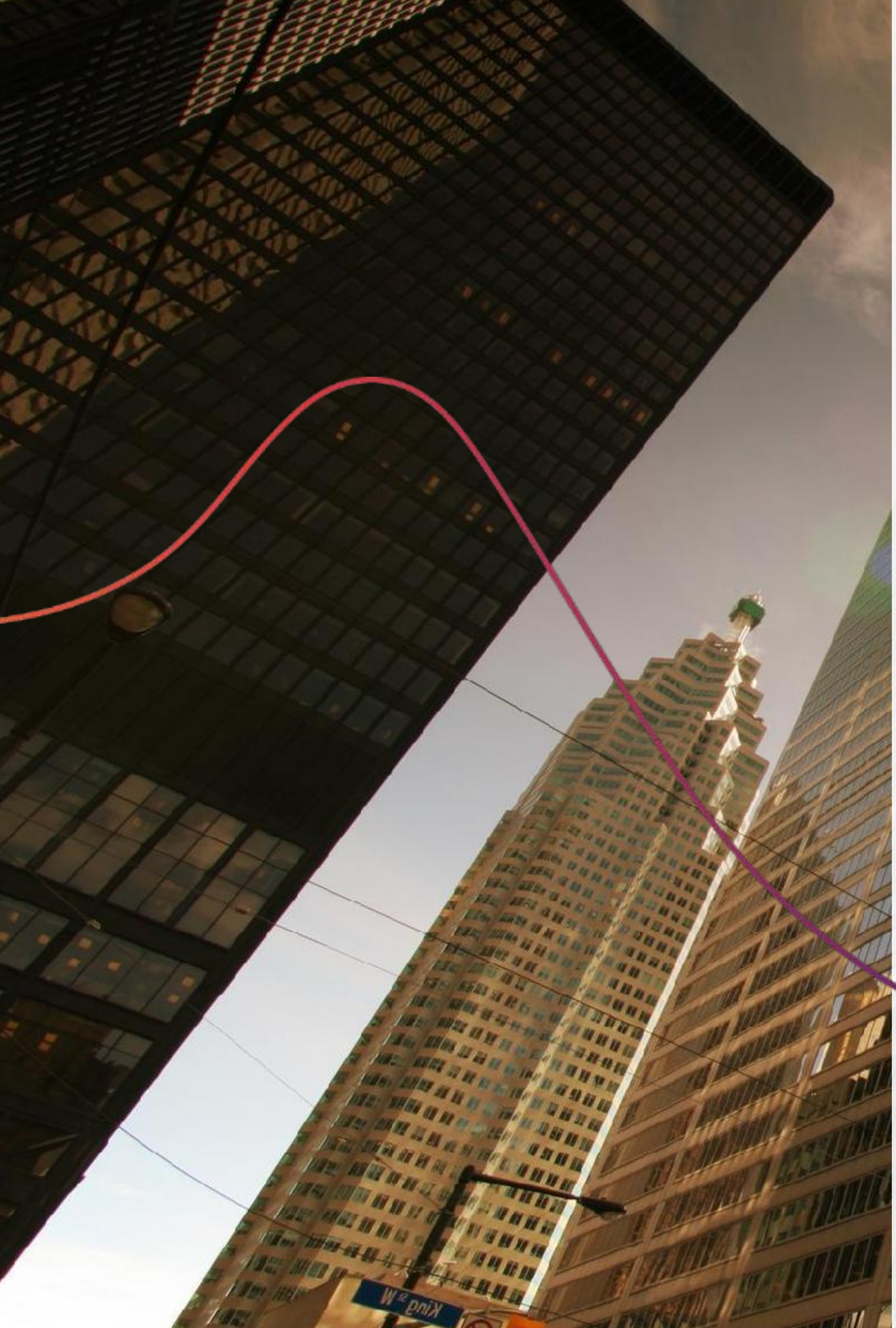


SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

# SBTi Insurance Sector Explanatory Note

## Deep Dive and Q&A

1 June 2026

# Today's presenters

Pendar OSTOVAR
**Head of Financial Institutions Engagement**
SBTi

Anna ILLARIONOVA
**Senior Manager, ESG Services**
EY Luxembourg

François MOURIER
**Senior Consultant, ESG Services**
EY Luxembourg

# Agenda

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

- Introduction
- **Insurance Explanatory Note: Implementing the Standard for Insurance Underwriting**
- Q&A

# Typical challenges for (re)insurers

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

**1. Commitment**

### Scope & Segmentation

- "What is actually in scope ?"
- "How do we define boundaries across multiple entities and business lines?"
- "Do subsidiaries and asset management activities need to be included?"
- "How do we treat SMEs and mixed underwriting exposures?"

