- Apply the selected metrics consistently throughout the near-term target period.
- Define targets at aggregate portfolio level and for each segment (A-D) for validation.

Figure 4. Decision tree of segment coverage for near-term targets



Near-term targets may be set using one or both of the following approaches.

Option 1: Portfolio climate-alignment targets

These are forward-looking targets that require (re)insurers to increase the share of underwriting exposure that is climate-aligned over time. Climate-aligned underwriting exposure includes exposure that is:

- **In transition:** Counterparties are on a science-based pathway to net-zero (e.g., a company that has a 1.5°C-aligned SBTi-validated target).
- **Climate solutions:** Activities necessary for an economy-wide transition to net-zero (e.g., a climate solution according to an eligible taxonomy).
- **At a net-zero state:** Counterparties that have reached zero or near-zero emissions, with residual emissions neutralized.

Portfolio climate-alignment targets are implemented using eligible methodologies, applied at company, project, or insured-asset level, as appropriate. (Re)insurers may select one or more methodologies from the Financial Institutions Net-Zero Standard Implementation List or apply the Benchmark Divergence Assessment methodology to assess counterparty alignment and track progress over time.

This implies that (re)insurers must:

- Select an eligible assessment methodology appropriate to the counterparty type(s) within each segment, consistent with definitions in FINZ-Table 4.2; and
- Apply the selected methodology consistently throughout the near-term target cycle, and be prepared to update it at target renewal or revalidation, as eligible methods evolve.

Option 2: Sector targets

These relate to sector-specific emissions or technology share-based targets in emissions-intensive sectors using the sector metrics and methods specified in FINZ-Table 4.3. These methods include phase-out (for coal), absolute emissions contraction (for oil and gas), and sector-specific portfolio emissions-intensity target-setting methods. Sector targets are designed to align portfolios with sector-level benchmarks and pathways and may be used alongside portfolio climate-alignment targets.

(Re)Insurers may use the SBTi Financial Institutions Net-Zero Target-Setting Tool to model sector targets and perform benchmark-based ambition checks. Sector targets may be established for ten emissions-intensive sectors (across Segments A and B). For certain sectors, targets must be set using dedicated SBTi sector tools, rather than the general SBTi Financial Institutions Net-Zero Target-Setting Tool. In particular, (re)insurers may use the SBTi Maritime Transport Target-Setting Tool for maritime activities, the SBTi Buildings Target-Setting Tool for residential and commercial buildings, and the SBTi FLAG Target-Setting Tool for FLAG commodities (demand side).

3.1.3 Method applicability by segment

FINZ-Table 1.4 defines which insurance underwriting activities are in scope and how they are assigned to Segments A–D. Table 5 (below) in turn determines how near-term target-setting requirements apply in practice.

Table 5. Applicable near-term target methods by segment

Standard's segment	Applicable near-term target methods	
	Climate alignment	Sector
Segment A – Fossil fuels	Available for oil and gas	Required for coal (Phaseout) and available for oil and gas (Sector absolute contraction)
Segment B – Other emissions- intensive sectors	Available for all of Segment B	Power generation, Air transport, Maritime, Automotive, Cement, Steel, Buildings and FLAG (Portfolio intensity convergence for emission intensity; Portfolio index alignment for technology share)
Segment C – Other sectors	Available for all of Segment C	Not available
Segment D – Subset of activities in non-fossil fuel sectors	Available for all of Segment D	Available for SMEs in emissions-intensive sectors listed in Segment B (e.g., Automotive and Buildings)

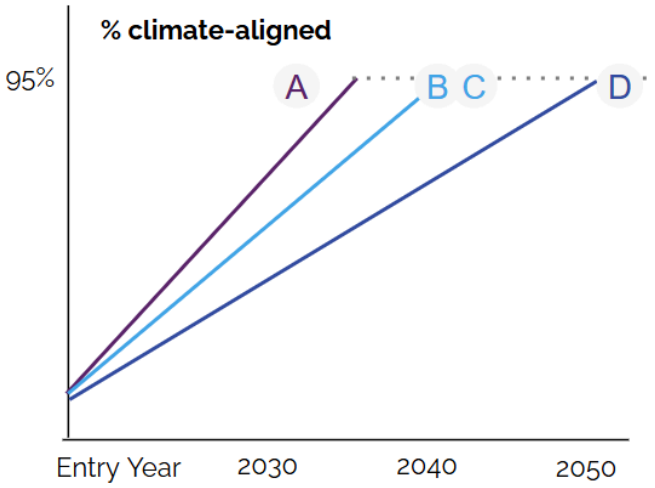
Note: Use this table in conjunction with Table 3 from section 1.2 of this Explanatory Note.

Climate-alignment target ambition by segment and geography

As illustrated in Figure 5, the minimum ambition of near-term climate-alignment targets can be derived from a linear path from the base year climate alignment to 95% alignment in developed economies and 85% alignment in developing economies by:

- 2035 for Segment A (for oil and gas only).
- 2040 for Segments B and C.
- 2050 for Segment D.

Figure 5. Long-term portfolio climate-alignment targets and segment-specific trajectories



Insurance-specific factors relevant to choice of target-setting method

(Re)insurers must take into account a number of insurance-specific boundaries, sequencing and portfolio-composition factors when applying target-setting methods:

- **Treaty (re)insurance contracts:** These are subject to a temporary exception, where certain target-setting requirements apply only from 2030 onward (see FINZ-Table 3).
- **Lines of business with no GHG accounting methodologies**: GHG emissions for such activities (e.g., project insurance) are only required to be included in the GHG inventory two years after publication of a relevant methodology.
    - For example, the requirement to include treaty reinsurance emissions (including from treaty-like facultative reinsurance structures) in the GHG inventory applies two years after its inclusion in the December 2025 publication of PCAF Standard Part C second edition (i.e., after December 2027). To note, treaty reinsurance contracts are separately excluded from target requirements for target submissions through 2029.

(Re)insurers should therefore plan the rollout of inventory coverage, supporting data processes, and implications for target setting.

3.1.4 SME target setting

The Standard provides specific accommodations for SME-heavy portfolios in Segment D. Near-term targets must be set for parts of Segment D portfolios only if it represents more

than 33% of total in-scope financial activities (by financial exposure or emissions); if less, SME near-term targets are optional.

The deadline for establishing underlying data for emissions and alignment assessment for Segment D is extended to 2030, allowing time to close data gaps. The exceptions are SMEs in the fossil fuel sector that fall into Segment A for priority transition action.

In line with FINZ-Table 4.2, when alignment targets (rather than sector targets) are chosen, climate alignment definitions for SMEs are as follows:

Table 6. Climate alignment for SMEs

Climate-alignment assessment category	Definition	Implication for assessment
In-transition	Demonstrates ambition consistent with pathways that limit global warming to 1.5°C, covering scopes 1 and 2 emissions.	SME can be assessed using any methodology for corporates, plus SME-specific methodology options in the Implementation List (e.g., SBTi Target Status for SMEs, Benchmark Divergence Assessment).
Climate solutions	Generates ≥90% of revenue from climate solutions recognized through eligible taxonomies; and remaining revenue is not from fossil fuel activities.	SME can be assessed using any taxonomy in the “Climate Solutions” section in the Implementation list.
Net-zero state	Has reduced emissions to zero or near-zero residual levels across all GHG emissions scopes, with residual emissions neutralized.	It is expected that the entity or activity publishes a verified GHG inventory covering all relevant emission scopes, which shows that it is at zero or near-zero (residual levels) GHG emissions in line with FINZ-Table 4.2.

Assessment approaches:

- Assessed at the company level and attributed to the company’s sector.
- Assessed at the insured project or asset level (e.g., property or vehicles) and attributed to the specific sector of the asset or project, usually in Segment B.

