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Principles for
Sustainable Insurance

UN-convened

Net-Zero Insurance Alliance

Target-Setting Protocol

Version 1.0

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Important note

The United Nations-convened Net-Zero Insurance Alliance (NZIA) and its members are committed to complying with all applicable laws, rules and regulations. These include, among others, antitrust and other laws, rules and regulations, which may impose restrictions on the information that may be exchanged as well as on the types of collaborative engagement that may be carried out between NZIA members. Accordingly, the NZIA will not recommend nor instruct its members to:

1. adopt specific measures to achieve the targets provided in this document;
2. discuss or reach agreement(s) on individual target-setting measures;
3. exchange any competitively-sensitive information relating to their respective businesses with other NZIA members.

For the avoidance of doubt, NZIA members are under no obligation to continue their relationship with NZIA and, while this document may propose general measures and best practices on how to set and pursue individual targets, NZIA members shall, at all times, each remain free to determine and implement their respective decarbonisation strategies independently and unilaterally.

As an initiative with global aspirations, the NZIA and its members are conscious of the need to pursue the global 1.5°C climate goal in a manner that remains compliant with all applicable laws, rules and regulations, including antitrust laws and regulations. This document will not establish any strict requirement directly or indirectly related to NZIA members' underwriting criteria, including any criteria related to any specific sector. This is without prejudice to the individual NZIA members' freedom to establish unilaterally their own underwriting criteria, including exclusionary criteria, in a manner aligned with their own individual targets. Similarly individual members will be free to set their own targets under this NZIA Target-Setting Protocol ("Protocol") independently, unilaterally and based on their own unique circumstances and in compliance with all laws, rules and regulations that apply to them, including applicable antitrust laws and regulations.

NZIA members will do their utmost in alignment with the goal of the Paris Agreement to keep global temperature rise well below 2°C, preferably to 1.5°C. Setting targets in compliance to the recommendations in this Protocol does not guarantee that an NZIA member's measures, plans, or claims that follow from these targets are aligned with the global 1.5°C climate goal.

When conducting discussions within the context of the NZIA's activities, the NZIA and its members have ensured and will ensure that no competitively-sensitive information is shared and that no participant is required, expected nor incentivised to exchange any information that could amount to insider information or, in any case, competitively-sensitive information.

The work leading to the adoption of this Protocol included a public consultation in November 2022. The consultation was open to all interested parties, including regulators, participants from across the re/insurance industry, brokers, policymakers, data providers, consultants, academia, non-governmental organisations (NGOs), insurance associations, and civil society as a whole. The NZIA considered the input and feedback received during the consultation process, which were reflected in this Protocol, to the extent it was feasible and implementable and compatible with applicable laws, rules and regulations.



1. Context of the NZIA Target-Setting Protocol ("Protocol")

1.1 The NZIA's Commitment

NZIA members are voluntary signatories to the NZIA convened, by the [UN Environment Programme's Principles for Sustainable Insurance Initiative \(PSI\)](#). As such, NZIA members have committed¹ to the "*Transitioning all operational and attributable greenhouse gas (GHG) emissions from its insurance and reinsurance underwriting portfolios to net-zero emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100 in order to contribute to the implementation of the COP21 Paris Agreement.*".

How to achieve such an outcome through a 1.5°C-aligned pathway² will be left to each NZIA member's individual discretion, using re/insurance-relevant approaches as listed in the NZIA's Commitment³ and taking into consideration the **latest available scientific knowledge and associated social impacts**, and the findings of recognised reports such as the 6th Assessment Report by the Intergovernmental Panel on Climate Change (IPCC)⁴ and the Net Zero by 2050 report by the International Energy Agency (IEA).⁵ This Protocol looks to address the target-setting approach that NZIA members can adopt to facilitate this ambition.

NZIA members **shall** make their respective first individual targets public within **six (6) months** of the publication of this Protocol, or within **six (6) months** of joining the NZIA (see Section 3.4, "Timing of target setting"). NZIA members will then independently report publicly on an **annual basis** in whatever form and detail they consider appropriate on the progress against the individual targets they have set themselves under this Protocol.

1 unepfi.org/psi/wp-content/uploads/2021/07/NZIA-Commitment.pdf

2 Use decarbonisation scenarios from the IPCC 6th Assessment Report, which are from credible and well-recognised sources; are no/low overshoot; do not rely on overstating the impact from negative emissions technologies; and to the extent possible, minimise misalignment with other UN Sustainable Development Goals

3 The NZIA's Commitment lists as "net-zero approaches": 1) Setting independently underwriting criteria and guidelines for [...] the most GHG-intensive and GHG-emitting activities within its underwriting portfolios; 2) Engaging with clients and potential clients; 3) Developing and offering insurance and reinsurance products for low-emission and zero-emission technologies; 4) Improving claims management in an environmentally sustainable manner; 5) Integrating [...] decarbonisation-related risk criteria into risk management frameworks; 6) Advocating for and engaging in governmental policies for a science-based and socially just transition of economic sectors to net zero

4 Intergovernmental Panel on Climate Change (2021–2022): [6th Assessment Report](#)

5 International Energy Agency (2021): Net Zero by 2050: [A roadmap for the global energy sector](#)



In all circumstances, NZIA members will refrain from disclosing competitively-sensitive information and be particularly careful not to report information that may negatively affect competition in any relevant market.

Navigating the limitations and dependencies re/insurers face when setting targets

The NZIA Commitment is made with the expectation that governments will follow through on their own commitments⁶ under the Paris Agreement of holding the increase in the global average temperature to well below 2°C, preferably 1.5°C. NZIA members rely on the intergovernmental ambition established under the Paris Agreement that this is done in a manner consistent with a maximum temperature rise of 1.5°C and in accordance with the latest available scientific findings.

The NZIA and its members recognise that they play an important role in supporting the net-zero transition but acknowledge that they cannot deliver a net-zero future on their own without comparable commitments from governments and wider industry actors (including intermediaries). If the actual speed of decarbonisation across the broader global economy lags too far behind a net-zero compatible pathway, NZIA members might not be able to achieve their stated targets. The NZIA may need to tolerate a “buffer” behind the scientific pathways in future iterations of the Protocol to reconcile members’ ambition to reach net zero with the need to continue to provide insurance capacity to activities essential to the global economy and society.

1.2 The Science Based Targets initiative

The [Science Based Targets initiative \(SBTi\)](#) defines and promotes best practice in science-based target setting and independently assesses companies’ climate targets. SBTi has long recognised the key potential that financial institutions have to support the economy in reducing GHG emissions, even without direct control over those reductions. Therefore, in a first step, SBTi developed guidance for financial institutions’ lending and investment activities to set science-based near-term reduction targets (“FI Guidance”).⁷ Launched officially in October 2020, the FI Guidance defines global best practices for financial institutions to set near-term lending and investment portfolio targets aligned with the global 1.5°C climate goal. The FI Guidance allows insurers, in their role as institutional investors, to set targets independently for the decarbonisation of the asset side of their balance sheet. However, the liability side of insurers’ balance sheets (i.e. the emissions associated with and enabled by re/insurance underwriting portfolios), have so far been out of scope of SBTi’s guidance.

6 To find out more about policy levers for government to realize intergovernmental ambition: [GFANZ Call to Action \(assets.bbhub.io/company/sites/63/2021/10/GFANZ-call-to-action.pdf\)](https://assets.bbhub.io/company/sites/63/2021/10/GFANZ-call-to-action.pdf)

7 SBTi (2020): Financial Sector Science-Based Targets Guidance, Version 1.1 (August 2022) sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance.pdf



Currently, SBTi is developing the world's first standard for science-based net-zero targets in the financial sector ("FINZ").⁸ The FINZ work has the ambition to include informational guidance for science-based target setting for re/insurers' underwriting activities, thus extending the coverage of the FI Guidance not only in terms of target horizon (net zero vs near term), but also in terms of the portfolios considered (including re/insurance underwriting vs. investments/lending only). SBTi FINZ criteria will be incorporated in the FI Guidance and new methods for re/insurance underwriting portfolios are expected to be implemented in both once they have undergone sufficient development and stakeholder engagement.

In recognition of the complementary objectives of the NZIA's Target-Setting Protocol work and SBTi's FINZ work, the two initiatives announced their decision to formally partner in October 2022 to collaboratively develop guidance for underwriting portfolios. The long-term goal of the partnership is to harmonise the processes and criteria for re/insurance companies to participate efficiently in both initiatives. This is an iterative process, and substantial differences between the initiatives may persist during early stages given their differing governance and orientation. The NZIA and its members are looking forward to collaborating, on the basis launched by this Protocol, with SBTi in the development of the upcoming FI Guidance and criteria updates.

1.3 The role of re/insurance in a just transition to net zero

It has been recognised that the shift to a resilient net-zero economy will likely increase prosperity and could be a net driver of job creation. However, there will be significant transitional challenges for employees, communities, cities and countries while this shift takes place. To address this, re/insurance strategies dealing with climate change must consider the social consequences that a rapid net-zero transition might cause, while ensuring that it is inclusive and that no one is left behind—a core principle of the UN's Sustainable Development Goals. The concept of a just transition⁹ comes from combining climate action with social inclusion.

For instance, while seeking to reach a global reduction of carbon emissions in line with the global 1.5°C climate goal, re/insurers should recognise that not all regions, countries or communities can be expected to transition at the same pace. Re/insurers should consider different decarbonisation trajectories for identified segments of their own portfolios and adapt their individual engagement to facilitate their net-zero transition strategies to address these disparities, while monitoring that the average pace of their overall portfolio emissions reductions remains in line with the necessary global ambition.