**2. Assessment**

### Measurement

- "How do we calculate insurance-associated emissions in practice?"
- "What do we do when we don't have counterparty data (especially SMEs)?"
- "How do we deal with mixed exposures and portfolio-level estimations?"

**3. Policies and target-setting**

### Target setting

- "Which target-setting method should we use? Can we combine approaches across different Segments?
- "How do we use taxonomies in practice for alignment?"

### Policies & Feasibility

- "What does the fossil fuel transition policy really require?"
- "How do we operationalize policy restrictions across underwriting decisions?"

# 1. Commitment

# Challenge: "How do we define the boundary in practice?"

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

## Multiple entities

- Group structures with subsidiaries, branches, Managing General Agents (MGAs), service entities, asset management branch
- Not all entities contribute equally to underwriting
- Some entities have no direct underwriting activity
- Unclear inclusion logic

## Consolidation rules

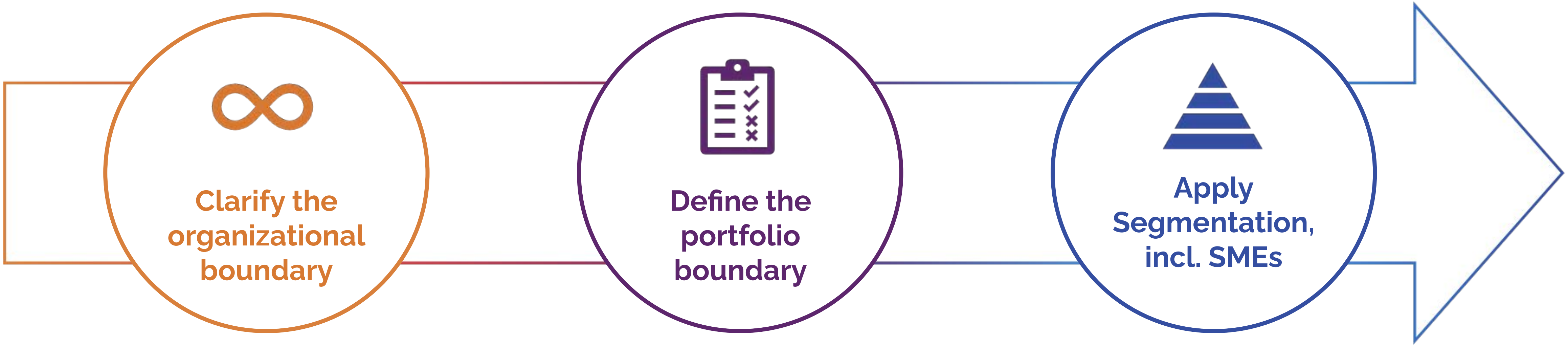
- Different approaches coexist (Financial control, operational control, equity share approach)
- Financial statements ≠ operational reality
- Align with audited perimeter vs reflect real decision-making control

## Mixed business activities

- Insurance groups combine multiple business activities (Insurance underwriting, asset owner investing, asset manager investing, lending activities)
- Scope definitions differ across financial activities
- Major risks: double counting, misclassification, or scope leakage

# How the Note helps: Setting the organizational and the portfolio boundary

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION




**How the Explanatory Note operationalizes this:**

### Organizational boundary

Define which entities and activities are included

- ✔ Select the boundary approach consistently, and test edge cases

### Portfolio boundary

Identify which insurance underwriting activities are in scope:

- ✔ Apply 5% revenue threshold + scoping definitions (in scope vs. out of scope)

### Segmentation logic

Structure the portfolio for assessment and target-setting:

- ✔ Allocate exposures, by activity, sector to Segments A–D and apply specific treatment for SMEs

# Practical application: Organizational Boundary

**Example:** A composite (re)insurer group operates through multiple regulated underwriting entities.

## Steps to apply the organizational boundary to a group with multiple entities

### 1 — Map the group structure

List all **legal entities** and **operating units** that are part of the composite group

### 2 — Select and document the boundary approach

Choose whether the **operational control**, **financial control**, or **equity share approach** is used to delineate the organizational boundary (e.g., align with the consolidation perimeter used in financial statements).