For many (re)insurers, a significant share of underwriting exposure is through SMEs. Asset-level information may not be available, making it difficult to quantify exposure to specific activities and conduct climate-alignment assessments similarly to larger clients. To address these challenges, the Standard encourages several good practices for SME-heavy books.

Table 7. Good practices for SME-heavy books

Good practices for SME Portfolios	Description
Prioritize material exposures ("hot spotting")	Begin with segments or portfolios where the (re)insurer has the clearest visibility (e.g., larger SME clients, asset-identified covers), then expand coverage as data quality improves.
Use sector-level and physical proxies	Where granular SME data is unavailable, apply PCAF-aligned sector average proxies to estimate insurance-associated emissions, and use observable physical or technology proxies

	(such as energy performance certificate ratings for buildings or vehicle fuel types) to assess climate alignment.
Embed data needs in governance and reporting	Integrate SME data requirements into underwriting processes, and progressively improve portfolio-level data collection.

3.1.5 Combining approaches across segments

(Re)insurers can apply different near-term target types to different segments, provided that:

- All required segments are covered in line with the Standard;
- Minimum coverage thresholds are met; and
- Target ambition meets or exceeds the minimum levels required.

(Re)insurers may therefore:

- Apply a combination of portfolio climate-alignment targets across different segments or sectors, while using sector-specific targets for emissions-intensive sectors such as fossil fuels, power generation, or heavy industry.
- Alternatively, (re)insurers may choose to cover all segments, outside of the coal sector, with climate-alignment targets.

Where feasible, (re)insurers may choose to set both climate-alignment and sector targets to the same segment, to accelerate progress and improve transparency.

(Re)insurers are required to categorize in-scope underwriting activities by segments and relevant emissions-intensive sectors for target design, coverage assessment, and SBTi validation. Targets may be communicated upon validation in aggregated form, provided that public disclosures remain consistent with the validated scope, ambition, and methodology.

The Standard allows the setting of one or multiple near-term targets per in-scope activity using eligible metrics and methods. In practice, (re)insurers can combine target types across segments and sectors.

3.1.6 Long-term targets setting method

The Standard requires (re)insurers to set one long-term net-zero alignment target for insurance underwriting using the portfolio climate-alignment metric (Metric 2 as set out in FINZ-Table 4.1), with:

- 100% coverage across all segments (A–D); and
- An ambition of reaching at least 95% of financial activities to counterparties at the required net-zero state by 2050 or earlier.

This creates the “north star” for financial alignment, empowering institutions to steer their portfolios and business decisions to drive systemic, long-term net-zero portfolio transitions by 2050 or earlier.

Near-term targets drive action within five-year cycles, driving material progress in overall portfolio alignment with greatest emphasis on the most climate relevant Segments A and B.

Case study 7. Using the EU Taxonomy for portfolio climate-alignment targets: Commercial insurance for transport using light commercial vehicles

An insurer provides commercial motor insurance to transport companies operating light commercial vehicles (LCVs) such as delivery vans. The insurer opts to set portfolio climate-alignment targets, using the EU Taxonomy as an eligible climate-alignment methodology for "Climate solutions" (per the SBTi Implementation List). Most insured companies are SMEs or non-taxonomy reporters, so alignment cannot rely on counterparty EU Taxonomy disclosures. The (re)insurer assesses its insurance activities at the project or asset level. *Please note that EU Taxonomy regulatory reporting exercise is treated separately from target setting under the Standard.*

Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7
Identify the insured activity The insurer determines what is covered: • Insured: LCVs. • Not insured: the full balance sheet or revenues of the transport company.	**Map the insured activity to the EU Taxonomy** The insurer checks whether the insured activity corresponds to an EU-Taxonomy activity and identifies that the relevant EU-Taxonomy eligible activity (Climate Delegated Act) is "Transport by motorbikes, passenger cars and light commercial vehicles" (Contributing to climate change mitigation).	**Determine whether the activity is taxonomy-eligible** The insurer then applies the taxonomy-aligned vs. eligible distinction, as required by the Implementation List. The (re)insurer assesses alignment using observable asset-level proxies, such as: • Vehicle type and category • Fuel type (electric vs. internal combustion), • Registration data • Emissions thresholds where applicable In practice: • Zero-emission LCVs can be classified as taxonomy-aligned. • Conventional diesel/petrol LCVs are not taxonomy-aligned.	**Apply Do No Significant Harm (DNSH) and minimum safeguards** For assets counted as aligned, the insurer ensures: • No exposure relates to fossil fuel extraction, transport, or distribution; and • Minimum safeguards are met.	**Attribute alignment to counterparties** The insurer measures climate alignment as a % of financial exposure to counterparties demonstrating alignment. In practice: • GWP for electric LCVs → aligned exposure (on condition of meeting DNSH and minimum safeguards criteria). • GWP for conventional LCVs → not aligned exposure. Alignment is attributed through the activity of the project or asset, but exposure is measured at the counterparty level.	**Aggregate alignment at portfolio level** The insurer aggregates results across the motor insurance portfolio in 2025: • 18% of commercial motor GWP is linked to electric LCVs. • 82% is linked to non-aligned vehicles. Portfolio climate alignment = 18%.	**Set portfolio climate-alignment targets** The insurer: • Starts from a low base-year alignment of 18% in 2025. • Sets a progressive near-term target of 45% by 2030, above the 43.7% minimum ambition identified by a linear pathway from 18% in 2025 to 95% alignment by 2040 for Segment B. The insurer drives progress by: • Increasing share of insured electric LCVs, and • Improving vehicle data coverage.

Case study 8. Using the Hong Kong Taxonomy for portfolio climate-alignment targets: Commercial insurance for sea and coastal passenger water transport

An insurer provides commercial marine insurance to large ferry operators, cruise lines, and other companies for which sea and coastal passenger water transport is a core, emissions-intensive activity. The insurer opts to set portfolio climate-alignment targets, using the Hong Kong Taxonomy as an eligible climate-alignment methodology for "Climate solutions." According to the SBTi Implementation List, all activities classified as eligible under the Hong Kong Taxonomy may be counted toward alignment targets. The insurer assesses its insurance activities at the project or asset level.

Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
Identify the insured activity The insurer determines what the insurance covers: • Insured: sea-going passenger vessels (e.g., ferries, cruise ships) used for passenger transport. • Not insured: the full balance sheet or revenues of the transport company.	**Map the insured activity to the Hong Kong Taxonomy** The insurer checks and identifies that the insured activity corresponds to a Hong Kong Taxonomy activity for "Transportation of passengers by sea" (HSIC codes 501301, 501401). This activity explicitly covers: • Passenger transport by own sea-going vessels; • Chartering of sea-going vessels with crews for passenger transport; • Renting of sea-going vessels for passengers.	**Determine whether the activity can be taxonomy-eligible** The insurer refers to the Hong Kong Taxonomy criteria for eligible activities: • Eligible vessels must report operational emissions intensity (using AER or EEOI) according to the taxonomy threshold for the relevant year. In practice: • Passenger vessels that meet the annual emissions intensity threshold (e.g., GT-nm) are eligible. • Vessels dedicated to fossil fuel transport or production are excluded. • The (re)insurer uses vessel technical data and emissions reporting to assess eligibility.	**Attribute alignment to counterparties** The insurer measures climate alignment as a % of financial exposure to counterparties with eligible activities. In practice: • GWP linked to passenger vessels meeting emissions thresholds are eligible exposure. • GWP linked to vessels that do not meet the thresholds or are dedicated to fossil fuel transport are not eligible exposure. Alignment is attributed through the activity of the project or asset, but exposure is measured at the counterparty level.	**Aggregate eligibility at portfolio level** The insurer aggregates eligible exposures across the marine insurance portfolio, e.g., in 2025: • 30% of marine GWP is linked to eligible passenger vessels. • 70% is linked to non-eligible vessels. Portfolio climate alignment = 30%.	**Set near-term portfolio climate-alignment targets** Large marine passenger transport exposures fall under Segment B. The (re)insurer starts with 30% climate alignment in 2025. Based on a linear pathway towards 95% by 2040 for Segment B, the insurer set a target according to the minimum ambition of 56% in 2031, five years on from target submission for validation purposes in 2026.

