



# ACCOUNTING FOR SUSTAINABILITY

## SETTING A BASELINE FOR INSURANCE-ASSOCIATED EMISSIONS

**Practical example: Allianz**



# WHAT

Allianz Group is a global financial services provider, with 125 million customers. We offer products, services and solutions in both insurance and asset management.

We are committed to transitioning our proprietary investment and property and casualty underwriting portfolios to net zero greenhouse gas (GHG) emissions by 2050. In September 2023, we released our [Inaugural Net-Zero Transition Plan](#). Our plan includes emission reduction targets for both our commercial and personal motor lines of business.

As part of our commitment to net zero – and to help us set and deliver our targets – we started to calculate our insurance-associated emissions. To date, we have calculated our insurance-associated emissions for parts of our commercial and personal motor lines of business, drawing on the methodology from the Partnership for Carbon Accounting Financials (PCAF) (see Figure 1).

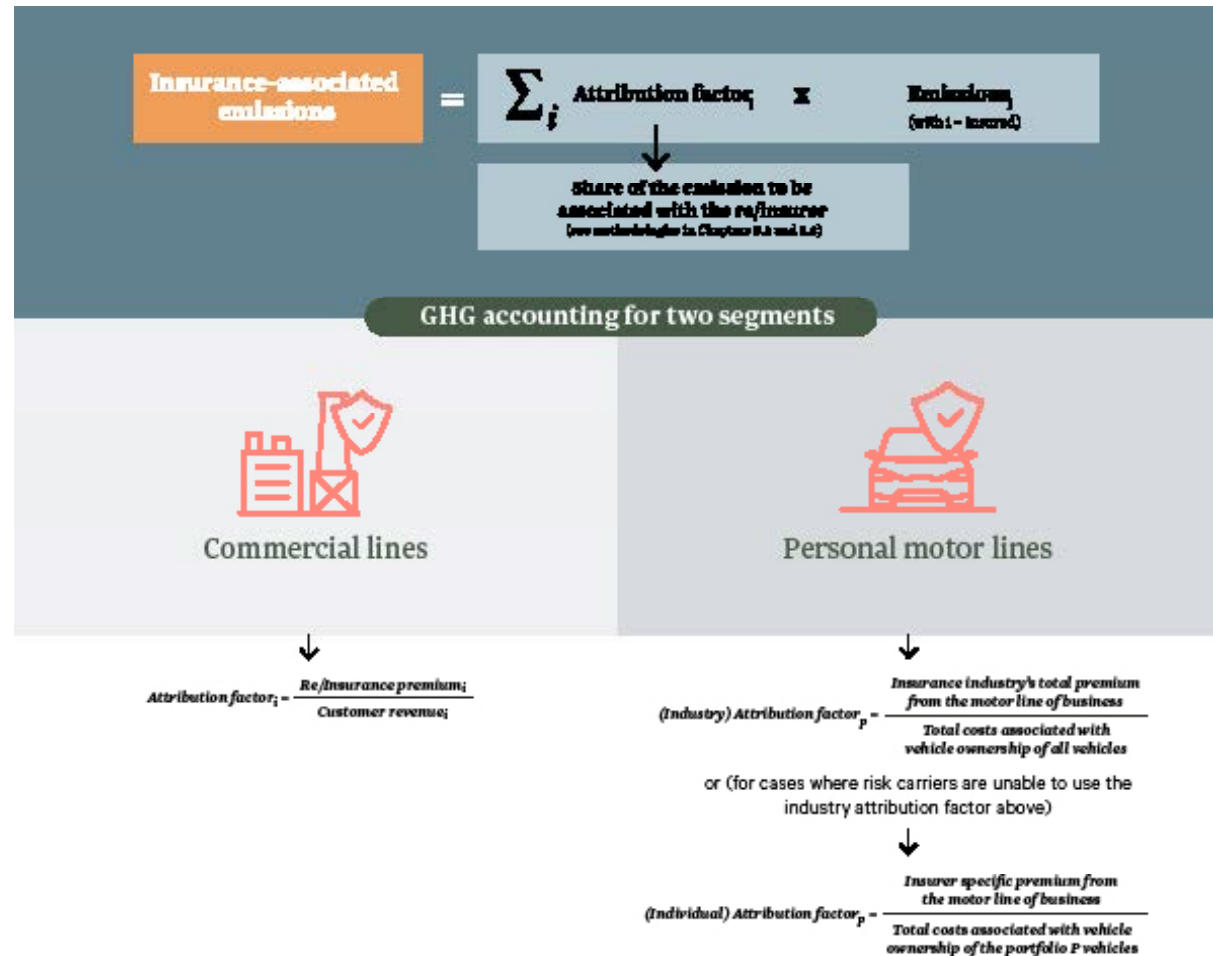


Figure 1: PCAF calculation for insurance-associated emissions (source: PCAF, [Global GHG Accounting and Reporting Standard Part C](#))



## WHY

The urgent need to address climate change has prompted us to be proactive in the way we operate. Financial institutions have a pivotal role to play in reaching net zero, and we are committed to doing our part to bring about positive change in our organization and our industry.

Establishing an emissions baseline is a necessary step if we are to achieve our net zero goal. It helps us to understand the emissions of our existing portfolio and establish a reference point from which to chart a pathway to net zero. Understanding our baseline also guides our path to make informed decisions and deliver our transition plan.



# HOW

We decided to develop an internal methodology, built on the PCAF Standard. We wanted to remain consistent with other financial institutions, by using the PCAF Standard as a base, but we also recognized the need to tailor the standard to our own organization. This approach ensures that the PCAF Standard can be used within our internal practices, avoids confusion, helps us to educate employees and provides a strong foundation so that calculating the emissions for other portfolios or further lines of business will be easier.

Our work on insurance-associated emissions focused on the following four areas:

1. Building on the PCAF Standard to develop an internal methodology
2. Gathering data and establishing a baseline
3. Taking an integrated approach
4. Working collaboratively and upskilling employees