### 3 — Test edge cases

**Identify entities that create ambiguity**, for example:

- Representative offices with no underwriting revenue
- Asset management branch
- Overseas subsidiary

### 4 — Apply boundary decision consistently

Where financial control boundary is applied, **include entities** consolidated in group financial statements, for example:

- ✔ Representative offices
- ✔ Asset Management Branch
- Third-party Subsidiary

### 5 — Create a "boundary coverage table"

**Capture**:

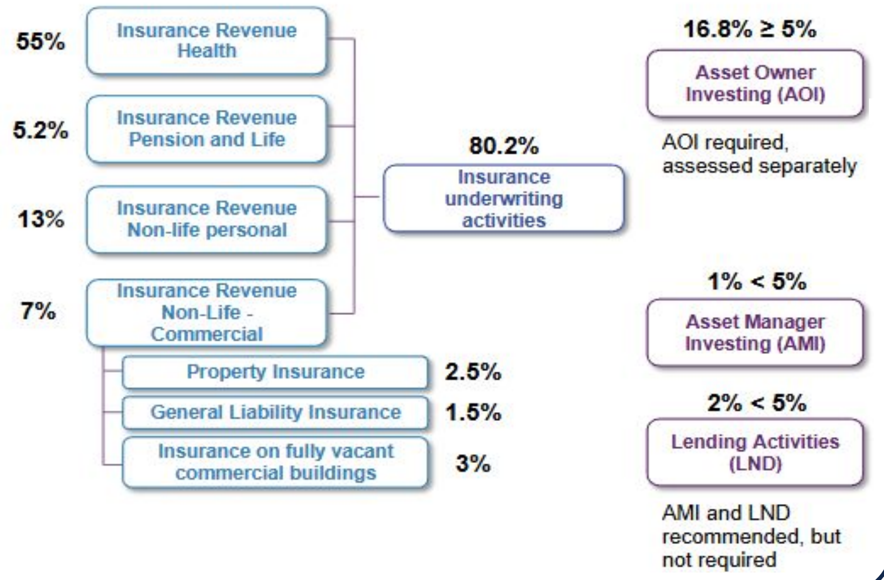
- Entity name
- Activity type
- Consolidation method
- % of group underwriting exposure (if relevant)
- Rationale for exclusions

# Practical application: Portfolio Boundary

**Example:** A diversified insurance group operates across multiple financial activities, including insurance underwriting, asset management, investing, and lending.

## Steps to operationalize the 5% materiality threshold

### 1
**Identify total company revenue and revenue specific to insurance underwriting***




### 2
**Identify in-scope insurance underwriting activities**

**Apply the scoping rules defined in FINZ Table 1.4**, for example:

- ✔ Non-Life Commercial Property Insurance (2.5%)
- ✔ Non-Life Commercial General Liability Insurance (1.5%)

### 3
**Determine materiality of in-scope insurance underwriting activities**

Assess whether in-scope insurance underwriting revenue (GWP or ICR**) accounts for **≥5% of total group revenue**, for example:

Non-life Commercial Property Insurance (2.5%) + Non-life Commercial General Liability Insurance (1.5%) = 4%

### 4
**Interpret the result**

- **≥5%:** Apply the Standard to in-scope insurance underwriting activities
- **<5%:** Not required but encouraged to apply the Standard to in-scope insurance underwriting activities

*Asset-liability matching (ALM) assets backing the insurance portfolios are classified under AOI /AMI, and not under Insurance Underwriting activities.*

*** Gross Written Premium (GWP) or Insurance contract revenue (ICR)*

# Q&A: Received questions

## Organizational and portfolio boundary

**Should portfolio boundary be determined based on GWP only?**

- Can use GWP or Insurance Contract Revenue (ICR)
- Apply consistent basis

**Which SME definition should be used ?**

- Can use the National or regional regulatory definitions or the SBTi definition
- Must be consistent and documented
- Example of threshold showed in the note