8 The "FINZ" work kicked off with a public consultation from November 2021 to January 2022 and resulted in the publication of: SBTi (2022): Foundations for Science-Based Net-Zero Target Setting in the Financial Sector, Version 1.0 (April 2022) sciencebasedtargets.org/resources/files/SBTi-Finance-Net-Zero-Foundations-paper.pdf

9 Just Transition Centre (2017): Just transition: A report for the OECD oecd.org/environment/cc/g20-climate/collapsecontents/Just-Transition-Centre-report-just-transition.pdf

2. How to use this Protocol

This Protocol sets out NZIA’s recommended approach to target setting and reporting. The Protocol’s structure, terminology, and target types are inspired by SBTi’s Financial Sector Science-Based Targets Guidance, noting that data and methodological constraints persist.¹⁰ The Protocol provides non-binding informational guidance to NZIA members on how to independently set targets in line with the latest climate science. NZIA members will work with their re/insurance customers, who are also undergoing their own respective transition journeys, and it is hoped that this will lead to procompetitive benefits for these customers as both re/insurers and re/insureds innovate to facilitate their transitions, while remaining competitive in their respective markets.

The Protocol first sets out a methodology for establishing **the general scope for target setting**, describing the recommended coverage in terms of target term (time horizon), emissions in scope, business in scope, as well as the timing related to target setting under the Protocol. The Protocol then suggests five target types, split into three differentiated target categories, as illustrated in Figure 1 below: i) **GHG emissions reduction**, ii) **engagement**, and iii) **re/insuring the transition**. Lastly, it contains general recommendations around **publishing** targets and **reporting** on progress towards targets. The intention is that future versions of the Protocol will recommend a target-setting validation process, in addition to incorporating further updates that may include, but are not necessarily limited to, scope expansions and target refinements. Future potential updates are discussed in further detail in Section 6, “Roadmap to Version 2 (and beyond) of the Protocol”.

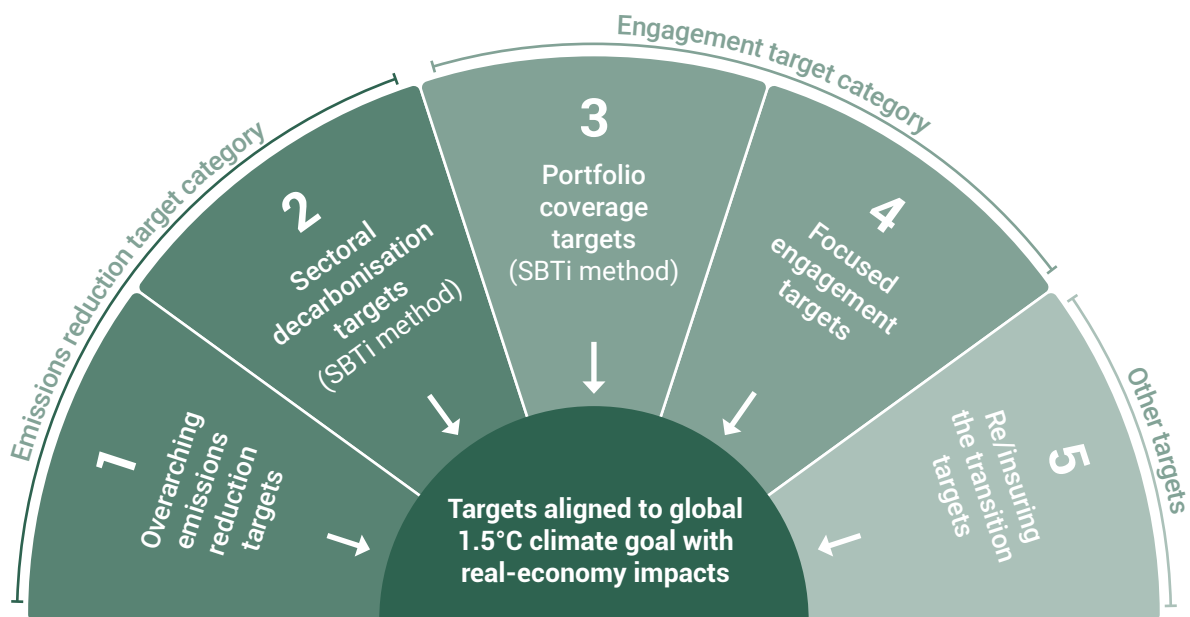


Figure 1: Summary of the Protocol’s five target types in three target categories

¹⁰ <https://sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance.pdf>



2.1 How to read this Protocol

Within the context of this Protocol, it is necessary to distinguish between provisions which are requirements, those which are recommendations, and those which are other options that re/insurers may choose to follow. Accordingly, the following terms are used throughout this Protocol:

- **Shall** means that a process is mandatory, on a comply-or-explain basis.
- **Should** means that a process is optional, but strongly recommended.
- **May** means that a process is optional.

When implementing this Protocol, re/insurers are to be mindful of applicable laws, rules and regulations in the jurisdictions in which they operate. In case of conflict between applicable laws, rules and regulations (including those relating to antitrust/competition) and any of the provisions contained in this Protocol, the applicable laws, rules and regulations shall prevail. Any deviations from the Protocol for this reason should be highlighted to protect the goal and value of the Protocol.

2.2 Quick start guide

Users of this Protocol can follow four basic steps to set and report on the recommended targets, as illustrated in Figure 2 below:

- **Step 1:** Become familiar with the general scope ("playing field") of the Protocol in Section 3, "General scope of the Protocol".
- ↳ **Step 2:** Independently select a target type or set of target types from the suite of target types ("basket") presented in Section 4, "Recommended target types", and define a target or set of targets for each selected target type.
- ↳ **Step 3:** Individually define the portfolio target boundary ("the part of the playing field that is to be covered") for the target or for each target that has been defined, and explain the businesses covered and their materiality to the relevant re/insurer's portfolio.
- ↳ **Step 4:** Publish the target(s) and target boundary(ies) decided upon, and report annually on the progress towards meeting these targets.

To strive for a minimum ambition level consistent with the overall purpose of limiting global warming to 1.5°C above pre-industrial levels by 2100 in line with the Paris Agreement,¹¹ the NZIA has set minimum requirements for **Step 2: target selection** and **Step 3: portfolio target boundary**, as outlined in Section 2.3, "**Minimum requirements for target setting**" below.

¹¹ The Paris Agreement states "to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels".

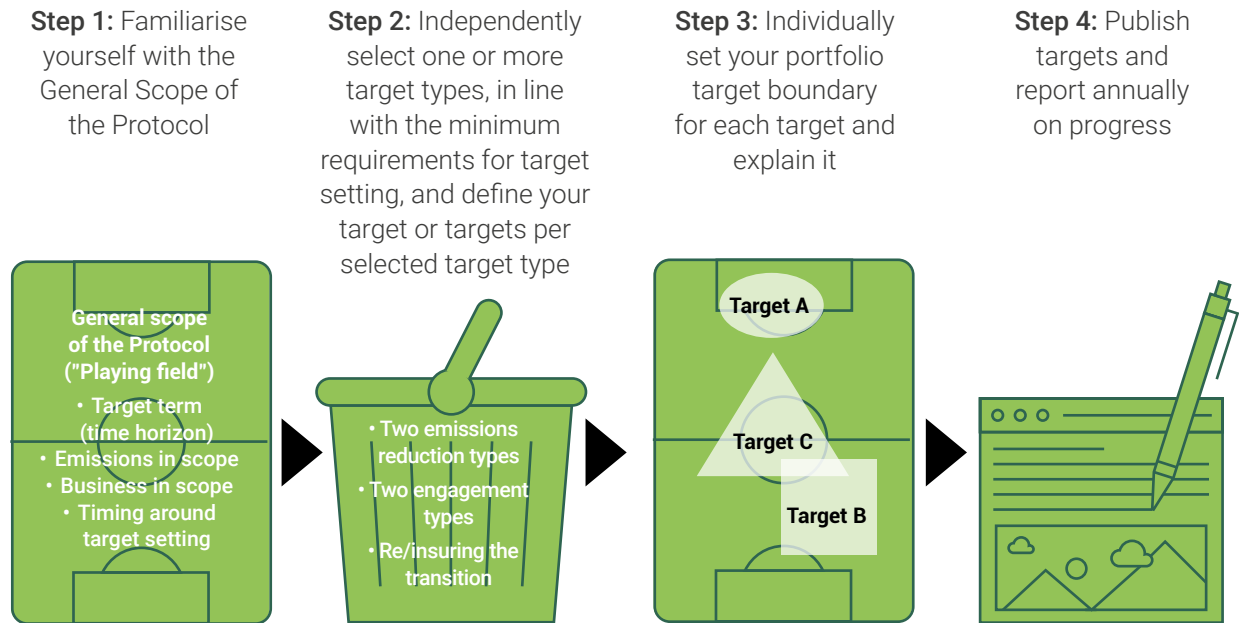


Figure 2: How to use the NZIA Target-Setting Protocol

2.3 Minimum requirements for target setting

2.3.1 Requirements for target selection

The intention is that the implementation of each of the three target categories suggested in the Protocol (i.e. emissions reduction, engagement, and/or re/insuring the transition) will support the decarbonisation of re/insurance portfolios in different yet complementary ways. By combining the three target categories, a re/insurer can have the greatest impact and contribute to the desired transition towards a net-zero economy.

For their first target(s) set and disclosed under this Protocol, NZIA members **shall** select:

- by 31 July 2023, at least one of the five target types described in this Protocol (Section 4, "Recommended target types"); and
- by 31 July 2024¹², at least one target type in each of the three target categories (as described in Section 4.1, "Emissions reduction target category"; Section 4.2, "Engagement target category"; and Section 4.3, "Other targets category: re/insuring the transition")

2.3.2 Requirements for portfolio target boundary

It is the mid/long-term ambition of NZIA members to establish a methodology which encompasses a broad scope of their re/insurance portfolios with decarbonisation targets, in line with the NZIA core commitment of transitioning all attributable GHG emissions from their re/insurance underwriting portfolios to net zero by 2050, consistent with a maximum temperature rise of 1.5°C.