Case study 9. Applying portfolio climate-alignment targets for SME portfolio at the company level

A (re)insurer underwrites an SME portfolio in land transport and real estate, with coverage spanning commercial motor vehicles and commercial buildings. The (re)insurer assesses its insurance portfolio at the company level.

Step 1	Step 2	Step 3	Step 4

Segment exposure
 	
While SMEs in non-fossil fuel sectors are often placed in Segment D, the (re)insurer decides to segment its activities based on the sector of its insured clients.
 	
The (re)insurer maps each insured SME to its primary economic sector, which in this example are land transport and real estate, and optionally places them in Segment B.
 	
• **Land transport SMEs:** Any type of insurance (e.g., whether for motor vehicles or commercial buildings) provided to land transport SMEs are grouped together into the land transport sector.
• **Real estate SMEs:** Any type of insurance (e.g., whether for motor vehicles or commercial buildings) provided to real estate SMEs are grouped together into the real estate sector.
	Assess alignment using Implementation List or BDA
	
	The (re)insurer assesses alignment of the SMEs using (non-exhaustive):
	• Eligible methodologies in the Implementation List such as SBTi target status,
	• Eligible taxonomies in the Implementation List such as the Climate Bonds Taxonomy, or
	• Benchmark Divergence Assessments using:
	  ○ Sector metric FINZ.6a ($gCO2_e$ / vkm) for land transport companies.
	  ○ Sector metric FINZ.9 ($kgCO2_e$ / m2) for real estate companies.
		Calculate portfolio climate alignment
		
		For each sector (i.e., land transport and real estate), the (re)insurer calculates the GWP attributed to SMEs that are in transition, climate solutions, or at a net-zero state. These sector-level aligned shares are then aggregated into a single climate-alignment value.
		
		Portfolio climate alignment (%) = (Aligned land transport companies GWP + Aligned real estate companies GWP) / Total in-scope GWP.
			Set targets and improve data coverage over time
			
			The (re)insurer sets progressive near-term targets aiming for an increase in exposure to aligned counterparties, and strengthens data quality and completeness over time with transparent documentation of assumptions and limitations.
			
			To note, in Step 1, the (re)insurer could have placed SMEs in non-fossil fuel sectors in Segment D, where the “not assessed” category is permitted through 2029. SMEs in the fossil fuel sector, however, must be included in Segment A.
			
			Near-term sector targets can also alternatively be set for the land transport and real estate sectors according to the methods outlined in FINZ-Table 4.3.

Case study 10. Applying portfolio climate-alignment targets for SME portfolio at the project/asset level

A (re)insurer underwrites an SME portfolio in land transport and real estate, with coverage spanning commercial motor vehicles and commercial buildings. The (re)insurer assesses its insurance portfolio at the asset level.

Step 1	Step 2	Step 3	Step 4
Segment exposure While SMEs in non-fossil fuel sectors are often placed in Segment D, the (re)insurer decides to segment its activities based on the sector of the insured assets or projects. Using policy administration data that is typically available at scale for SMEs, the (re)insurer optionally maps its activities to the following two buckets in Segment B. • **Commercial motor insurance:** Motor vehicles insured for use by any type of SME (e.g., whether the SME is in the land transport or real estate sector) are grouped together using a vehicle-based transport activity lens. • **Building insurance:** New or existing buildings insured for any type of SME (e.g., whether the SME is in the land transport or real estate sector) are grouped together using a real estate activity lens. GWP is tracked for each bucket across the SME portfolio (and, if needed, split by additional portfolio slices such as geography).	**Assess alignment using observable asset-level indicators** The (re)insurer assesses alignment using asset-level indicators that are feasible at scale for SMEs (non-exhaustive): **Motor vehicles**: • Sector metric FINZ.6a ($gCO2_e$ / vkm). **New buildings**: • High energy performance certificate (EPC) in top two tiers of the applicable regional framework, and no fossil fuel grid connection; or • Sector metric FINZ.9 ($kgCO2_e$ / m^2). **Existing buildings**: • High EPC in top two tiers of the applicable regional framework; or • Within the top 15% of national building stock expressed in primary energy demand (kWh/m^2); or • Sector metric FINZ.9 ($kgCO2_e$ / m^2).	**Calculate portfolio climate alignment** The (re)insurer calculates aligned exposure as the amount of GWP attributed to projects or assets meeting the defined alignment proxy, then aggregates across the two product buckets: Portfolio climate alignment (%) = (Aligned vehicles GWP + Aligned buildings GWP) / Total in-scope GWP.	**Set targets and improve data coverage over time** The (re)insurer sets progressive near-term targets aiming for an increase in exposure to aligned vehicles and aligned buildings, and strengthens data quality and completeness over time with transparent documentation of assumptions and limitations. To note, in Step 1, the (re)insurer could have placed SMEs in non-fossil fuel sectors in Segment D, where the “not assessed” category is permitted through 2029. SMEs in the fossil fuel sector, however, must be included in Segment A. Near-term sector targets can also alternatively be set for the land transport and real estate sectors according to the methods outlined in FINZ-Table 4.3.

How to assess underwriting portfolios through the “climate solutions” lens

(Re)insurers may choose to support alignment objectives by progressively increasing underwriting exposure to activities that qualify as climate solutions, where this is consistent with their business strategy and underwriting appetite.

Climate-solution activities may be identified using eligible global, regional, or local taxonomies, as applicable and listed in the SBTi Implementation List. Fossil-fuel activities must not be counted as climate solutions, even where a taxonomy may classify them as such.

A practical approach includes:

- **Setting a complementary internal objective**, to drive up and track the share of premiums linked to climate solutions.
- **Prioritizing green capital allocation** to renewables, associated grid infrastructure, utility-scale storage, certified green buildings, electrification value chains, and qualifying Carbon Capture and Storage (CCS).
- **Embedding this preference** in treaty language, referral rules, underwriting frameworks and broker instructions so placements naturally flow to these activities for new contracts.
- **Extending** to claims management policies, opting to replace or repair assets with those recognized as climate solutions where feasible.
- **Tracking and reporting,** using the chosen eligible taxonomy and its version/date, with activity mapping to ensure consistency over time.

3.2 FINZ-C9 to C10: Supporting policies

Underwriting targets are expected to be underpinned by clear, public policies that define how underwriting practices evolve in line with net-zero objectives. The Standard references the following policies:

- **FINZ-C9 - Fossil fuel transition policy** (mandatory): governing new applicable financial activities related to coal, oil, and gas, including cessation requirements and timelines for expansion activities.
- **FINZ-C10 - No-deforestation engagement plan** *(mandatory when significant deforestation exposure is identified)*: setting out engagement and reporting expectations.
- **FINZ-R2 - Real estate underwriting policy** *(recommended, but not required)*: a voluntary policy intended to channel finance for new zero-carbon ready buildings and retrofitting existing buildings.

Examples of how underwriting targets may be combined with policies in practice are set out below.

3.2.1 FINZ-C9: Fossil fuel transition policy

(Re)insurers are required to publish a fossil fuel transition policy addressing their underwriting activities related to coal, oil, and gas. It defines how new underwriting for fossil fuel expansion activities is restricted, clarifies the treatment of existing contracts and renewals, and specifies permitted exclusions.

Addressing fossil fuels is a priority in the Standard and directing (re)insurance capacity away from expansion projects now and phasing out finance to corporates involved with expanding capacity beyond 2030 is a lever to align underwriting portfolios.

FINZ-C9.1 Policy publication and scope

The SBTi expects the fossil fuel policy to be publicly available and in force before initial validation. The policy must cover all "new applicable financial activities" in the fossil fuel sector, i.e., new in-scope financial activities (including insurance underwriting activities that may be temporarily exempt from near-term target coverage such as treaty (re)insurance) undertaken by the institution, less limited exclusions.