## 1. BUILDING ON THE PCAF STANDARD TO DEVELOP AN INTERNAL METHODOLOGY

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In developing our insurance-associated emissions baseline, we purposefully focused on commercial and personal motor lines of business. We chose to stick to these areas because they are the ones currently covered by the PCAF Standard. To cover a different line of business, we would need to develop a new approach entirely – should others do the same thing, there is a risk that the number and variety of new approaches could lead to a lack of transparency and comparability across the sector.

We needed to explain certain aspects of the PCAF Standard so our employees could apply the standard effectively. We began by translating the PCAF Standard into a shorter guide that was tailored for our internal practices and could be quickly and easily understood. Our guide:

- **Clarified the terminology** – to ensure the PCAF Standard was interpreted and applied correctly throughout the organization, we translated the terminology used in the PCAF Standard to our internal terminology. For example, the standard refers to ‘personal motor lines’ whereas internally we call this ‘motor retail’.
- **Detailed what was in scope** – we are a complex organization, with operations in over 70 countries and different IT systems and market conditions across the business. So even within the two business lines we selected, we needed to narrow down our focus to what would be realistic and achievable for us as a starting point. For example, our internal guide noted the inclusions and exclusions for the personal motor line of business.
- **Signposted internal tools** – the guide details what internal tools should be used for recording information.



## 2. GATHERING DATA AND ESTABLISHING A BASELINE

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*This section focuses on the personal motor line of business as an example of how we gathered data and established a baseline.*

### **Step one: setting the scope**

To start with, we identified the most relevant markets – for personal motor lines, this meant our largest markets by revenue.

After we had identified the most relevant markets, we narrowed our scope further, focusing on the markets where adequate and reliable data was available. This led us to choose nine key European markets (Austria, Belgium, France, Italy, Germany, Netherlands, Spain, Switzerland and the UK).

### **Step two: sourcing data**

The data varies by local context, and there is currently no reliable global data source for personal motor lines. As such, we rely on our operating entities to explore the most accurate data sources.

We let operating entities know what data would be provided by the global pricing team (such as European market averages) and what data they would generally be responsible for gathering locally (such as emissions intensity, miles driven and power grid emissions), where local data is available and more accurate. To help them source data, we issued guidelines, methodologies and processes.

The data points we use to calculate insurance-associated emissions for the personal motor lines PCAF calculation are shown in Table 1.