¹² This ensures that sufficiently credible and meaningful science-based target data and portfolio emissions data is available.



However, at the moment, the coverage is limited by: (i) the scope of the available methodology to account for and report on GHG emissions associated with re/insurance portfolios (c.f. the PCAF Insurance-Associated Emissions Standard¹³), (ii) the lack of science-based guidance for credible target setting in all sectors (e.g. sectoral decarbonisation pathways); and (iii) the availability of emissions data from/or in relation to underlying re/insureds. There are also practical challenges in integrating emissions data into NZIA members' systems and/or requesting and collecting emissions data from re/insureds (e.g. for portfolios dominated by small-to-medium-sized enterprises (SMEs), where companies are still often unable to develop accurate emissions information).

Within the limitations and challenges described above, NZIA members **shall** individually set **portfolio target boundaries** for a **material and relevant** portion of their respective portfolios where **reliable data is available**. NZIA members may set different portfolio target boundaries for different targets.

Members **shall explain the rationale behind their choice of portfolio target boundaries** in their disclosure of targets and portfolio target boundary as per Section 5.1 "Disclosure of target(s) and their portfolio target boundary", and quantify these boundaries using one or a combination of the following metrics: gross written premiums (GWP), re/insured's absolute GHG emissions, re/insurer's IAEs (e.g. as per the PCAF Insurance-Associated Emissions Standard¹⁴), revenue, number of clients, or another appropriate metric. This ensures clarity regarding what portion of the full in-scope (sub)portfolio an NZIA member considers as "material and relevant" with reliable data sufficiently available.

Irrespective of the metric chosen, the member's unilateral assessment of what is "material and relevant" in its portfolio **should** be guided by that portfolio's reflection of real-economy emissions. In particular, the quantification of target boundaries using business metric values may not clearly denote the emissions significance versus the out-of-scope portion of the portfolio, requiring further explanation of the underlying assessment of materiality and relevance.

Any explanation must avoid sharing of any competitively-sensitive information.

NZIA members are aware of the highest-emitting sectors through basic science and public climate data. This knowledge, alongside publicly available business indicators, may inform the members' materiality assessments when setting their individual portfolio target boundaries. For example, NZIA members could refer to the SBTi categorisation when establishing highest-emitting sectors (see Figure 3 below).

13 carbonaccountingfinancials.com/files/downloads/pcaf-standard-part-c-insurance-associated-emissions-nov-2022.pdf

14 carbonaccountingfinancials.com/files/downloads/pcaf-standard-part-c-insurance-associated-emissions-nov-2022.pdf

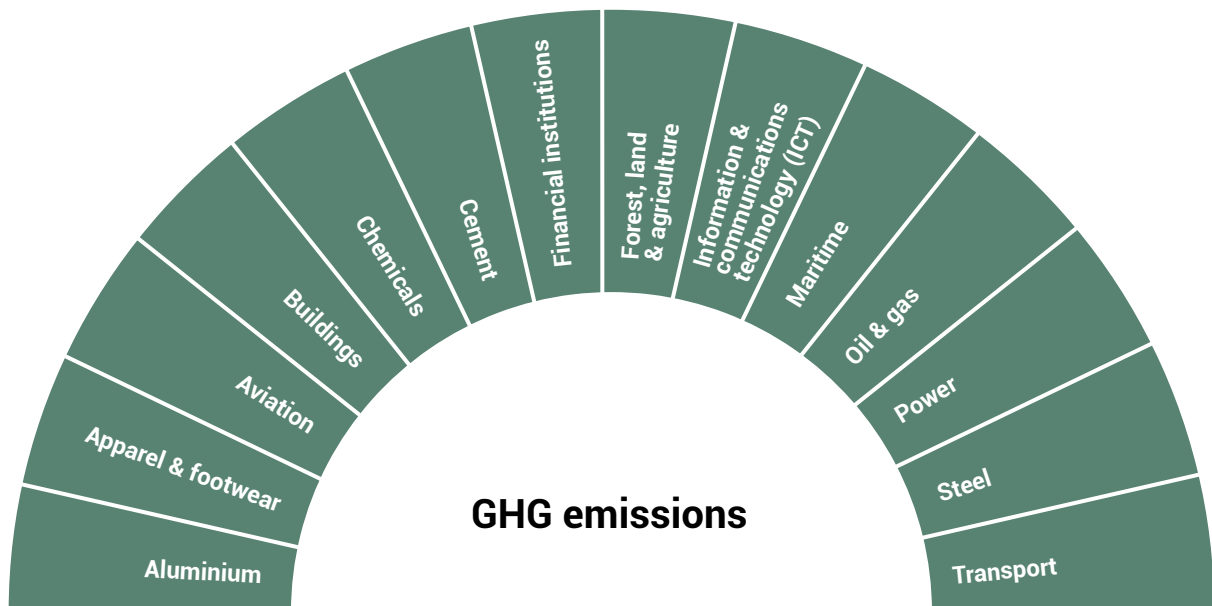


Figure 3: Sectors for which sectoral guidance by SBTi is available or in development.

To support the ambition of the NZIA, members **should** expand their initial portfolio target boundaries over time, and the intention is that future versions of this Protocol will provide additional minimum requirements for portfolio target boundary setting, as data availability, as well as accounting and reporting standards, improve over time.



3. General scope of the Protocol

3.1 Target term

In interpreting this Protocol, NZIA members **should** refer to the Science Based Target Initiative's (SBTi) Corporate Net-Zero Standard, where "net-zero" in the corporate context is defined as:¹⁵

- reducing Scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net-zero emissions at the global or sector level in eligible 1.5°C-aligned pathways; and
- neutralising any residual emissions at the net-zero target year and any GHG emissions released into the atmosphere thereafter.

The SBTi Corporate Net-Zero Standard differentiates four key elements for net-zero target setting, as illustrated in Figure 4 below.

1. Near-term science-based targets are 5 to 10-year GHG mitigation targets within a company's own value chain in line with 1.5°C pathways;
2. Long-term science-based targets extend the near-term targets towards a residual level in line with 1.5°C pathways by no later than 2050;
3. Beyond value chain mitigation (BVC) targets are set around actions that will also help others to mitigate their emissions;¹⁶ and
4. The neutralisation target requires that, to reach the net-zero state, any residual emissions must be removed from the atmosphere and permanently stored.

SBTi has yet to come out with an exact definition of "net zero" in a financial institution's context (including re/insurance underwriting portfolios). This is currently being done by SBTi for the upcoming FINZ Standard. For instance, a key working area in the FINZ is in what form and to what extent a financial institution's ability to influence the net-zero transition is reflected in its net-zero goal ("transition finance/enableness targets").

Notwithstanding a potential refinement of the net-zero goal definition for financial institutions, and acknowledging the need to prioritise immediate and decisive emissions reduction efforts in 1.5°C pathways, this Version 1.0 of the Protocol is **geared towards near-term science-based reduction targets**, (see item 1 in Figure 4 below).

15 SBTi (2021): SBTi Corporate Net-Zero Standard sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf

16 BVC targets are not presently assessed by SBTi.



Certain target types presented in this Version 1.0 of the Protocol may also cater to one or more of the other three key elements of SBTi's Corporate Net-Zero Standard (see items 2, 3 and 4 in Figure 4 below). This is something users of the Protocol are encouraged to explore. Future versions of the Protocol are expected to cover dedicated long-term, beyond value chain, and neutralisation targets for insurance-associated emissions.

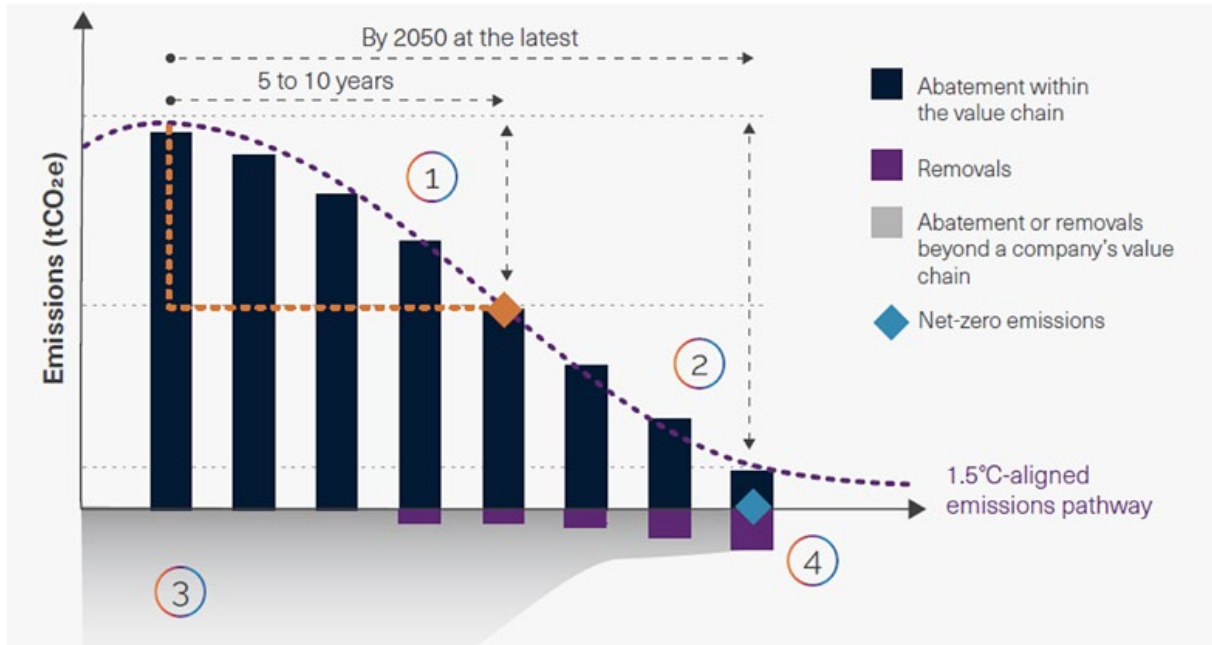


Figure 4: Key elements of the SBTi Corporate Net-Zero Standard: 1) Near-term science-based targets, 2) long-term science-based targets, 3) beyond value chain mitigation, 4) neutralisation of residual emissions. (Source: SBTi Corporate Net-Zero Standard, 2021, p.9).