The policy must include definitions of coal, oil, and gas projects and companies, aligned with the fossil fuel value-chain activities listed in FINZ-Table 2 that are involved in new fossil fuel expansion activities. Accordingly, the policy does not affect companies that operate in the fossil fuel sector but are not involved in new expansion activities.

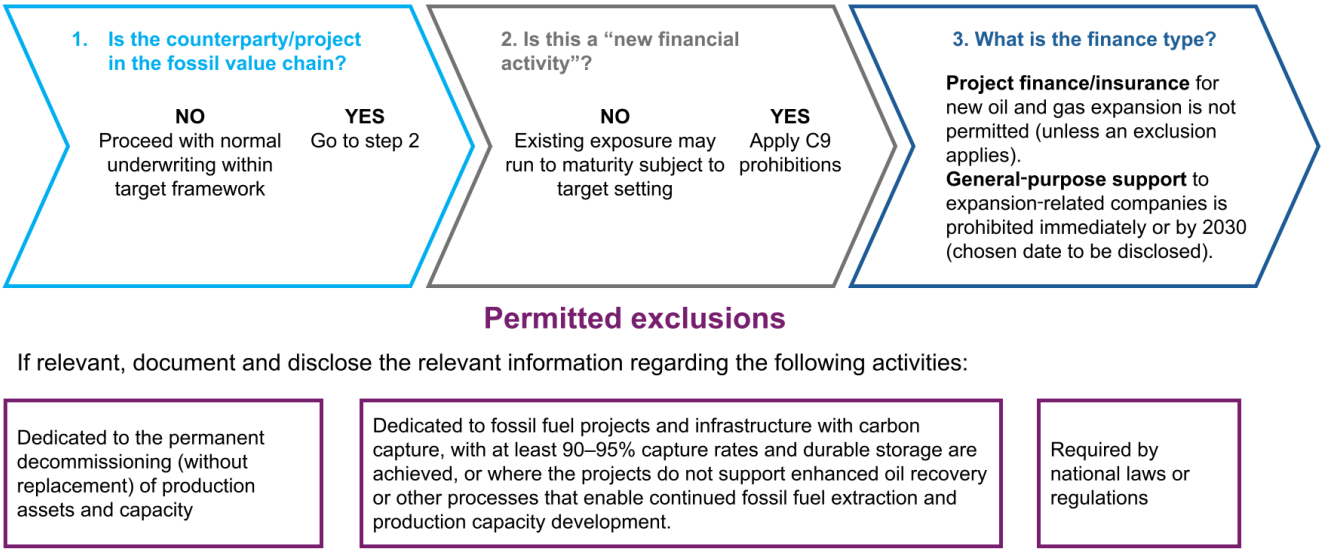
Insurers must be explicit about their activities involving:

- Upstream oil & gas
- Liquefied natural gas (LNG) infrastructure
- Upstream coal and coal-fired power generation

The intent here is to avoid policies that rely on vague labels such as "fossil fuels", "high-carbon activities" without specifying what is in scope. Finally, where the institution applies permitted exclusions (shown below), the policy must explain them transparently.

To facilitate the formulation of policies and targets relating to the coal, oil, and gas sectors, the SBTi has provided a Fossil Fuel Policy and Target template for optional usage, with extensive examples of target and policy language for financial institutions to build on.

Figure 6. Key questions for (re)insurers to consider for implementing the Policy



FINZ-C.9.2 Immediate cessation: coal value chain

The Standard requires (re)insurers to immediately stop all new underwriting associated with coal expansion once the fossil fuel policy is published. Coal expansion is defined as new coal mines, expansions of existing ones, and new unabated coal-fired power plants, where the project's Final Investment Decision (FID) occurs after the policy publication date.

This prohibition applies to both known use of proceeds (project-specific insurance), and unknown use of proceeds (general-purpose corporate support).

For project-specific (known-use) covers, the assessment relies on verifiable project characteristics (namely the FID date and the defined scope of the insured asset or works). Application of the Standard is determined by whether the project involves coal expansion and whether the FID occurs before or after the policy publication date.

For general-purpose corporate exposure (unknown use of proceeds), (re)insurers should not provide unrestricted covers to companies involved in coal expansion, even if the cover is not tied to a specific project. "Unknown use" refers to corporate-level insurance coverage where proceeds or risk coverage are not marked for an identifiable project, such as general liability, Directors and Officers (D&O) liability, or other balance-sheet-level covers. In these cases, the underwriting decision is assessed at the counterparty level, based on the company's involvement in coal expansion activities.

Example of a fossil fuel transition policy section:
Effective on publication, we will not underwrite, reinsure, arrange or increase capacity for projects or companies involved in new coal expansion (new mines, extensions/expansions of existing mines, or new unabated coal-fired units) that would require a Final Investment Decision after the policy publication date. Renewals/extensions are treated as new and are therefore not permitted. This applies to project-linked covers (known use) and to general-purpose corporate covers (unknown use).

Examples of optional add-ons:
Corporate coal screens: we will apply thresholds at corporate level (e.g., revenue/power-mix %, tonnage or Megawatt) to accelerate coal exit and ensure underwriting alignment with a coal phase-out pathway.

FINZ-C9.3 Immediate cessation: new oil & gas expansion (project/asset-level; known use of proceeds only)

The Standard requires (re)insurers to immediately stop all new project-linked support for oil & gas expansion once the fossil fuel policy is published. This requirement applies to project-specific insurance where the project's FID occurs after the policy publication date, and includes:

- New upstream oil & gas projects or assets (exploration, extraction, field development or expansion).
- New LNG-related infrastructure projects or assets.

For project-specific underwriting, (re)insurers must decline underwriting covers such as Contractor's All Risks (CAR), Erection All Risks (EAR), construction, or operational covers where the insured asset is a new upstream oil & gas or LNG project with a post-policy

publication date FID. Underwriting decisions must be based on whether the project is new or capacity-adding, and whether the FID falls after the policy date.

Where (re)insurers continue to insure a counterparty for non-expansion activities, coverage must be ring-fenced to ensure that insurance covers cannot be used to support fossil-fuel expansion in breach of the policy.

Example of a fossil fuel transition policy section:
Effective from publication, we will not underwrite, reinsure, arrange, or increase capacity for projects involving new upstream oil & gas (exploration, extraction, development/expansion of fields), and new LNG infrastructure that require a Final Investment Decision after our policy publication date. This restriction applies to project-linked covers with a known use of proceeds (e.g., CAR/EAR, project property/operational packages).

FINZ-C9.4 Cessation of general-purpose support to oil & gas expansion companies (unknown use; immediate or by 2030 latest)

The Standard requires (re)insurers to stop providing new general-purpose (unknown use, as previously defined) corporate support to oil & gas expansion companies, either immediately, or by a stated date no later than 2030. The policy must explicitly state the chosen timeline.

This clause applies only to unknown-use (general-purpose) covers at an entity level and does not apply to project-specific or asset-specific insurance covers.

“Expansion companies” are those linked to new upstream oil & gas or LNG projects requiring a FID after 2030. Permitted exclusions (e.g., decommissioning, qualifying for CCS) continue to be allowed.

Companies can be classified as “expansion companies” using forward-looking indicators, such as planned upstream oil & gas or LNG capex, the sanctioning of new expansion projects requiring a FID, or inclusion in recognized third-party datasets that track fossil fuel expansion activities (e.g., GOGEL), alongside internal due-diligence and publicly available disclosures.

Example of a fossil fuel transition policy section:
We will cease new general-purpose underwriting support to companies involved in oil & gas expansion:

(i) Timeframe: 2030 onwards
(ii) Scope: general-purpose corporate covers and facilities with unknown use of proceeds.
(iii) Exclusions: permanent decommissioning; qualifying CCS with greater than 90% capture rate and durable storage not associated with enhanced recovery, and where provision of finance is specifically required by applicable laws).