Table 1: Sourcing of data for personal motor lines PCAF calculation

Element of PCAF calculation	Personal motor lines data point	Sourcing
Attribution factor	Insurance industry total premium or insurer-specific premium from the motor line of business	Sourced from PCAF.
	Total cost associated with vehicle ownership	
Emissions	Mileage	Sometimes sourced internally, as we gather this data for pricing purposes in some markets. Sourced externally where pre-existing internal data isn't available.
	Emissions intensity	Data sourced from a mix of internal and external sources.  A vehicle's emissions intensity depends on the make, model and age of the car. For electric vehicles you also need the power grid emissions for the relevant country.  Emissions data averages are typically obtained from external data providers and are combined with portfolio information on the car to calculate the emissions intensity.

We then calculate metrics internally to understand portfolio coverage, data quality and portfolio emissions, including:

- Number of vehicles in scope
- % of portfolio in scope
- Emissions intensity (for scope 1 and 2)
- Absolute emissions (for scope 1 and 2)
- Average data quality score



### Step three: checking data quality

We brought together the data received from our operating entities and the data provided centrally to calculate a baseline for personal motor lines. Our internal data analysts completed a data-cleaning exercise to identify and resolve any data errors, with the pricing team providing oversight. By this point, we had an initial set of baseline data.

Operating entities were then asked to review whether the data seemed reasonable from a business perspective. We traced any data anomalies back to source to understand whether there was an error and, if so, how that had happened. Some errors happened because a definition used in our internal methodology had been misinterpreted or an out-of-scope item incorrectly included. When we identified such errors, we amended our processes and documentation to avoid it happening again.

### Step four: iterating and improving

We started to work on our personal motor lines baseline in 2022. The baseline for personal motor lines is now on its third iteration. We have taken an iterative approach, which has helped us to improve not only the data quality but also the underlying processes and the knowledge and expertise of employees. As we learned and improved over time, our levels of confidence increased between the different iterations of the baseline calculations. We saw an increase in quality as the performance of the operating entities in gathering and recording the data improved.

For extra confidence in our baseline, an external auditor provides reasonable assurance of our insurance-associated emissions baseline. This is part of a wider audit of our sustainability key performance indicators. We will continually reassess whether our baseline requires restatement, aligning with the PCAF recommendations on recalculation.

### What could trigger a baseline restatement?

Examples of when the baseline would need to be restated include:

- The number of operating entities in scope for personal motor lines increases
- A merger or acquisition takes place
- A material error is identified



### 3. TAKING AN INTEGRATED APPROACH

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Given our long history of gathering financial data, we found it efficient to apply the same systems, data processes, governance and controls to gather and report insurance-associated emissions data and metrics. We set up a central working group to provide oversight, collaborating with all significant stakeholders. Having identified key contacts within the group and operating entities, we set up regular calls to share information and to help build strong and supportive relationships.

The working group collaborates closely with the reporting department to ensure our approach to insurance-associated emissions aligns with the PCAF Standard and with internal policies and processes. Our general corporate rule book (the Allianz Standard for Underwriting) includes rules and guidelines in relation to insurance-associated emissions. Emissions intensity, total absolute emissions and attributed emissions are reported internally on a regular basis as part of our quarterly reporting processes.

Practical example: Allianz

### 4. WORKING COLLABORATIVELY AND UPSKILLING EMPLOYEES

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Our approach to insurance-associated emissions was primarily led by our pricing and data experts. The tools and processes already used for pricing were similar to those needed for gathering and analysing emissions information, including an overlap in programming languages. Having pricing and data experts in the lead was a strategic decision because of this overlap and the relationships already in place between the pricing and data teams and performance management colleagues.

However, securing buy-in from across the business has been vital. Completing the insurance-associated emissions baseline calculations cannot be an isolated exercise undertaken at an organization's headquarters – it must be a collaborative effort.

We engaged with employees from across the operating entities on our insurance-associated emissions in a range of different ways, including data gathering (discussed above) and when developing our strategy and the feasibility of our targets. We road-tested ambition levels and asked operating entities to assess the financial impact.