3.2 Emissions in scope

Greenhouse gases in scope

The term "emissions" in this Protocol addresses all types of greenhouse gases (GHGs).¹⁷ NZIA members **shall**, where significant and reliable data is available, cover all relevant types of GHGs in setting their targets under this Protocol.

¹⁷ "Relevant GHGs" are considered the seven gases mandated under the Kyoto Protocol and to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC)—carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆), and nitrogen trifluoride (NF₃). These typically refer to the underlying emissions produced by the individual or company in the real economy. All GHGs are typically reported in "CO₂ equivalents" (CO₂e).



Re/insurer's emissions in scope

The Protocol addresses a re/insurer's **Insurance-Associated Emissions (IAE)**, i.e. Scope 3/Category 15/Underwriting¹⁸ as per the GHG Protocol Corporate Standard definition. In particular, a re/insurer's emissions from its own operations (Scope 1, Scope 2, Scope 3/Category 1–14) and asset management activities (Scope 3/Category 15/Investments) are outside the scope of the Protocol, as they are covered by other relevant protocols.

Re/insured's emissions in scope

NZIA members **shall** cover a re/insured's attributable Scope 1, Scope 2, and—where significant and where data allow—**should** cover a re/insured's attributable Scope 3 emissions in their IAE reduction targets.¹⁹

Emissions accounting

NZIA members **shall** use a recognised and consistent IAE accounting approach (e.g. PCAF Insurance-Associated Emissions Standard²⁰, CRO Forum Carbon Footprinting Methodology for Underwriting Portfolios²¹) for setting and tracking progress towards their targets.

3.3 Business in scope

Legal entity level

NZIA members **shall** submit targets at the parent-level or group-level at a minimum.

Lines of business in scope

This Version 1.0 of the Protocol is applicable to the following lines of business (LoBs) where an IAE methodology exists:²²

18 Insurance-Associated Emissions are GHG emissions in the real economy, which are associated with specific re/insurance policies aggregated in the re/insurance portfolio. This definition is for accounting purposes only. Insurance-Associated emissions should therefore be reported as a supplementary note to Scope 3 Category 15 (Investments). They should not be aggregated with “Financed Emissions”. See also the PCAF Insurance-Associated Emissions Standard that defines how to measure and report IAEs (carbonaccountingfinancials.com/files/downloads/pcaf-standard-part-c-insurance-associated-emissions-nov-2022.pdf).

19 For a discussion on Scope 3 data and availability, see “Busch et al. 2020. Corporate carbon performance data: Quo vadis?. Journal of Industrial Ecology 26(4)” researchgate.net/publication/340906588_Corporate_carbon_performance_data_Quo_vadis

20 carbonaccountingfinancials.com/files/downloads/pcaf-standard-part-c-insurance-associated-emissions-nov-2022.pdf

21 thecroforum.org/wp-content/uploads/2020/05/CRO-Carbon-Foot-Printing-Methodology.pdf

22 The scope of this Version 1.0 of the NZIA Target-Setting Protocol is aligned with the scope of methodologies issued by the Partnership for Carbon Accounting Financials (PCAF) for the calculation of insurance-associated emissions.



Table 1: Lines of business in scope (adapted from PCAF)

Segment	Lines of business (LoB)	In/out of "General scope"
Commercial insurance (directly insured and facultative reinsurance covers)	Property (e.g. Fire, Multi-peril)	In scope
	Liability/Casualty (e.g. General liability, Product liability, Product recall, Environmental liability)	In scope
	Commercial motor (all lines)	In scope
	Marine (liability and hull)	In scope
	Aviation (liability and hull)	In scope
	Agriculture (excluding government schemes/arrangements)	In scope
	Trade credit (insurance of credit risk for sold goods) and political risk—primary insurance only	In scope
	Structured trade credit (insurance of credit risk for bank loans, mortgages, or other financial instruments)	Out of scope of the current version of the Protocol
	Surety	Out of scope of the current version of the Protocol
	Engineering lines: Construction all-risks, Erection all-risks only	Out of scope of the current version of the Protocol
	All other Engineering lines (e.g. Machinery breakdown, Electronic equipment)	In scope
	Corporate life and pensions, Personal accident	Out of scope of the current version of the Protocol
	Other/Special lines (e.g. Financial lines [e.g. Professional indemnity, Directors' & Officers' liability], Workers' compensation)	In scope
Statutory lines of business		In scope (subject to applicable laws, rules and regulations)
Public entities	Insurance contracts purchased by public entities (e.g. government agencies, municipalities, government insurance arrangements)	Out of scope of the current version of the Protocol



Segment	Lines of business (LoB)	In/out of "General scope"
Personal lines	Motor (all lines)	In scope
	Liability	Out of scope of the current version of the Protocol
	Property	Out of scope of the current version of the Protocol
	Other personal lines (e.g. Travel assistance, Legal assistance, Pet)	Out of scope of the current version of the Protocol
	Life and Health	Out of scope of the current version of the Protocol
Treaty reinsurance (including treaty-like facultative reinsurance structures)	All LoBs	Out of scope of current version of the Protocol

To recall, NZIA members individually set a portfolio target boundary for each target they choose, thereby defining which of the LoBs that are in scope (as listed in Table 1 above) will be covered (or not) by the particular targets established by that re/insurer. The NZIA will consider whether further LoBs are to be brought "in scope" for the purposes of target setting and will update future versions of the Protocol accordingly.

3.4 Timing of target setting

This section establishes the standard for:

- the date by which the target(s) have to be **reported**, depending on the date when the member joined the NZIA;
- the **base year(s)** and **target year(s)**; and
- the date by which the company first has to **report** on the progress achieved.

Furthermore, guidance is provided as to how prospective NZIA members can assess existing targets against the requirements of the Protocol prior to joining NZIA, and how future versions of the Protocol should be taken into account for members who have already published targets.

Date for target disclosure

As per the NZIA Commitment, once the first Protocol is published (i.e. this document—Version 1.0 of the Protocol), NZIA members **shall** set and disclose their first targets within six (6) months of its publication, in line with the Protocol's requirements.



Requirements for new NZIA members

New NZIA members joining until and including 31 July 2023 **shall** set within six (6) months from the date of joining at least one of the five target types (as described in Section 4, "Recommended target types"), and **shall** set by 31 July 2024 at least one target type in each of the Protocol's three target categories.

Members joining from 1 August 2023 until and including 31 December 2023 **shall** set by 31 July 2024 at least one target type in each of the Protocol's three target categories.

Members joining from 1 January 2024 **shall** set within six (6) months from the date of joining at least one target type in each of the Protocol's three target categories.

Base year(s)

NZIA members **shall** choose a **base year** when setting targets. The base year **shall** be no earlier than 2019.

Progress to date

Targets **shall not** be set such that they have already been achieved by the date they are published (i.e. in the period between base year and date of target publication).

Target year(s)

NZIA members **shall** adopt a **target year** no later than 2030 for their near-term targets, and thereafter publish interim targets every five years in 2035, 2040, and 2045.^{23 24}

- Example 1: Insurer A sets its first near-term target year to 2030, and will in that year publish updated targets for 2035, in 2035 for 2040, etc.
- Example 2: Insurer B sets its first near-term target year to 2028, and will in that year publish updated targets for 2035, in 2035 for 2040, etc.

Future versions of this Protocol are expected to provide further considerations for setting long-term targets up to 2050 (see Section 3.1, "Target term").

First reporting year of progress

NZIA members **shall** use official channels for independent disclosure and reporting (see Section 5.3, "Where to disclose and report" below for various possible channels). The progress should only be reported after at least 12 months of actual experience has passed since a target has been set (see Section 5, "Target disclosure and reporting").

23 This schedule is in line with article 4.9 of the UNFCCC 2015 Paris Agreement which requires signatories to submit updated emissions reduction plans every five years. National governments who have signed up to the Paris Agreement will communicate these updated emissions reduction plans, also known as Nationally Determined Contributions (NDCs), in 2025, 2030, 2035, 2040, 2045 and 2050.

24 Material changes to a member may require the need to recalculate and re-baseline the IAE. These changes may require a change to the base year, while the target year should remain unchanged.



Protocol version validity

New targets published by NZIA members **shall** be in line with the latest version of the Protocol available at the time when the targets are set.

Targets using a previous version of the Protocol **shall** only be published within six (6) months of the publication of the revised Protocol.

Each new version of the Protocol provides considerations for members with previously set targets, in particular specifying the possible expectation to set additional targets and/or adjust existing ones.

Pre-existing targets

Targets set by a member prior to joining the NZIA can be considered if the member can demonstrate (in their published reporting on their approach to target-setting under this Protocol) their compatibility with this Protocol or any later version, in particular with respect to the ambition level as outlined in Section 4.1.1, "Level of ambition for emissions reduction targets".