In parallel, we will prioritize underwriting for climate solutions consistent with net-zero by 2050. This will be implemented through underwriting appetite, capital allocation, and product focus, with progress tracked and managed.

Implementation levers (climate solutions):

(i) Renewable and low-carbon generation and enabling energy infrastructure (including grid and storage).

(ii) Carbon capture and storage and other abatement solutions.
(iii) Electrification-enabling industrial and transport value chains (e.g., electric mobility manufacturing and supporting infrastructure).
(iv) Certified green buildings and energy-transition industrial projects (e.g., low-carbon fuels and related transition technologies).

Examples of optional add-ons:

(i) **Capex/sanctions trigger**: flag a company if it has sanctioned projects or capex to upstream capacity or LNG infrastructure, and phase out general-purpose finance and underwriting by 2030.

Remarks:
The fossil fuel transition policy applies to new financial lending, investing, or insurance contracts. It does not apply to contracts that precede the date on which the fossil fuel transition policy becomes effective.
For example:

- An insurer with an ALM book (i.e., an asset owner) investing in funds that have holdings in underlying oil & gas companies that expand capacity beyond 2030, can maintain their holdings in those funds, so long as they do not add new investments.
- A 10-year loan made to an oil & gas company in 2029, which subsequently expands capacity beyond 2030, may be honoured through to maturity in 2039.

While an insurer must cease the provision of new project insurance to O&G expansion activities (e.g., Contractor's All Risks or Erection All Risks policy for a new upstream oil field or LNG infrastructure) before its fossil fuel transition policy publication, the insurer may continue providing new general-purpose insurance (e.g., General Liability or Directors & Officers policy) to companies involved in oil & gas expansion activities with FIDs only from 2030 or before. The insurer may also continue to provide new-general purpose insurance to oil & gas companies that are no longer expanding after 2030. This allows the insurer to maintain its engagement to influence its clients to transition.

3.2.2 FINZ-C10: No-deforestation engagement plan (mandatory only if exposure is significant)

Why deforestation is addressed under the Standard
While the current availability and granularity of data related to deforestation remain challenging for many financial institutions, climate and nature-related scenarios clearly indicate that there is a limited time window remaining to halt deforestation in line with net-zero and nature-positive pathways. Given the material role of FLAG sectors in global emissions and biodiversity loss, the Standard includes targeted requirements to ensure that underwriting activities do not continue to support deforestation-linked activities where exposure is significant.

Where significant deforestation exposure (as defined by the (re)insurer, which must be publicly disclosed) is identified in the underwriting portfolio, (re)insurers are required to publish an engagement plan describing how underwriting relationships will be used to address deforestation risks and to report progress annually. The plan outlines expectations of insured counterparties, engagement approaches, and progress monitoring.

If the (re)insurer does not identify significant deforestation exposure, then no engagement plan is required.

FINZ-C10.1 and R10.1: Engagement plan objective and scope

If triggered, a (re)insurer must publish a public engagement plan covering all applicable in-scope financial activities, setting out:

(i) The deforestation risks addressed and counterparties/value chains within scope.
(ii) How engagement, escalation, and exit triggers will be operationalized.
(iii) How progress will be reported.

Regarding progress reporting, (re)insurers must report annually on outcomes, including:

- Quantitative key performance indicators (coverage, exposure, % counterparties aligned).
- Methods and data sources.
- Data gaps and limitations.
- Case-study summaries of engagement and escalation.

Reporting can be integrated into the annual sustainability or climate reports, as appropriate.

Example of an no-deforestation engagement plan section:

Objective and scope
Following the materiality assessment of deforestation exposure, we are publishing this engagement plan to address the topic across our activities. We will report progress annually.

Implementation levers and timeline of action:

(i) Priority scope: we will prioritize commodity-linked value chains (beef, palm oil, soy, cocoa, and timber and wood fiber.) and high-risk geographies (as defined in our screening Annex).
(ii) Expectations for counterparties (minimum): we require counterparties to publish a no-deforestation policy, include a cut-off date; reach a traceability target (e.g., ≥90% volumes traceable to farm/concession within 24 months); disclose grievance mechanism details; and provide a time-bound remediation.
(iii) Insurance-specific levers: we will set restrictions on illegal logging, referral rules for high controversy entities, trader specific controls (including marine cargo), and conditional renewal tied to milestones.
(iv) Escalation path: we defined a withdrawal of capacity within 24 months if non-alignment persists. Screening and escalation are informed by recognized controversy datasets, with scrutiny or exclusion triggered where controversies are classified as significant, high, or severe (e.g., Sustainalytics Levels 3-5; CDP Forests “critical impact”).
(v) Evidence required: we require counterparties to provide a no-deforestation policy, their supply-chain map, and a cut-off attestation.

Progress and transparency
We will annually disclose quantitative key performance indicators (KPIs), methodologies used, data coverage and limitations, and case-study outcomes in our public reporting.

Supportive solutions
We will support our counterparties to enable transition with:

(i) Offering of transition-linked underwriting terms (e.g., conditional renewal, risk-improvement clauses, advisory services on traceability, claims-based loss prevention tied to forest/land use risks).
(ii) Access to nature-positive financing and impact products (e.g., sustainable forestry, nature-based solutions) and, where appropriate, verification of carbon projects to support transition plans.

Case study 11. No-deforestation engagement plan for portfolios in jurisdictions with mandatory replanting

A European (re)insurer has underwriting exposure to forestry and wood-based value chains, including clients operating in Scandinavia where forestry regulation includes mandatory regeneration/replanting obligations after harvest. The (re)insurer expects deforestation exposure to be low due to strong local governance but needs to assess and disclose deforestation exposure and determine whether exposure is significant.

Step 1	Step 2	Step 3	Step 4	Step 5
Portfolio screening to identify potential deforestation exposure The (re)insurer begins with a portfolio-level screen to identify underwriting exposure linked to forest-risk commodities and sectors, and prioritize exposures by geography and commodity risk. To do so, it uses the Forest IQ tool designed for financial institutions to estimate exposure and materiality. (Re)insurers should also engage counterparties or use other ways to assess deforestation-linked activities in their portfolios (e.g., use satellite data to determine recent deforestation). As an output, it produces a ranked list of underwriting exposures (e.g., by GWP) mapped to forestry value chains and geographies with potential deforestation/conversion risk.	**Determine whether deforestation exposure is "significant" (materiality threshold)** The insurer defines a materiality threshold for "significant deforestation exposure" used to decide whether the engagement plan requirement is triggered.	**Treat mandatory replanting as a risk control** For Scandinavian forestry exposures, the (re)insurer treats mandatory regeneration/replanting requirements as a risk-mitigating control that can reduce the likelihood of unmanaged forest loss. For example, Swedish forestry requirements include obligations to regenerate after harvest; similarly, Finland's Forest Act includes a regeneration obligation. However, the insurer does not assume "no deforestation risk" solely based on local replanting rules. It performs an additional screen for: • Conversion / degradation risk in the insured's operational footprint where relevant; and • Supply chain exposure to higher-risk geographies (e.g., sourcing of wood fiber/timber from regions with higher conversion risk), even when client headquarters are in a lower-risk jurisdiction.	**Use certification and due diligence as supporting evidence** To strengthen the assessment, the (re)insurer considers evidence such as certification and traceability indicators (where available), and due diligence processes.	**Build the no-deforestation engagement plan (if significant exposure is identified)** The (re)insurer prepares an engagement plan that includes: 1. **Objective and scope**: Prioritize the highest-risk forestry exposures by geography and commodity (e.g., largest insureds, highest limits). 2. **Implementation levers (engagement objectives, actions, and escalation)**: Obtain commitments from priority insureds to prevent deforestation in operations and supply chains, and improve monitoring where gaps exist. Additionally, define milestones and escalation steps if progress is insufficient (e.g., enhanced due diligence, coverage conditions). 3. **Progress and transparency**: Track exposure in forest-risk sectors and progress of priority insureds against engagement milestones; and report progress annually.