**Is the 5% threshold applied at the financial activity level rather than by product line?**

- Yes, applied at financial activity type level
- Not at product/line level

# How the Note helps: Operationalize segmentation for insurance underwriting portfolios

<table>
<tr><th rowspan="2">Economic Activities</th><th colspan="6">Line of business</th></tr>
<tr><th colspan="2">Commercial to listed and private corporates</th><th colspan="2">Project insurance</th><th colspan="2">Commercial insurance to SMEs</th></tr>
<tr><td>Fossil Fuels</td><td colspan="6">Segment A</td></tr>
<tr><td>Emissions intensive non-fossil sectors<br>(E.g., Air transport, Maritime, Land transport etc.)</td><td colspan="3">Segment B</td><td colspan="3">Segment D</td></tr>
<tr><td>Other sectors<br>(E.g., Entities in the financial sector and SMEs)</td><td colspan="4">Segment C</td><td colspan="2">Segment D</td></tr>
</table>

# Practical application: Segmentation

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

## Steps to segment mixed and service-based underwriting activities

### 1 — Identify in-scope underwriting activities

**Identify all of the underwriting activities** provided to the energy company as in scope

### 2 — Map activities to sector definitions

**Assess the sector** of the insured activity at the company level, for example:

- **Fossil fuel subsidiary:** assets are linked to the fossil fuel sector
- **Renewable energy subsidiary:** assets are linked to the power sector

### 3 — Allocate to Segments A–C

**Carry out a sector-to-segment mapping**, for example:

- **Fossil fuel subsidiary:** mapped to **Segment A**
- **Renewable energy subsidiary:** mapped to **Segment B**

### 4 — Define approach to SMEs

**Allocate**:

- **Segment A:** Fossil fuel sector
- **Segment D (default):** Non-fossil fuel companies
- **Segment B (optional):** Energy intensive sectors

### 5 — Calculate financial exposure (e.g., using GWP)

- **Calculate the absolute and percentage exposure** to each Segment using GWP

# 2. Assessment

# Challenge: "How do we assess alignment with limited data?"

### Structural data gap

- Most cited barrier for (re)insurers
- Limited access to client-level emissions data
- Acute for SMEs where data is largely unavailable

### Reliance on proxies

- Extensive use of proxy and modelled data
- Often "proxies on proxies" to fill gaps

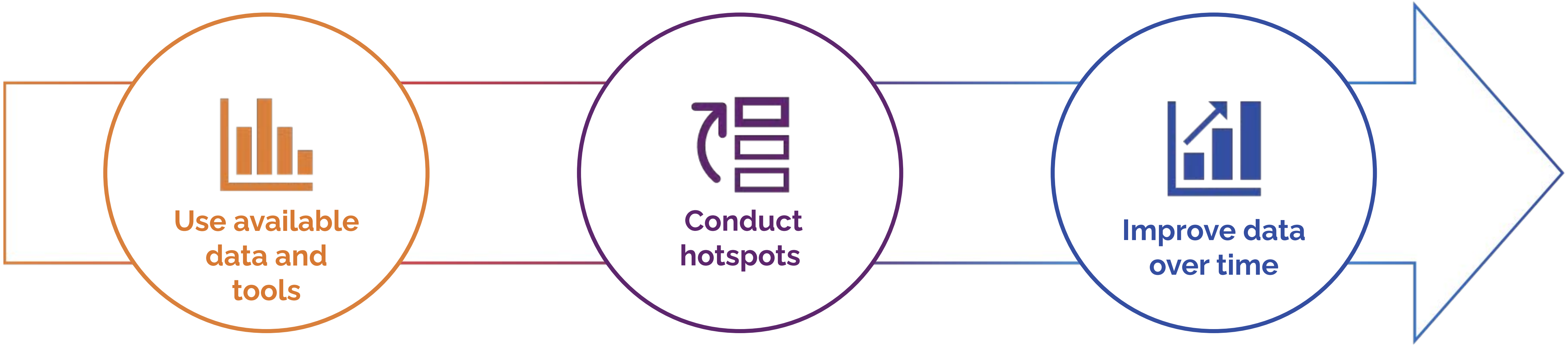
### Credibility and uncertainty risks

- High methodological uncertainty
- Challenges to robustness of targets and disclosures
- Data unreliability persists especially for complex topics (e.g., deforestation), including from commercial providers