4. Recommended target types

4.1 Emissions reduction target category

The Protocol suggests two possible target types under the emissions reduction target category, with each NZIA member being free to unilaterally choose which of these it will select when setting its target(s):

1. An **overarching emissions reduction**²⁵ target type that uses a global, economy-wide proxy to guide the ambition level for re/insurers' own insurance-associated emissions reduction targets; and/or
2. The **sectoral decarbonisation approach** (SDA) that seeks to converge an individual re/insurance portfolio's physical carbon intensity to a given decarbonisation pathway at the sector level.

The decision as to which of these two target types is chosen is made at the unilateral and independent discretion of each NZIA member, depending on its individual circumstances. While the first approach leaves flexibility for NZIA members to define their level of ambition at the portfolio level, it might not be as precise or focused as sector-specific approaches. The SDA, on the other hand, requires that NZIA members focus on decarbonisation trajectories²⁶ within specific sectors, but the approach places higher demands on a particular set of client data (physical intensities) and on external organisations providing science-based pathways for each sector (ideally tailored to underwriting activities).

Before addressing both emissions reduction target types, the Protocol sets out general recommendations in the context of IAE emissions reduction targets around the level of ambition expected of NZIA members as well as the use of offsets, avoided emissions, and emissions removal.

4.1.1 Level of ambition for emissions reduction targets

In determining the level of ambition for their IAE reduction targets, NZIA members **shall** use decarbonisation scenarios from the latest climate science findings by the IPCC and from other credible and well-recognised sources that lead to the earliest reductions and the least cumulative emissions, in line with a 1.5°C-aligned pathway with no or limited overshoot (i.e. temporary increase above 1.5°C).

²⁵ Overarching, in this context, is not automatically indicating that the entire re/insurance portfolio is covered by an overarching emissions reduction approach. Like with all target types, a target's coverage is set individually by NZIA members via the portfolio target boundary (see Section 2.3.2, "Requirements for portfolio target boundary").

²⁶ For guidance on sectoral pathways: see GFANZ Guidance on the Use of Sectoral Pathways for Financial Institutions (assets.bbhub.io/company/sites/63/2022/06/GFANZ_Guidance-on-Use-of-Sectoral-Pathways-for-Financial-Institutions_June2022.pdf)



4.1.2 Carbon offsets, avoided emissions and emission removals

The use of **carbon offsets** (carbon avoidance and/or reduction certificates²⁷) as well as insurance-associated **avoided emissions**²⁸ **shall not** be counted towards the progress of IAE reduction targets.

Insurance-associated **emission removals** are important for long-term net-zero target setting and the NZIA intends to address them in a subsequent version of this Protocol.

Notwithstanding the above, technologies and activities that are (partly) financed via carbon offsets and/or lead to emission avoidance or emission removal outcomes in the real economy are important elements of the net-zero transition, and while not (yet) to be addressed under the Protocol's emissions reduction target category, such technologies and activities may be addressed under the two other target categories presented in this Protocol (i.e. engagement and re/insuring the transition).

4.1.3 Overall emissions reduction target type

To recall from Section 1.1, "The NZIA's Commitment", each member has agreed to transition *"all attributable greenhouse gas (GHG) emissions from its insurance and reinsurance underwriting portfolios to net-zero emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100 in order to contribute to the implementation of the COP21 Paris Agreement". How to achieve this outcome through a 1.5°C-aligned pathway is to be "based on the latest available scientific knowledge, including the findings of the Intergovernmental Panel on Climate Change (IPCC)."*²⁹

Findings of the IPCC³⁰

The NZIA recognises that IPCC reports provide a comprehensive and balanced assessment of the state of scientific, technical and socio-economic knowledge on climate change, its impacts and future risks, and options for reducing the rate at which climate change is taking place.³¹ The IPCC's most recent report is the Sixth Assessment Report (AR6, 2021/22).³² IPCC Assessment Reports consist

27 Carbon avoidance/reduction certificates, often referred to as "carbon offsets", are attributes of the carbon avoidance or reduction outcome linked to a project/activity that would not have materialised in the absence of the funding from the sales of these carbon offsets. To date, carbon offsets only feature in real-economy GHG accounting, and thus cannot be transferred to IAE accounting and used against IAE reduction targets.

28 GHG emissions accounting in the real economy sometimes compares actual emissions of a zero- or low-emission project, product, or service to the hypothetical emissions of high-emission alternatives. The difference between the two is referred to as avoided emissions. "Insurance-associated avoided emissions" could be calculated and accounted for in the same way. Reporting avoided emissions is an attempt by companies to demonstrate a quantifiable positive contribution to decarbonisation. However, given that internationally recognised methodologies to calculate and report avoided emissions are yet to be developed, they are not covered in this version of the Protocol.

29 unepfi.org/psi/wp-content/uploads/2021/07/NZIA-Commitment.pdf

30 Please note that the findings and recommendations of the IPCC are acknowledged by both the NZIA and the UN-convened Net-Zero Asset Owner Alliance (NZAOA).

31 ipcc.ch/about/preparingreports/

32 ipcc.ch/reports/?rp=ar6



of contributions from each IPCC Working Group and a Synthesis Report integrating these contributions and any Special Reports prepared in that assessment cycle. Working Group III (WGIII) of the IPCC focuses on climate change mitigation, assessing methods for reducing greenhouse gas emissions, and removing greenhouse gases from the atmosphere. WGIII finalised its contribution to AR6 in April 2022. The findings can be found in the IPCC Report, Climate Change 2022: Mitigation of Climate Change (WGIII Report).^{33 34}

The NZIA acknowledges the WGIII findings, and in particular WGIII's assessment that in pathways that limit warming to 1.5°C (>50% likelihood) with no or limited overshoot (C1 Category):³⁵

- global net GHG emissions are reduced from 2019 levels by **43% [34–60%]** in 2030; and
- global net CO₂ emissions are reduced compared to modelled 2019 emissions by **48% [36–69%]** in 2030.³⁶

The NZIA also acknowledges the WGIII finding that:

- Net-zero GHGs is reached between 2095–2100 [2050–infinity] with only half of the underlying C1 pathways leading to net-zero GHGs by 2100;³⁷ and
- Net-zero CO₂ is reached between 2050–2055 [2035–2070] in all pathways across the C1 Category.³⁸

When deriving an emissions reduction range (whether GHG or CO₂) from the latest IPCC report C1 Category, the 5th–95th or 25th–75th (interquartile) percentile intervals of scenarios are cited within the category. A broader range (5th–95th percentile) reflects a greater number of modelled scenarios and therefore considers a wider range of possible projected outcomes. A narrower range (25th–75th percentile / interquartile) reflects a smaller number of modelled scenarios and therefore considers a more-restricted range of possible projected outcomes, with a tighter distribution around the median. Both approaches have been adopted by the IPCC,

33 [ipcc.ch/working-group/wg3/](https://www.ipcc.ch/working-group/wg3/)

34 [ipcc.ch/report/ar6/wg3/](https://www.ipcc.ch/report/ar6/wg3/)

35 "Category C1 comprises modelled scenarios that limit warming to 1.5°C in 2100 with a likelihood of greater than 50%, and reach or exceed warming of 1.5°C during the 21st century with a likelihood of 67% or less. In this report, these scenarios are referred to as scenarios that limit warming to 1.5°C (>50%) with no or limited overshoot. Limited overshoot refers to exceeding 1.5°C global warming by up to about 0.1°C and for up to several decades" (Footnote 49, WGIII Report).

36 Please see C.1.1 and C.1.2 of WGIII Report. The percentage cited for GHG emissions and CO₂ emissions respectively is the projected median percentage reduction of pathways in the year across the scenarios compared to modelled 2019, with the 5th–95th percentile interval provided in square brackets.

37 Under the C1 category, net-zero GHGs is not strictly required in all underlying pathways that limit warming to 1.5°C (>50% likelihood) with no or limited overshoot. Only 50 out of the 97 pathways of the C1 category lead to net-zero GHGs by end of the century (sub-category C1a), whereas 47 C1 pathways never reach net-zero GHGs (sub-category C1b). In sub-category C1a, net-zero GHGs is reached between 2070-2075 [2050-2090]. This represents the "earliest" projection of when net-zero GHGs are reached and requires net-negative CO₂ emissions to compensate for residual non-CO₂ emissions. Note that C1, C1a and C1b are all aligned to pathways that limit warming to 1.5°C (>50% likelihood) with no or limited overshoot. Please see WGIII AR6 Table SPM.2.

38 Please see Table SPM.2 of the WGIII Report. The range cited is the projected median 5-year interval at which net-zero is achieved, with the 5th–95th percentile interval in square brackets.



who also assess the validity of all scenarios (including underlying assumptions and model projections) within each category prior to their inclusion.³⁹

For the purposes of the WGIII Report, GHG emissions include carbon dioxide (CO₂)⁴⁰, methane (CH₄), nitrous oxide (N₂O), and fluorinated gases comprising hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆), as well as nitrogen trifluoride (NF₃). The IPCC definition of GHG emissions aligns with the definition of GHGs as adopted by the NZIA. GHGs are typically combined for the purposes of reporting in "CO₂ equivalents" (CO₂e) to standardise the climate effects of the various GHGs. Reporting in CO₂e therefore refers to all underlying GHG emissions produced by a company in the real economy.

The NZIA also acknowledges that:

- where CO₂e is reported for a company by third party data providers, it can be assumed, but is not guaranteed, that all relevant GHGs are captured in the CO₂e reported figure;
- the dominant GHG is CO₂. Other significant non-CO₂ GHGs include CH₄ and N₂O which are primarily caused by a limited number of sectors; CH₄ emissions by agriculture (livestock, manure, rice cultivation), energy (venting, production and transmission losses), and waste (landfills, wastewater), and N₂O emissions by agriculture (soils).⁴¹ Averaged across sectors, global net CH₄ emissions are reduced from 2019 levels by 34% [21–57%] in 2030 for pathways limiting warming to 1.5°C—though with significant differences between relevant sectors, e.g. median CH₄ reductions of 62% for energy, versus 12% for agriculture, forestry and other land use (AFOLU)⁴²—whereas only limited near-term reductions of global net N₂O emissions are expected by 2030.⁴³
- GHG emissions reduction pathways and CO₂ emissions reduction pathways are not identical due inter alia to the different concentrations of GHGs in the atmosphere, the different warming potential of the various GHGs, and the current availability of technology to limit further GHG emissions and/or remove GHGs from the atmosphere.