Upskilling our employees was crucial, especially employees in the operating entities. It would have been a mistake to assume that employees already understood the concept of insurance-associated emissions and its importance. We started with presentations to top management and then worked through the rest of the organization. Experts led internal training sessions, providing supporting materials for employees. Participants had the opportunity to discuss as a group and to ask questions. We now have a group of dedicated insurance-associated emissions experts in the operating entities. We are also delivering some eLearning sessions and trainings on areas such as our sustainability targets and insurance-associated emissions.

In terms of external collaborations, we are a member of PCAF and have helped to develop the PCAF Standard. In our view, harmonization and industry-wide standards are crucial for our collective success in reducing global GHG emissions. If every organization takes their own approach to calculating and reporting emissions, this creates confusion and results in non-comparable information, which is detrimental for both the industry and our customers.



## The role of finance

Finance staff have become more involved throughout the process, especially in terms of reporting and assurance.

The relevant business teams report on their baseline each quarter. Finance professionals in our reporting team support with this, ensuring that robust processes are in place for emissions reporting and that data is aggregated correctly at group level.

For our external reporting, finance staff play an important role in making sure that the quality of and assurance over the emissions data and metrics is good enough for the annual report. They also act as a bridge between our business and the auditors.

An overview of the key tasks for decarbonizing our underwriting portfolios, and the teams responsible for them, is shown in Figure 2.

Responsible	
Decarbonization of underwriting portfolios	
1 <b>Target &amp; strategy development:</b> Methodology steering and scope expansion, upskilling and approach to decarbonization target setting utilizing the PCAF partnership.	Sustainability Project Leads
2 <b>Portfolio steering:</b> Regular monitoring of targets.	Performance Management
3 <b>Reporting:</b> Maintenance of reporting in alignment with PCAF and Group requirements.	Accounting & Reporting
4 <b>Data maintenance and quality assurance:</b> Update external data and conduct quality assurance. Support the development of PCAF and the Allianz data strategy.	Data
5 <b>Allianz methodology:</b> Methodology development and documentation.	Pricing

Figure 2: Workstreams for the decarbonization of underwriting portfolios (source: Allianz Group)



## NEXT STEPS

In September 2023, we published specific decarbonization targets in our Inaugural Net-Zero Transition Plan and will be extensively communicating these to our customers and external stakeholders.

In March 2024, we published our baseline in our [Annual Report 2023](#) and [Sustainability Report 2023](#). This baseline has been reviewed by our external auditors to ensure its quality. We have committed to reporting progress against our targets on a regular basis and will do so in our future annual reports. This will enhance transparency and accountability in our work on insurance-associated emissions.

We will continue to collaborate with PCAF on future developments of the PCAF Standard relating to insurance-associated emissions, helping to identify the lines of business most relevant to the insurance industry. At the same time, we will work closely with our operating entities to enhance the emissions and mileage data we are using in our calculations.

In the future, our plans involve considering how we can extend the scope and depth of our baseline calculation and associated targets so we can do further work to reduce carbon emissions in various industries. We already engage with some high-emitting policy holders but wish to expand and increase this engagement.



# TOP TIPS

## LEARN BY DOING

We recommend getting started now and addressing challenges as you come across them. You're unlikely to get the perfect baseline immediately, so don't be disappointed if the data isn't robust enough on your first attempt. Complete several iterations of your baseline, refining and improving your approach each time.

## USE THE PCAF STANDARD – BUT BE READY FOR CHANGES

A consistent approach across the industry is key, so use the PCAF Standard as a guide and focus on the lines of business it currently covers. The PCAF Standard will likely be updated, and the lines of business increased. Be ready to respond and expand your approach accordingly.

## CHOOSE THE APPROPRIATE DEPARTMENT TO LEAD THE CALCULATION

It is crucial to give responsibility for the insurance-associated emissions calculation to the most appropriate team. For instance, choosing a team already experienced in handling complex data or conducting the necessary analysis using specific tools, such as pricing tools, can be helpful. You might choose to have the finance team lead the work, or another team specializing in pricing and data management.

## EDUCATE EMPLOYEES CONTINUOUSLY AND GET INTERNAL BUY-IN

As this is a new area for us, knowledge sharing and upskilling are essential. Involve key staff across the business, including frontline employees, so they can spread the word and promote the approach in their own areas of the organization.

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