3.2.3 FINZ-R2: Real estate underwriting policy (recommended but not required)

The Standard recommends that (re)insurers publish a real estate policy for their financial activities (including insurance underwriting) related to buildings that includes:

- Avoiding underwriting new buildings that are not zero-carbon-ready (i.e., highly energy efficient buildings according to local rating schemes that are disconnected from the gas grid and use either renewable energy directly or an electricity supply that will be fully decarbonized by 2050.
- Avoiding underwriting new building development projects that involve new fossil connections (e.g., gas grid connectivity or the installation of fossil-fuel-based heating systems).
- Increasing capital allocation for the transition of existing buildings, including retrofitting and future proofing by electrifying cooking and heating equipment.

While not a validation requirement, such a policy can facilitate a GHG emission inventory reduction towards net-zero by 2050.

4. MONITORING, RECALCULATION, AND REPORTING

To support (re)insurers with monitoring, recalculations when triggered, and disclosing underwriting targets and progress under the Standard, this section:

- Explains how (re)insurers monitor, maintain, and communicate progress against underwriting targets over time, while allowing appropriate aggregation and avoiding disclosure of commercially sensitive information.
- Covers how to approach progress tracking as a dynamic management process, focused on material and assessable underwriting segments, supported by complementary indicators.
- Distinguishes normal portfolio dynamics from material structural changes, clarifying when recalculation or base year adjustments may be required to preserve target integrity.
- Details how to apply governance, decision rules, and documentation to support consistent and transparent recalculation decisions when significant changes occur.

4.1 FINZ-C17: Reporting requirements

Table 8 below summarizes the criteria-specific reporting requirements. All reporting designated as “Public” must be openly available in an identifiable location, free of access barriers. Information designated as “SBTi Dashboard” may be disclosed solely through SBTi reporting channels and does not need to be duplicated in an institution’s own public materials.

Public reporting is intended to focus on validated targets, high-level metrics, policies, and progress indicators, rather than detailed counterparty-level data, pricing terms, underwriting conditions, or other commercially sensitive information. The Standard does not require the public disclosure of commercially confidential or proprietary information. (Re)insurers may therefore present information at an appropriate level of aggregation, provided that disclosures remain consistent with the validated scope, methodology, target ambition and are sufficient to support transparency and credibility.

Table 8. Criteria-specific reporting requirements

Criteria reference	Reporting topic	Mandatory reporting content	Reporting timing	Reporting location
FINZ-C1	Net-zero ambition	Organization-wide net-zero commitment consistent with the Financial Institutions Net-Zero Standard’s scope requirements	Initial validation; maintained thereafter or updated as needed	**Public**
FINZ-C4	Governance of climate targets	Governance framework (specific roles or committees responsible) for net-zero targets	Initial validation; updated as needed	**Public**
FINZ-C9	Policies – fossil fuels	Fossil fuel transition policy for financial institutions with financial activities in the fossil fuel sector	Initial validation; updated as needed	**Public**

		as defined in FINZ-Table 2 (including scope, coverage of new applicable financial activities, timelines, and permitted exclusion options)		
FINZ-C10	Deforestation engagement plan	Deforestation engagement plan for financial institutions if there is significant deforestation exposure (including definitions used and engagement approach)	Renewal validation (where applicable)	**Public**
FINZ-C15	Communicating policies and targets	Public disclosure of SBTi-validated targets and relevant policies, using the Annex B target language exactly as validated (scope, metric, base year, target year, coverage, ambition); confirmation of consistency across public materials	Within six months of validation (otherwise revalidation required)	**Public**
FINZ-C17	Progress reporting on:	Annual reporting of progress against validated targets, separately for each in-scope financial activity and for elements listed below	Annually, starting the year after initial validation	**Public**
	➔ GHG emissions inventory (Segments A–C)	Gross GHG emissions inventory covering: ● Segment A: fossil fuels (including methane separately, as data allows); and ● Segments A, B, and C (no segment breakdown is necessary)	Annually, starting the year after initial validation	**Public**
	➔ GHG emissions inventory (Segments A–D)	Gross GHG emissions inventory covering: ● Segment A: fossil fuels (including methane separately, as data allows); and ● Segments A, B, C, and D (no segment breakdown is necessary)	Annually, from 2030 onwards	**Public**
	➔ Climate-alignment assessment	Percentage share of exposure per climate alignment category: ● In transition ● Climate solutions ● Net-zero state ● Not aligned ● Not assessed List of climate-alignment methodologies used for the assessment	Annually, starting the year after initial validation	**Public**
	➔ Sector metric (if relevant)	Value of relevant metric per FINZ-Table 4.3 if sector target is set	Annually, starting the year after initial validation	**Public**

	➔ Clean energy-to-fossil fuel finance exposure ratio	Absolute exposure amounts; ratio of clean energy to fossil fuel exposure	Annually, starting the year after initial validation	**Public**
	➔ Deforestation exposure	Definitions of deforestation and "significant deforestation exposure," and methodologies used	Annually, starting two years after initial validation or by 2030 at the latest	**Public**
FINZ-C18.1	End-of-cycle progress assessment	Assessment of progress against validated near-term targets at the end of the target period	No later than 12 months after the near-term target period ends	**Public**
FINZ-C18.2	Target renewal	Submission of targets for the next near-term cycle and completion of renewal validation using the most recent applicable criteria	At renewal validation	**SBTi Dashboard**
FINZ-C19	SBTi Claims	Ensure all public claims are accurate, transparent, verifiable, and fully substantiated with accessible evidence, in strict adherence to the Standard's permitted language and all relevant SBTi policies (including Communications, Claims, Brand, and Validation)	At all times (Initial validation; Renewal validation)	**Public**

4.2 FINZ-C18: Progress measurement and KPIs

At initial validation, (re)insurers are required to confirm, as part of their target submission, their commitment to report progress annually. The Standard further distinguishes between annual progress reporting and end-of-cycle progress assessment and target renewal. Financial institutions are not required to publicly disclose information related to progress assessment or target renewal at initial validation.

4.2.1 Progress measurement as a management process

Progress tracking allows (re)insurers to monitor how underwriting activities are evolving relative to validated targets, policies, and benchmarks over the target cycle.

This means that progress measurement should:

- Focus on changes relative to the base year and validated target trajectory, rather than absolute year-on-year values in isolation; and
- Be sufficiently granular to reflect where underwriting decisions, policies, and engagement are influencing outcomes, and where constraints remain.

This approach aligns with the Standard's recognition that portfolio-level absolute emissions are lagging indicators, while alignment-based and sector-specific metrics provide more decision-useful near-term signals.

Example of an illustrative insurance underwriting management dashboard

A (re)insurer with a diversified non-life underwriting portfolio uses the following illustrative dashboard to support target setting, monitoring, and management decisions under the Standard.

The dashboard presents underwriting exposure by sector, expressed using GWP, and shows:

- Segment classification applicable to each underwriting sector;
- Examples of eligible climate-alignment methodologies that may be applied in an insurance underwriting context, found in FINZ-Table 4.3 and the Financial Institutions Net-Zero Standard Implementation List;
- Share of underwriting exposure classified as climate aligned in the base year and upon review; and
- Corresponding near-term and long-term alignment targets, expressed as shares of aligned underwriting exposure.

Near-term target language: Company A commits that 38% of its applicable insurance underwriting activities will be climate-aligned by 2031 from a 2024 base year. This includes 61% climate alignment in Segment A, 50% climate alignment in Segment B, and 49% in Segment C (and 0% in Segment D since near-term targets are optional for it as target coverage requirements have been met).