# How the Note helps: Start with available data and tools, improve over time

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION




**How the Explanatory Note operationalizes this:**

### Attribution approach

Use financial exposure:

- ✔ Apply GHG Protocol-aligned methods (e.g., PCAF Insurance Associated Emissions Standard)
- ✔ Use of questionnaires, tools, or GHG calculators

### Prioritisation (hotspotting)

Identify emission hotspots across portfolio:

- ✔ Focus on most material Segments

### Flexible assessment approach

Choose assessment level:

- ✔ Entity or asset
- ✔ Phase-in data improvements

# How the Note helps: Operationalize SME proxy data collection

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

## Assessment for SMEs and data-constrained portfolios

### Minimum inputs*

- Main activity / sector
- Country of operation
- Fossil fuel involvement (+ expansion)
- Existing GHG estimate using recognized methods / calculators

SME Climate Hub

### Outputs*

- Map Segment
- Select country proxies
- Screen fossil fuel flags
- Estimate portfolio emissions

### Apply data hierarchy

1. Prioritize client / asset data
2. Fallback to sector / country benchmarks
3. Use conservative default proxies

*Illustrative and not exhaustive*

# Practical application: GHG emissions inventory

**Example**: (Re)insurer with a predominantly SME-focused commercial motor portfolio can calculate its Insurance-Associated Emissions (IAE) inventory and perform hotspot analysis, despite limited counterparty-level emissions data availability.

## Steps to conduct an initial IAE inventory and hotspot analysis for an SME underwriting portfolio

### 1 — Define the SME underwriting scope

- Select SME commercial motor portfolio
- Exclude personal lines
- Map exposure:
  - ✔ Segment D (default)
  - ✔ Segment B (optional)

### 2 — Select a pragmatic IAE approach

- Apply portfolio-level proxy approach
- Use vehicle-type emission factor as proxy
- Leverage PCAF emission factors

### 3 — Calculate emissions inventory (proxy-based)

- **Split portfolio by vehicle type**:
  - ✔ Internal combustion engine (ICE) vehicles
  - ✔ Hybrid vehicles
  - ✔ Fully electric vehicles.
- Apply emission intensity factors
- Estimate total emissions (IAE)

### 4 — Calculate financial exposure using GWP and conduct hotspotting

- **Identify key emission drivers**: ICE fleets = main hotspot
- Prioritize high-impact SME sub-segments (e.g., Logistics)
- Define priority actions (e.g., Engagement, incentives)

# How the Note helps: Use flexibilities for data-constrained portfolios

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

**Practical flexibilities for data-constrained portfolios:**

| | 1 Climate-alignment assessment | 2 GHG emissions inventory |
|---|---|---|
| Segment | Segments C–D | Segment D (e.g., SMEs in non-fossil fuel sectors) |
| Flexibility | **"Not assessed"** possible until 2030 | **No full emissions inventory** required until 2030 |

**Do's and don'ts:**

- Prioritize material sectors first

+

- Phase in data improvements

+

- Avoid waiting for full counterparty inventories

# 3. Policies and target-setting

# Challenge: "What does the fossil fuel policy mean for underwriting decisions?"

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

### Scope and level ambiguity

- Treatment of diversified energy companies
- Potential risk of over-excluding non-fossil activities