Given the complexities involved with steering re/insurance portfolios in line with the current state of science described above, the fact that the scientific findings evolve over time, and the challenges in full coverage of data per GHG type, the NZIA intends to consult a scientific advisory group for further guidance on the interpretation of the latest science with respect to defining an appropriate emission reduction range.

39 Table SPM.2 of WGIII Report provides the 5th-95th percentile interval for GHG and CO₂ ranges, however in past reports (IPCC, 2018: Global Warming of 1.5°C (Special Report)) ranges were provided by the IPCC at interquartile intervals (see paragraph C1 of the Special Report in respect of CO₂ emissions reduction ranges). Interquartile ranges are also adopted in WGIII Report in specific circumstances—please see paragraphs C.3.2 and C.8.1.

40 CO₂ includes CO₂ from fossil fuel combustion and industrial processes (CO₂-FFI); net CO₂ emissions from land use, land-use change and forestry (CO₂-LULUCF).

41 World Resources Institute, June 2022. [wri.org/data/world-greenhouse-gas-emissions-2019](https://www.wri.org/data/world-greenhouse-gas-emissions-2019)

42 See WGIII AR6 report Figure 6.26 on page 6-99 for energy, and Figure 3.27 on page 3-65 for AFOLU.

43 Please see paragraph C.1.2 of the WGIII AR6 Report for CH₄ and Figure SPM.5 for N₂O (the long-term reduction cited in C.1.2 is 20% (-5 to +55%) by 2050).



NZIA members are committed to supporting the real economy in achieving the 1.5°C objective—this remains the central purpose of the NZIA Commitment. The NZIA assumes that all IPCC’s AR WGIII C1 scenarios are feasible, including scenarios where net zero for non-CO₂ GHGs are achieved later than 2050 but still result in a maximum 1.5°C pathway with no or limited overshoot by 2100.

The NZIA has therefore decided to align its overarching emissions reduction near-term target to the IPCC’s AR6 WGIII C1 5th and 95th percentile interval for net-global GHG (CO₂e) emissions reductions by 2030 (relative to 2019). By choosing the **overarching emissions reduction target type** as defined in this Protocol, NZIA members independently set their own near-term IAE reduction targets in line with a range of **34% to 60% reduction** for the period of 2019 to 2030 for IAEs covered in their respective portfolio target boundaries. NZIA members **may** also choose, at their discretion, to adopt a target that is greater than 60%.

The NZIA overarching emissions reduction target range remains aligned to other UN-convened net zero alliances (including the Net-Zero Asset Owner Alliance) in that the IPCC’s AR6 WGIII C1 scenarios are consistently used across alliances as a basis for setting the overarching emissions reduction ranges. The intention is that the NZIA will continue to be guided by the latest recommendations of the IPCC.

Where NZIA members wish to adopt a consistent range across activities that fall under more than one UN-convened net zero alliance, they are free to do so insofar as the minimum threshold of 34% is satisfied in respect of their underwriting portfolio. NZIA members **may** also choose, at their discretion, to adopt a target that is greater than 60%.

In setting their near-term overarching reduction target, NZIA members **shall** also disclose the reasons for adopting their nominated target.

Members using a base year later than 2019 **may** recalculate the percentage for their first near-term targets to 2030, using the following annualisation formula:

$$r_y = 1 - (1 - r_{2019})^{\frac{2030 - y}{2030 - 2019}}$$

where r_y is the rate to be used for base year y , or make use of Table 2 below that shows pre-calculated rates for the lower and upper bound of the NZIA overarching emissions reduction range.



Table 2: Emissions reduction range for various base years

Base year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Lower bound	34%	31%	29%	26%	23%	20%	17%	14%	11%	7.3%	3.7%	
Upper bound	60%	57%	53%	49%	44%	39%	34%	28%	22%	15%	8.0%	

Members **may**, within the given range, set separate overarching reduction targets for sub-portfolios.

If a member's IAEs that are subject to the overarching emissions reduction target type have been calculated using different accounting methods, the member **shall** set, within the given range, separate targets for each part of the IAEs where a different accounting method has been used.⁴⁴ For example, a member plans to use the overarching emissions reduction target type for IAEs that were partly derived using accounting method A ("IAE-A") and partly using accounting method B ("IAE-B"). Then it will set a target for the IAE-As (e.g. "43% reductions by 2030") and a separate target for the IAE-Bs (e.g. also "43% reductions by 2030", or a different ambition level).

NZIA members **may** also choose between intensity-based or absolute overarching emissions reduction targets, subject to Section 4.1.1, "Level of ambition for emissions reduction targets" and under the constraint that an intensity-based overarching emissions reduction target **shall** result in absolute emissions reductions in line with the minimum threshold of 34%.⁴⁵ NZIA members **may** also choose, at their discretion, to adopt an intensity-based overarching emissions reduction target that results in absolute emissions reductions greater than 60%.

44 Rationale: different IAE accounting methods use different formulas to derive the attribution factor. Different formulas can result in attribution factors that are, different from each other by orders of magnitude, e.g. 0.1%, 1%, 10%. The attribution factor is then multiplied with the insured's emissions to calculate the insurance-associated emissions (IAEs). Depending on the IAE accounting method, the same amount of real-economy emissions could yield IAEs that are different by orders of magnitude. If these differently calculated IAEs are aggregated under a single overarching IAE reduction target, the part of the IAEs that were calculated with the highest attribution factor would dominate the aggregated IAEs and would consequently attract most of the decarbonisation efforts. Decarbonisation efforts on the part of the IAEs that were calculated with the lowest attribution factor would have a smaller relative impact on the aggregated IAEs and could thus be deprioritised or omitted. A concrete example follows from the PCAF Insurance-Associated Emissions Standard: the standard employs two different attribution formulas to calculate IAEs (one for commercial lines, and one for personal motor lines of business), resulting in attribution factors that are different by one to two orders of magnitude.

45 For further information regarding the purpose, description and benefits of "absolute" and "intensity" metrics, please see Chapter 6 of the PCAF Insurance-Associated Emissions Standard.



Each member **should** independently assess:

- i. the viability of their near-term IAE target against their reported IAEs and the latest science; and
- ii. how it can best achieve the near-term IAE reduction.

Notwithstanding the overarching emissions reduction objectives cited above, the NZIA is an international alliance of global re/insurance companies; each NZIA member has a unique portfolio composition with respect to lines of business and industry sectors. In addition, NZIA members provide risk transfer solutions to a wide range of re/insureds based all over the world, from individuals (in their personal capacity) to sole traders, SMEs, large private companies and publicly-listed companies.

Noting the above, the IAE of a given re/insurer, in the broader context of setting an overarching near-term absolute emissions reduction target that is aligned with the global 1.5°C climate goal, should reflect this reality. Further noting that the IPCC scenarios describe the global average, the resulting emissions reduction pathways need to be guided by the principle of equity and common but differentiated responsibilities and respective capabilities, in light of different national circumstances, to ensure a just transition.^{46 47} Taken together, not all re/insureds are strictly required to decarbonise between 34% and 60% by 2030 under 1.5°C-aligned pathways—some may need more time, some may be able to decarbonise faster. Therefore, not all re/insurance portfolios will be required to decarbonise at that same rate. A narrow, prescriptive decarbonisation range would therefore not be appropriate. It is acknowledged that some re/insurers have different portfolio exposures. For example, more exposure to low-carbon intensity may potentially justify a different range—this has not yet been assessed.

The NZIA acknowledges that re/insurers face a number of challenges when setting quantitative targets at an overarching portfolio level, and that these challenges will impact NZIA members to varying degrees:

- **Limited emissions data quality across re/insurers' portfolios:** NZIA members could be providing risk transfer solutions to a wide range of re/insureds globally and of varying sizes (by revenue). Re/insurer portfolios may be disproportionately weighted (by client type) to smaller non-listed companies and/or individuals and cover a larger number of clients where there is currently limited or low data quality; this may not be the case, to the same degree, for investment portfolios. NZIA members expect better data availability, where possible, and when provided by the re/insured's (i.e. the players in the real economy), over the coming years to enable credible tracking against targets and real-world emissions reduction.

46 Please see the Recitals to the Paris Agreement.

47 Climate Change 2022: Mitigation of Climate Change. Working Group III Contribution to the IPCC Sixth Assessment Report—please see Section: D “Linkages between mitigation, adaptation, and sustainable development”.



- **Nature of the re/insurance relationship:** re/insurance contracts create no ownership or transfer of equity/loan and do not result in financial or direct operational control of re/insureds.⁴⁸ In some cases, the client may not even be a company. This is important as re/insurers rely on having an ongoing relationship to support and encourage clients on their transition.

The NZIA also acknowledges that certain non-CO₂ GHGs will need to be reduced significantly in the lead up to 2050, notwithstanding that not all non-CO₂ GHGs are strictly required to reach net zero by 2050 under a 1.5°C-aligned pathway. The NZIA intends to provide members with additional guidance on non-CO₂ GHGs in future versions of the Protocol (to the extent this is not appropriately captured by refinements to the sectoral decarbonisation pathways), taking into account the latest available scientific knowledge, sectoral considerations, and the availability of reliable emissions data separated out from CO₂e into the constituent GHGs.