Base year = 2024 || **Near-term target year** = 2031

Insurance underwriting portfolio (by sector)	Segment	Eligible alignment methodology (examples)	Portfolio share (GWP)	Base-year alignment	Sector alignment today		Near-term target (by sector)	Near-term target (by segment)	Near-term target
Oil and gas	A	Absolute emissions reduction target and no expansion	5%	0%	0%		61%		38.0%
Power generation	B	Climate Bonds Standard certification	20%	21%	23%	15%	54%	50.0%	
Cement	B	Benchmark divergence assessment	10%	9%	9%		47%		
Steel	B	ACT Iron and Steel	10%	4%	6%		44%		
Buildings	B	EPC (top 2 tiers)	5%	11%	12%		48%		
Pharmaceuticals	C	SBTi target status	15%	12%	15%	12%	49%	49.0%	
Telecommunications	C	MSCI implied temperature rise	10%	8%	7%		47%		
SMEs	D	EU Taxonomy	25%	10%	11%		- *		
			100%						

* Near-term targets for Segment D are optional in this example. Near-term targets for Segments A-C cover 75% of the portfolio, higher than the 67% minimum threshold.

4.2.2 Focus on material and assessable underwriting segments

The Standard does not require (re)insurers to have perfect data on day one. Instead (re)insurers should focus progress measurement on material segments and lines of business where progress can be credibly assessed and influenced. For instance, while Segment D underwriting exposure may be included in target coverage, calculation of the corresponding greenhouse emissions is not required until 2030. This approach avoids creating misleading

signals through the pursuit of full coverage in areas where progress cannot yet be robustly assessed, while supporting a progressive expansion of scope and data quality over time.

For insurance underwriting, progress reporting therefore could typically include:

- Emissions-intensive segments subject to sector targets or explicit underwriting policies;
- Segments where portfolio climate-alignment assessments are available and improving; and
- Lines of business where underwriting guidelines, exclusions, or engagement practices are actively shaping exposure.

4.2.3 Use of multiple and complementary KPIs

The Standard anticipates that (re)insurers will use a set of complementary indicators to reflect different dimensions of progress.

For (re)insurance underwriting, these may include:

- The share of underwriting exposure covered by climate-related policies, such as fossil fuel transition policies or sector-specific underwriting guidelines;
- The share of insured counterparties with transition plans or science-based targets, where relevant to the underwriting relationship; and
- Directional trends in exposure to emissions-intensive activities or sectors covered by validated targets.

These indicators are not substitutes for validated target metrics, but contextualize progress, helping users understand how and why alignment outcomes are changing over time.

4.2.4 Segmented progress reporting

The Standard differentiates between levels of detail required for validation compared to publication (see Table 8 for publication requirements). The Standard requires targets to be validated at both the aggregate level and for each relevant segment (FINZ-C12.5 and FINZ-C13.5). The minimum requirement of progress reporting is at the aggregate (i.e., financial activity type) level. To substantiate their progress reporting, (re)insurers may structure it by:

- Segment (A–D);
- Emissions-intensive sector; or
- Line of business, where this better reflects underwriting decision-making.

This approach supports transparent reporting of differentiated progress pathways across the underwriting portfolio, while still allowing aggregated figures to be used for high-level communication.

4.3 FINZ-C16: Target recalculation and base year adjustments

Targets are validated against a specific base year, scope, and methodological configuration, and are expected to remain valid throughout the near-term target period unless significant changes arise that would compromise their integrity.

Within this lifecycle:

- Annual progress reporting captures how underwriting portfolios evolve relative to validated targets;
- Recalculation functions as a safeguard where the original reference point is no longer representative; and
- Target renewal provides the structured point at which targets are reassessed and reset for the next cycle.

Recalculation is therefore designed to be exceptional and controlled, ensuring stability and comparability of targets over time, rather than serving as a mechanism to absorb normal portfolio volatility. The Standard only requires recalculation if a 'significant' change has occurred, defined as cumulative change of 5% or more in an organization's total base year emissions (tCO_2e). This is necessary as continued use of the original base year would undermine consistency, comparability, or relevance of the inventory and associated progress.

Typical triggers and additional explanatory remarks are described in Table 9 below.

Table 9. Potential recalculation changes

Changes that might trigger the recalculation	Additional explanatory remarks
Structural changes (e.g., mergers, acquisitions, divestments, outsourcing / insourcing)	Structural changes refer to shifts that alter what is being targeted. For example, changes to the scope of underwriting activities and the corporate structure supporting those activities. Where such changes are significant, recalculation is required to maintain the validity of the target. By contrast, insurance underwriting portfolios are expected to evolve continuously through renewals, cancellations, new business, and gradual rebalancing aligned with existing targets and policies. These dynamics are explicitly anticipated by the Standard and are intended to be reflected through progress measurement and reporting, not through recalculation.
Significant adjustments to the base year assessment, data sources, or calculation methodologies, or changes in data used to set targets (e.g., discovery of significant errors or multiple cumulative errors that are collectively significant).	The Standard places emphasis on the integrity of the base year, as it anchors both target ambition and the interpretation of progress. Recalculation of targets is therefore required where the base year assessment itself is no longer reliable, such that continued reference to it would materially misrepresent performance against the target. At the same time, the Standard recognizes that data quality, coverage, and methodologies will improve over time. Incremental refinements and expanded coverage are expected and must be transparently disclosed, but do not in themselves require recalculation unless they significantly alter the baseline on which the target was validated.
Significant change in scope 1 and scope 2 emissions, as well as in any scope 3, categories 1-14 emissions covered by target(s), relative to base year emissions.	Targets covered as part of the SBTi Corporate Net-Zero Standard are also subject to the significance threshold check.

Where recalculation is performed, a qualitative narrative is required to explain the nature of the change and its implications for the emissions inventory. The Standard assumes that target recalculation decisions are supported by clear internal governance. In practice, this means that (re)insurers must be able to demonstrate that recalculation decisions are:

- Grounded in defined significance considerations;
- Applied consistently across financial activities and target cycles; and
- Documented in a manner that supports transparent reporting and subsequent validation.

4.4 FINZ-C19: SBTi Claims and Communications

Under FINZ-C19, (re)insurers must ensure that all public SBTi claims are accurate, verifiable, transparent, and do not mislead stakeholders regarding the institution's actual climate ambition or performance. When publicly communicating the validated targets, the language used must accurately reflect the conformance status and rely on the exact permitted wording as validated by the SBTi Services. The general template for target wording is outlined in Annex B: Target language template in the Standard.

In general, communications must adhere to the SBTi Communications Guidance, Claims Policy, Brand Policy, and Validation Policy. For best practices in structuring these communications, the Standard also recommends referencing the *ISEAL Sustainability Claims Good Practice Guide*.

APPENDIX

A1. Handling constraints and common pitfalls for policies and target setting

A1.1 Data availability and methodological constraints

Constraint	Insurance underwriting portfolios often include private companies, SMEs, and asset- or project-based covers for which emissions data, transition plans, or sector benchmarks may be incomplete or evolving.
How the Standard is intended to be applied	Within the target-setting framework, the Standard recognizes that portfolio-level absolute emissions are lagging indicators and therefore prioritizes forward-looking alignment and sector metrics for near-term target setting. In practice, this means that: ● Near-term underwriting targets may rely on portfolio climate-alignment metrics and sector-specific metrics, rather than absolute emissions reductions; ● Estimates and proxies may be used in early target cycles, provided methodologies are applied consistently throughout the target period with an expectation that data quality improves over time; and ● The Standard embeds an expectation of progressive improvement in data quality and coverage over successive target cycles, rather than requiring complete data at initial validation.
Common pitfall	Postponing target setting or narrowing target scope due to incomplete data.
Mitigating measures	Under the Standard, data limitations are addressed through sequencing and transparency, not exclusion of in-scope underwriting activities. (Re)insurers are encouraged to engage with brokers, managing general agents, and other upstream insurance intermediaries, as well as directly with insureds, to improve the availability and quality of emissions- and alignment-relevant data over time, including setting clearer data expectations at underwriting and renewal stages.