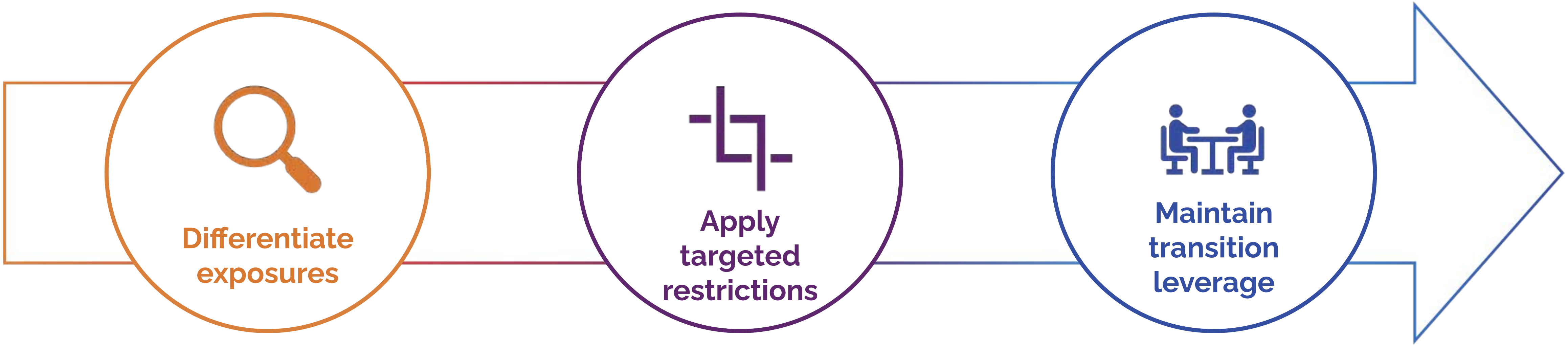
### Transition vs exclusion trade-offs

- Engagement implications for fossil fuel companies expanding capacity beyond 2030
- Competitive positioning implications

### Practical underwriting implications

- Integrating policy into underwriting decisions
- Ensuring consistency across portfolios

# How the Note helps: Operationalize fossil fuel policy in underwriting




**How the Explanatory Note operationalizes this:**

### Differentiate scope (asset vs company)

- ✔ Assess at asset / activity level
- ✔ Allow continued provision of financial activities for ring-fenced renewable energy operations

### Target expansion activities

- ✔ Restrict new O&G expansion projects
- ✔ Apply policy to new contracts only

### Enable practical underwriting decisions

- ✔ Maintain engagement with clients

# Q&A: Received questions (1/2)

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

## Fossil fuel policy

### How does the fossil fuel policy apply?

- Applies to the upstream segment (i.e., exploration, extraction, and the development), unabated coal-fired power plants, and LNG infrastructure

### Does gas infrastructure (pipelines, storage) count as expansion?

- Yes — if linked to new LNG-related infrastructure projects or assets
- Applies regardless of regional constraints

### Do we need to restrict existing portfolio exposure?

- No — policy applies to new financial activities only
- Existing exposures can be maintained subject to target criteria

### What could be excluded from the fossil fuel policy?

- Decommissioning of production capacity (no replacement)
- Abatement of fossil fuel assets
- Compliance with national laws/regulations
- Advisory- investment mandates

# Q&A: Received questions (2/2)

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

## Fossil fuel policy

### How do we segment the fossil fuel value chain?

- Upstream fossil fuel activities prioritized (Segment A)
- Refer to FINZ Table 2 for value chain details

### How are companies with transition plans treated?

- Must not engage in new expansion activities
- Transition ambition alone is not sufficient

### Do we need to divest (e.g. bonds, coal exposure)?

- Focus on stopping new support to expansion
- Coal phase out = divestment
- Oil and gas = alignment or reducing emissions

### What is the definition of "phase-out"?

- Applies to coal sector exposure
- Targets defined via Global Coal Exit List (GCEL) / 2030 exit for OECD and 2040 exit for non-OECD countries

# Challenge: “Which target approach should we use?”

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

### Select the right target approach

- Choose between alignment vs sector targets
- Apply methods to SME-heavy portfolios
- Translate taxonomy into targets

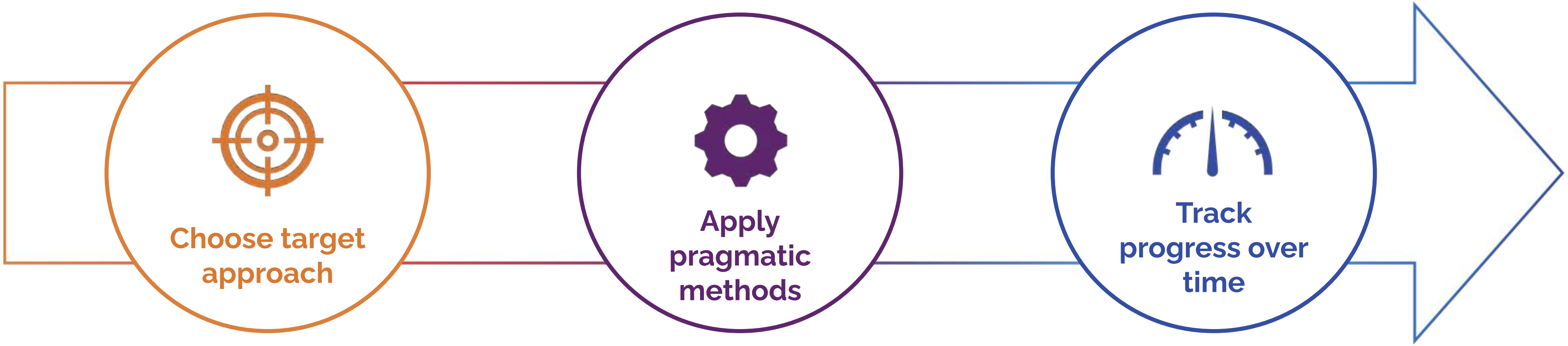
### Overcome data and counterparty constraints

- Rely on limited counterparty disclosures
- Set targets with proxy-based data
- Meet minimum coverage requirements

### Track progress and credibility

- Define how progress is measured
- Select appropriate methodologies
- Deal with volatile exposure metrics (e.g., GWP)

# How the Note helps: Operationalize target setting in underwriting




**How the Explanatory Note operationalizes this:**

### Clarify target-setting approach

- ✔ Apply near-term target methods and options by segment
- ✔ Apply targets at the project/asset level and at the company level

### Enable targets despite data gaps

- ✔ Use Taxonomies for SMEs
- ✔ Apply portfolio-level estimation

### Make targets measurable and actionable

- ✔ Measure alignment at portfolio level
- ✔ Improve data and methods over time

# Practical application: Apply portfolio climate-alignment targets for SME portfolio at the company level

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

**Example**: 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.

## Steps to set portfolio climate-alignment targets at company level

### 1 Segment exposure

- Segment activities based on the sector of its insured clients.
- Maps each insured SME to its primary economic sector:
  - ✔ **Land transport SMEs** → land transport sector.
  - ✔ **Real estate SMEs** → real estate sector

### 2 Assess alignment using Implementation List or BDA

- Assess alignment of the SMEs using:
  - ✔ FINZ Implementation List (e.g., SBTi target status, Taxonomies)
  - ✔ Benchmark Divergence Assessments (BDA) using available sector metrics

### 3 Calculate portfolio climate alignment

- Calculate the GWP for each sector attributed to SMEs that are:
  - ✔ **In transition** (via implementation list or BDA)
  - ✔ **Climate solutions** (Taxonomies)
  - ✔ At a **net-zero state**
- Aggregate sector-level aligned shares into a single value.

### 4 Set targets and improve data coverage over time

- Set targets and aim to increase aligned exposure
- Alternatively, set sector targets (e.g., transport / real estate)

# Practical application: Using Taxonomy for portfolio climate- alignment targets

**Example**: A (re)insurer covers emissions-intensive passenger marine transport and sets climate-alignment targets for its portfolio. It uses the Hong Kong Taxonomy to identify eligible "climate solution" activities and assesses alignment at the asset/project level.

## Steps to set portfolio climate-alignment targets using Taxonomy

### 1 — Identify the insured activity

- **Determine insurance coverage**:

✔ **Insured**: sea-going passenger vessels

▯ **Not insured**: balance sheet of the company

### 2 — Map the insured activity to Taxonomy

- **Identify insured activity** to Hong Kong Taxonomy activity:

✔ "Transportation of passengers by sea"

### 3 — Determine whether activity can be Taxonomy eligible

- **Check eligibility** against HK Taxonomy criteria:

✔ Passenger vessels that meet the annual emissions intensity threshold

### 4 — Attribute alignment to counterparties

- **Attribute alignment** based on eligible activities (GWP linked to passenger vessels meeting emissions thresholds are eligible exposure)

### 5 — Aggregate eligibility at portfolio level

- **Aggregate aligned exposure** across portfolio
- **Calculate % portfolio alignment** (GWP)

### 6 — Set near-term portfolio climate-alignment targets

- **Set target** based on alignment pathway
- **Define % alignment** over time (e.g., 30% → 56%)

# Thank you for listening



sciencebasedtargets.org
@ScienceTargets
Science Based Targets
/science-based-targets
info@sciencebasedtargets.org