4.1.4 Sectoral decarbonisation approach (SDA)

As an alternative to the potentially sector-wide overarching emissions reduction target type, the **sectoral decarbonisation approach (SDA)** uses sector-specific emissions reduction pathways for target design. In choosing the SDA, NZIA members independently set their own targets to have the physical emissions intensity⁴⁹ of their (sub) portfolio in a certain economic sector converge over time with a 1.5°C-aligned science-based decarbonisation pathway for that same sector. This target type is described as the "Portfolio SDA" approach in SBTi's Financial Sector Science-Based Targets Guidance.⁵⁰ The SBTi is one, albeit not the only, institution that publishes science-based, sectoral decarbonisation pathways that are a prerequisite for the SDA target type.

The definition of target pathways by SBTi is based on a combination of science and judgements in line with SBTi's published principles—it is not influenced by the broader policy objectives of companies and/or other organisations.

The SBTi is partnering with the NZIA to provide guidance and develop criteria for consideration in relation to SDAs for IAEs and target pathways suitable for an underwriting context. A formal assessment of the proposed emissions reduction target types by SBTi takes time and has not yet been conducted; however, this Protocol orients towards SBTi's FINZ Standard and near-term target-setting guidance for the financial sector as appropriate for the proposed target type. Future versions of the Protocol will incorporate feedback from SBTi on SDAs and target pathways, subject to applicable laws, rules and regulations.⁵¹

48 For further information regarding the differences between "financed emissions" and "insurance-associated emissions", please see Chapter 4 of the PCAF Insurance-Associated Emissions Standard.

49 Physical emissions intensity = Re/insured's absolute emissions divided by a physical output value, expressed in e.g. tCO₂e/MWh, tCO₂e/ton product produced, tCO₂e/liter product produced. This is different to economic emissions intensity which is defined as re/insured's absolute emissions divided by a monetary unit reflecting the insured's size of business, expressed in tCO₂e/€M of insured's revenue or asset value.

50 See sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance.pdf (pages 7 and 31)

51 For further information on how SBTi validates target pathways, please refer to the SBTi "Pathways to Net-Zero: SBTi Technical Summary" (sciencebasedtargets.org/resources/files/Pathway-to-Net-Zero.pdf) and associated documentation on the following (non-exhaustive) sectors for guidance: Aluminium; Apparel and footwear; Aviation; Buildings; Chemicals; Cement; Financial institutions; Forest, land and agriculture; Information and communications technology; Maritime; Oil and gas; Power; Steel; and Transport.



Notwithstanding this, NZIA members may use the SDA target type to set targets as they deem appropriate.

Where this target type has been selected by an NZIA member, the SDA targets they set **should** meet the following conditions:

- **Target level of ambition:** use of sector-specific methods for 1.5°C pathways which are internationally recognised methodologies/pathways for SDAs. Fulfilment of SDA targets means that the emission intensity of the part of the portfolio defined by the portfolio target boundary has converged with the 1.5°C pathway.
- **Portfolio target boundary:** this should be individually set by the NZIA member (c.f. Minimum requirements for target setting in Section 2, "How to use this Protocol").
- **Timeframe:** the first SDA targets cover a minimum of five (5) years from the base year, and a maximum duration that does not reach beyond 2030, i.e. the latest possible target year for NZIA members' first target(s) under this Protocol, as defined in Section 3.4, "Timing of target setting". Subsequent SDA targets cover a minimum of five (5) years and a maximum of ten (10) years.

4.2 Engagement target category

In realising real-world GHG emission reductions, re/insurers engaging with clients on their net-zero transition is a key lever for re/insurers to advance their own net-zero transformation. Such engagement may also support re/insureds in their own net-zero transitions, encourage innovation, and produce related benefits for the customers of the re/insureds, as well as the re/insureds themselves.

The Protocol suggests two possible target types under the engagement target category, with each NZIA member being free to unilaterally choose which of these it will select when setting its target(s):

1. The **portfolio coverage approach** (PCA) that seeks to increase the share of clients in a re/insurer's portfolio who have set their own science-based targets (SBTs); and/or
2. The **focused engagement** target type under which a re/insurer engages with selected clients regarding their transition plans and decarbonisation strategies.

There are two key differences between the two engagement target types: the PCA would be appropriate for commercial client portfolios, while the focused engagement target type is open to clients of both commercial and personal lines. Secondly, the measure of success for the PCA is "outcome-based"; namely, how many clients in a portfolio have actually set their own SBTs. However, for the focused engagement target type, success can be measured in terms of either an outcome or simply in recognising the re/insurer's efforts (that may or may not result in a specific outcome).

Under either target type, it will be important to recognise the transition journeys that the clients (and their industry segments) are on, and their role in the wider global economy.



This will allow NZIA members to support a tailored transition that recognises the specific challenges each client and industry segment faces in transitioning.

4.2.1 Portfolio coverage approach (PCA)

By choosing the PCA, NZIA members independently set their own targets in relation to the proportion of their re/insurance clients that have established their own science-based targets (SBTs) as part of their net zero transition journeys. These targets shall be such that an NZIA member is on at least a linear path to 100% portfolio target boundary coverage (i.e. 100% of clients having set SBTs supporting a net-zero transition) by 2040. This target type is described as the "SBT Portfolio Coverage Approach" in SBTi's Financial Sector Science-Based Targets Guidance.⁵² Note that SBTi is not the only organisation to publish guidance on SBTs or to validate SBTs. Accordingly, a client can set SBTs that are validated by SBTi or any other competent third party.

Where this target type has been selected by an NZIA member, the portfolio coverage targets they set **should** meet the following conditions:

- **Target level of ambition:** have a proportion of re/insurance clients (defined via the portfolio target boundary) to set their own third party-approved science-based targets such that this client portfolio is on at least a linear path to 100% SBT-coverage by 2040. By 2030, the SBT-coverage can accordingly be less than 100%. For example, an NZIA member starting with 10% SBT-coverage among its clients subjected to a PCA target in 2020 would need to encourage its clients to adopt SBTs such that it would increase the proportion of its client portfolio with SBT-coverage by 4.5% per year $(90 / (2040 - 2020) = 4.5)$ and reach at least 55% $(10 + [10 \times 4.5] = 55)$ coverage by 2030. Fulfilment of PCA targets means that the SBTs of all of re/insurance clients that are covered by the portfolio target boundary have been published by these clients and approved by a competent third party.
- **Portfolio target boundary:** individually set by each NZIA member (c.f. Minimum requirements for target setting in Section 2, "How to use this Protocol").
- **Target time frame:** fulfil the first portfolio coverage target(s) by 2030 at the latest, subsequent portfolio coverage targets within a maximum of five (5) years from the date that the targets are published.

4.2.2 Focused engagement target type

Focused engagement targets **may** be set for commercial clients, personal line clients, or both (subject to the LoBs covered by the Protocol, as per Section 3, "General scope of the Protocol" and the individually set portfolio target coverage).

52 See sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance.pdf (pages 7 and 32)



Focused engagement targets for commercial lines

By choosing the **focused engagement** target type for **commercial lines**, NZIA members independently set their own targets to engage with selected commercial clients (defined by the portfolio target coverage), supporting them in their efforts to:

- develop and implement credible transition plans in line with a 1.5°C net-zero pathway; and/or
- mitigate and manage possible transition risks; and/or
- strengthen their individual efforts to lower their own GHG emissions.

Table 3: Actions and possible metrics (non-exhaustive) to be considered for focused engagement targets for commercial lines

Action	Possible metrics (non-exhaustive)	Examples (non-exhaustive)
Engagement for information	Number of client engagements where the client's net-zero relevant information was requested	Disclosure of transition plans including targets and progress reports; GHG emissions; Net-zero alignment status; etc.
Engagement with information	Number of client engagements where net-zero relevant information was provided	Measures to improve energy efficiency; Transition risk advisory, etc.
Engagement with a purpose	<p>Number of clients which have set specific carbon reduction objectives.</p> <p>Example topic areas include:</p> <ul style="list-style-type: none"> ▪ Transportation/fleet-related emissions ▪ Methane gas emissions ▪ Emissions associated with Scope 2, energy consumption ▪ Overall net-zero or other transition commitment <p>Percent change of clients, or absolute, who report and/or improve reporting of Scope 1 and 2, and potentially Scope 3, emissions data for their own operations.</p> <p>Example topics include:</p> <ul style="list-style-type: none"> ▪ Target date for first reporting of emissions or expansion of reporting scope (e.g. more entities, additional scopes, additional parts of supply chain) ▪ Objective/action to improve scope reporting (e.g. working with suppliers, improvement for own operations) <p>Objective/action to publicly disclose emissions through a recognised framework/organisation (e.g. TCFD, CDP, GHG Protocol)</p>	<ul style="list-style-type: none"> ▪ Client plans for reducing emissions with their fleet, such as switch to an EV fleet, use of telematics, route optimisations, etc. ▪ Client set percent reduction in methane gas emissions within a specific timeframe ▪ Client set capital expenditure (CapEx) plan(s) dedicated to energy savings measures; client commitment to 100% renewable power sourcing by a defined date, etc. ▪ A net-zero, 1.5°C pathway, and/or other transition commitment of an industrial client ▪ Member reporting on number of (or percentage of engaged) clients that have set or expanded emissions reporting ▪ Member reporting on number of (or percentage of engaged) clients who set an objective to improve or actually improved emissions reporting ▪ Member reporting on number of (or percentage of engaged) clients who set an objective to or actually publicly disclosed emissions through a recognised framework



Focused engagement targets for personal motor lines

By choosing the **focused engagement** target type for **personal motor lines**, NZIA members independently set their own targets to engage with personal motor clients (defined by the portfolio target coverage), supporting them in their efforts to lower their individual road transportation-related GHG emissions (e.g. by transitioning to electric vehicles; the use of other forms of low or zero-emission transportation; reduction in vehicle use; adopting eco-driving practices; or adopting more sustainable repair and replacement options).

Table 4: Actions and possible metrics (non-exhaustive) to be considered for focused engagement targets for personal motor lines

Action	Possible metrics (non-exhaustive)	Examples (non-exhaustive)
Engagement with information	<p>1. Number of engagement programmes/campaigns where information about road transportation-related GHGs is shared with the clients/policyholders, along with possible measures to reduce individual policyholder transportation-related emissions;</p> <p>or</p> <p>2. Measure number of clients/policyholders covered by the engagement</p>	<p>Provide estimated CO₂e associated with the policyholder's driving habits</p> <p>Provide information about benefits of walking/biking/scooting in the location where the policyholder is located, such as bike storage/lock locations, walking paths, etc.</p> <p>Provide information about EV/plug-in hybrid infrastructure support, such as charging location stations in the area</p>

4.3 Other targets category: re/insuring the transition target type⁵³

Alongside emissions reduction and engagement target types, the Protocol suggests an additional target type under the category "Other targets", which addresses the opportunity side of the net-zero transition. Re/insurers can contribute to the latter by offering re/insurance solutions to activities that avoid, reduce, or remove emissions, or that help cope with the negative impacts of climate change.

By choosing the **re/insuring the transition** target type, NZIA members independently set their own targets to grow their business with **climate solutions**.

⁵³ "Transition insurance" targets are not presently defined in SBTi's Financial Sector Guidance and this is an area of expected future collaborative work between the NZIA and SBTi.



Definition of climate solutions: In the context of re/insuring the transition, the Protocol defines a "climate solution" as any re/insurance product or service that covers economic activities considered to contribute towards climate change mitigation,⁵⁴ or to a combination of both climate change mitigation and climate change adaptation.⁵⁵

Economic activities making a contribution to climate change mitigation and/or adaptation must not cause significant harm to remaining environmental or social objectives.

Re/insuring the transition targets **may** be set for commercial lines, personal lines, or both (subject to the LoBs covered by the Protocol, as per Section 3, "General scope of the Protocol" and the individually set portfolio target coverage).

For commercial lines, re/insuring the transition targets **may** address, among other examples:

- Energy efficiency
- Low/zero-emission power and fuels
- Circular economy
- Sustainable claims options that produce lower or zero emissions (e.g. sustainable repairs and replacement options, partner networks)
- Negative-emission technologies
- Natural climate solutions, etc.

For personal motor lines, re/insuring the transition targets **may** address, among other examples:

- Low/zero-emission forms of transportation
- Products that incentivise less vehicle use, mileage and emissions (e.g. usage-based coverage)
- Sustainable claims options and roadside assistance that produce lower or zero emissions (e.g. sustainable repairs and replacement options), etc.

The NZIA acknowledges that the above lists of examples are non-exhaustive. Technologies and economic activities relating to climate change mitigation and/or adaptation will evolve over time.

Metrics: NZIA members **may** set quantitative re/insuring the transition targets in the form of a relative or absolute increase preferably of their revenue or premiums deriving from climate solutions (see definition above), or alternatively the number of their clients that make use of climate solutions.

54 Climate change mitigation is achieved through activities that prevent greenhouse gases from entering the atmosphere or remove and store carbon dioxide already present in the atmosphere.

55 Climate change adaptation results from risk management and loss prevention measures that contribute to enhancing adaptive capacity, building resilience, reducing vulnerability and incentivising preventive/adaptive activities related to climate change impacts.



5. Target disclosure and reporting

As a component contributing to attaining the NZIA's objectives outlined above, NZIA members have committed to make their targets public and report on their progress as appropriate and in accordance with applicable laws, rules and regulations. This section lays out a number of considerations on target disclosure and reporting, but notably not about target validation. As described in Section 2, "How to use this Protocol", a comprehensive target validation process has not yet been formulated for this first version of the Protocol. Such validation is anticipated to require the involvement of a competent third party (e.g. SBTi). This will be considered for inclusion in the next version of the Protocol.

5.1 Disclosure of target(s) and their portfolio boundary(ies)

NZIA members **shall** make their targets set under this Protocol publicly available according to the timing described in Section 3.4, "Timing of target setting".

NZIA members **shall** disclose the individually set portfolio target boundaries alongside each target, and explain the rationale of their choice, as described in Section 2.3, "Minimum requirements for target setting".

In doing so, NZIA members must not share any competitively-sensitive information.

5.2 Reporting on actions and target progress

NZIA members **shall** report annually and publicly on their progress against all published targets, including the actions and steps taken during the year to meet their respective targets.

Each year, starting in 2024, the NZIA will publish a progress report which provides an aggregate and by target type view of members' independently set targets and global progress accomplished during the year. NZIA members **shall** support the NZIA Secretariat in preparing the progress report with respect to completeness and comprehension of the reported progress.

In doing so, NZIA members must not share any competitively-sensitive information.



5.3 Where to disclose and report

NZIA members **shall** use official channels for independent disclosure and reporting (e.g. via their annual reports, sustainability reports, PSI disclosures, TCFD reports, CDP's annual questionnaire, their website or a standalone report). In addition, members **shall** share their targets with the NZIA Secretariat when disclosing them, and the NZIA Secretariat will publish all members' targets on the NZIA website.

As above, such reporting must not involve disclosure of any competitively-sensitive information.

5.4 Recalculation of targets

NZIA members **should** check the validity of their own target-related projections annually, and consider a target recalculation, as necessary.

NZIA members **should** recalculate their own targets to reflect significant changes relevant to them that would compromise the relevance and consistency of their existing target. The following list includes examples of changes that **should** trigger a target recalculation:

- Updates in the latest climate science that would affect the target ambition level;
- Structural changes in the re/insurer (e.g. mergers, acquisitions, divestments, outsourcing and insourcing);
- Changes in calculation methodologies, improvements in data accuracy, or discovery of significant errors;
- Expansion in scope of accounting standards for insurance-associated emissions;
- Changes in the categories or activities (e.g. lines of business) included in the Scope 3 inventory.

Recalculated targets **shall** automatically comply with the latest available version of the Protocol.



6. Roadmap to Version 2 (and beyond) of the Protocol

Many components of this Protocol face limitations. Consequently, the NZIA intends that this Protocol will be further developed, expanded, and refined over time.

The NZIA has identified four priority areas for further development in future versions of the Protocol:

- **Target validation**

NZIA members have taken a deliberate decision not to incorporate an NZIA target validation process within this first version of the Protocol. Future versions of this Protocol will consider the set-up of such a process, which might need the involvement of a competent third party. Details of potential alignment with SBTi's net-zero standard for financial institutions (FINZ) need to be evaluated as part of future developments.

- **Scope expansion**

As it is the ambition of the NZIA and its members for the methodology in this Protocol to ultimately cover a broad scope of insurance and reinsurance portfolios, recommended expansions to the general scope of the Protocol will be considered for inclusion in the Protocol over time. Examples include:

- Target horizon: from near-term to long-term and net-zero target setting
- Emissions: insurance-associated emission removals
- Business in scope: additional LoBs, e.g. project-based lines of business (in particular engineering lines including construction all-risks, erection all-risks), non-motor personal lines insurance, treaty reinsurance
- Value chain: intermediaries, claims handling, etc.

The main limitation in this respect is the availability of a common accounting and reporting standard and data. For instance, additional LoBs can only be included once the common accounting and reporting standard and data are available. This links the expansion of the Protocol closely to future developments of the PCAF Insurance-Associated Emissions Standard.⁵⁶

- **Refinement of target types**

Existing recommended target types will be considered with respect to further developments and refinements, for instance by adding more quantitative aspects, once appropriate methodologies, metrics and data become available. The feasibility and inclusion of additional target types will be considered. In addition, it is intended that the ambi-

⁵⁶ carbonaccountingfinancials.com/files/downloads/pcaf-standard-part-c-insurance-associated-emissions-nov-2022.pdf



tion level of the Protocol will be considered, especially with respect to the minimum requirements for target setting; the quantitative IAE reduction targets (in light of evolving science and the need to break down overarching targets to the sector level), and potential minimum requirements for focused engagement efforts and/or outcomes.

- **Portfolio target boundary**

Future versions of this Protocol will consider the inclusion of certain quantitative minimum ambition levels for the portfolio target boundary for a given target type (e.g. establishing the proportion of re/insurer's overall portfolios that will be covered by the target setting, where an IAE methodology exists). For the avoidance of doubt, such quantitative minimum ambition levels are not expected to extend to individual economic sectors.

The **next version** of this Protocol **shall** be published at the latest **by 31 December 2024**. The extent of the revision will depend on the availability of relevant standards and science-based data.

For the time being, this Protocol contains adequate and sufficient target setting elements for each NZIA member to individually start or propel their net-zero re/insurance journey.



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About UN Environment Programme's Principles for Sustainable Insurance Initiative

Endorsed by the UN Secretary-General and insurance industry CEOs, the Principles for Sustainable Insurance (PSI) serve as a global framework for the insurance industry to address environmental, social and governance (ESG) risks and opportunities—and a global initiative to strengthen the insurance industry's contribution as risk managers, insurers and investors to building resilient, inclusive and sustainable communities and economies on a healthy planet. Developed by UN Environment Programme's Finance Initiative, the PSI was launched at the 2012 UN Conference on Sustainable Development (Rio+20) and has led to the largest collaborative initiative between the UN and the insurance industry. As of December 2022, more than 230 organisations have joined the PSI, including insurers representing about one-third of world premium and USD 15 trillion in assets under management, and the most extensive global network of insurance and stakeholder organisations committed to addressing sustainability challenges. The PSI also hosts the Net-Zero Insurance Alliance and the Sustainable Insurance Facility of the Vulnerable Twenty Group of Finance Ministers (V20).

Learn more at:

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