A1.2 Portfolio heterogeneity and segmentation challenges

Constraint	Underwriting portfolios are inherently heterogeneous, spanning multiple lines of business, sectors, geographies, and counterparty types.
How the Standard is intended to be applied	The Standard allows (re)insurers to reflect portfolio heterogeneity through segmented target design, enabling them to: ● Apply sector targets for emissions-intensive sectors where sector metrics and pathways are defined; and ● Apply portfolio climate-alignment targets as a complementary or alternative approach, including to ensure coverage and coherence for portfolio components where sector targets are not set or not applicable. The Standard intentionally does not prescribe a single industry classification or mapping approach, allowing (re)insurers to define and apply segmentation choices consistently within their target framework.
Common pitfall	Over-aggregating underwriting exposure at portfolio level, resulting in targets that appear coherent externally but do not meet segment-level coverage or ambition requirements under the Standard.
Mitigating measures	(Re)insurers are encouraged to apply structured and sufficiently granular segmentation of underwriting portfolios, aligned with material differences in lines of business, sectors, geographies, and counterparty types, to ensure that target selection and coverage reflect the underlying risk and emissions profile. This may include documenting segmentation logic and assumptions, and internal management purposes, and using aggregated views for external communication only where consistent with the validated target structure.

A1.3 Nature of the underwriting relationship and influence

Constraint	Insurance underwriting does not confer ownership, lending control, or direct operational influence over counterparties, raising questions about how underwriting targets can credibly support real-economy transition.
How the Standard is intended to be applied	Within the Standard's target-setting framework, progress is expected to be driven through engagement-based underwriting levers, including: • Underwriting appetite and guidelines; • Coverage conditions and renewal decisions; • Pricing signals and incentives; and • Ongoing engagement with insured counterparties. Portfolio climate-alignment targets under FINZ-C12 are designed to track shifts in the composition of underwriting exposure over time using leading indicators. These reflect increasing alignment within transition and net-zero-state counterparties, or climate solutions, rather than solely attributing emissions reductions directly to underwriting decisions.
Common pitfall	Framing underwriting targets as commitments to directly reduce insured emissions on behalf of counterparties before the net-zero year. Near- and long-term targets are not guarantees of immediate insured emissions reduction outcomes.
Mitigating measures	(Re)insurers may mitigate limited direct influence by embedding data-sensitive and transition-relevant provisions into underwriting practices, such as covenants or contractual provisions proportionate and sensitive to the data needed to assess climate alignment, monitor progress, or support target-setting (e.g., expectations on disclosure of emissions, transition plans, or asset-level information); and • Structured engagement with brokers, managing general agents, cedents, and other upstream intermediaries, including: setting clearer expectations on climate- and alignment-relevant data at placement and renewal stages. • Integrating alignment-related information into submission templates or renewal discussions. • Using broker-led engagement processes to progressively improve the availability, quality, and consistency of alignment-relevant information across underwriting portfolios over time. Additionally, (re)insurers may apply sustainable claims management practices to support the transition of counterparties insured.

A1.4 Interaction between portfolio climate-alignment and sector targets

Constraint	(Re)insurers may face uncertainty where both portfolio climate-alignment targets and sector targets apply to the same segment or underwriting portfolio.
How the Standard is intended to be applied	FINZ-C12 explicitly allows, but does not require, use of multiple near-term targets methods, provided coverage and ambition requirements are met. The Standard is designed such that: • Sector targets anchor action in emissions-intensive or structurally critical sectors where pathways are made available; while • Portfolio climate-alignment targets provide a long-term framework for measuring progress using leading indicators.
Common pitfall	Presenting overlapping targets without explaining their respective roles, creating confusion or the perception of double-counting progress under the Standard, where multiple target types are used.
Mitigating measures	Where multiple target types are used for the same segment, clearly articulate their distinct purpose and scope (e.g., sector targets as sector-specific emissions reduction ambitions, climate-alignment targets as leading progress indicators). Where only one target type is applied, no additional explanation is required beyond demonstrating compliance with FINZ-C12/C13 coverage and ambition requirements.

A1.5 Coverage thresholds and sequencing

Constraint	Including all underwriting exposure in early target cycles may be challenging, particularly for less material or data-constrained segments.
How the Standard is intended to be applied	FINZ-C12 allows for sequencing, enabling (re)insurers to prioritize action on the most material underwriting segments while progressively expanding coverage over time as data quality improves. This flexibility is intended to support early and credible implementation, not permanent exclusion of exposure.
Common pitfall	Using sequencing flexibility to indefinitely exclude material underwriting activities from targets, rather than as a transitional step within the Standard's framework.
Mitigating measures	(Re)insurers are encouraged to define and document a clear sequencing approach for near-term target coverage with minimum coverage thresholds met while allowing prioritization of actions within covered segments. A distinction should be made explicit between target coverage (i.e., the share of underwriting exposure that must be included within the target boundary) and target ambition or progress (i.e., the proportion of counterparties or exposure expected to achieve climate alignment by the target year). While near-term climate-alignment targets must cover 100% of Segments A, B, and C, this does not imply that 100% of counterparties within those segments need to be climate-aligned by the target year. Consistent with the minimum ambition levels set out in FINZ-Table 3, (re)insurers may prioritize engagement, underwriting actions, and transition efforts toward a subset of counterparties within each segment, in line with the applicable segment-specific ambition thresholds. Sequencing should therefore be supported by clear internal timelines, interim milestones, and data-readiness actions, demonstrating how coverage is achieved early while progress toward alignment is expanded progressively over successive target cycles, rather than used to defer inclusion of material underwriting exposure.

A1.6 Communication and interpretation risks

Constraint	Underwriting targets may be misinterpreted as commitments to immediately exit sectors or to deliver guaranteed emissions reductions.
How the Standard is intended to be applied	FINZ-C15 places emphasis on transparent and consistent communication, ensuring that: • Near- and long-term targets are clearly framed as alignment and transition objectives; • Policies and targets are read together as part of a coherent implementation framework. In particular, the fossil fuel transition policy under FINZ-C9 applies only to new applicable financial activities, includes specified permitted exclusion options, and should not be interpreted as requiring immediate exit from all existing fossil-fuel-related underwriting; and • Disclosures remain consistent with validated scope, methodology, and assumptions over time.
Common pitfall	Over-simplified messaging that disconnects public SBTi claims from validated targets and policies.
Mitigating measures	(Re)insurers are encouraged to explicitly distinguish between commitments, policies, and target objectives in external communications, including by clarifying the scope and timing of the fossil fuel transition policy (e.g., application to new applicable financial activities only), explaining how alignment

	targets measure portfolio-level directional change, and verifying that public narratives remain traceable to the validated target structure and underlying Standard criteria.

A1.7 Translating portfolio targets into day-to-day underwriting levers

Constraint	Translating portfolio targets into day-to-day underwriting levers.
How the Standard is intended to be applied	The Standard recognizes that (re)insurers do not control counterparties' operations directly. Targets are therefore expected to be implemented through underwriting decision frameworks, policies, and engagement, with the choice of levers adapted to the underwriting structure (direct vs. indirect influence).
Common pitfall	Treating portfolio targets as purely aspirational or reporting-only metrics, without links to underwriting decisions; over-claiming real-economy "impact" where influence is indirect (e.g., treaty reinsurance).
Mitigating measures	(Re)insurers are encouraged to: ● Operationalize targets through underwriting "guardrails", referral rules, and escalation pathways embedded in underwriting guidelines. ● Differentiate levers by structure: apply risk- or asset-level requirements where visibility is direct (e.g., primary insurance); where influence is indirect (e.g., reinsurance), focus on cedant engagement, portfolio representations, exclusions, and annual portfolio-level reporting and dialogue.

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION