American Property Casualty Insurance Association
INSURING AMERICA apci.org

February 9, 2024

Director
Climate Disclosure Unit
Climate & Energy Division
Treasury
Langton Cres
Parkes ACT 2600

RE: Climate-related financial disclosure – exposure draft legislation

To whom it may concern,

The American Property Casualty Insurance Association ("APCIA") appreciates the opportunity to comment on the Treasury's exposure draft legislation seeking to amend parts of the *Australian Securities and Investment Commission Act 2001* and the *Corporations Act 2001* to introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities. APCIA is the primary U.S. national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe. A number of our members have operations or interests in Australia and are potentially impacted by climate disclosure requirements implemented in Australia. APCIA is submitting this comment letter in an effort to provide our significant concerns with Scope 3 emissions reporting at the present time. We suggest that at the present time Scope 3 emissions reporting for property casualty insurers is not technically feasible given the problems described below. Our primary concern regards the technical challenges of calculating Scope 3 emissions, some of which are unique for property casualty insurers, since disclosure standards, definitions, and techniques are still evolving. At the outset, it is worth noting that Scope 3 emissions for insurance contracts are not required under the GHG protocol[1] due to the fact that the comparability, transparency, and reliability of insureds' Scope 3 emissions varies to such a great extent that reporting could mislead market participants. For that reason, it has been acknowledged that Scope 3 reporting should be optional for the time being but could be disclosed over time as data availability challenges are addressed.

The GHG emissions data for the vast majority of a typical property and casualty insurance company's underwriting portfolio, and the substantial majority of a typical

[1] GHG Protocol, Technical Guidance For Calculating Scope 3 Emissions at https://ghgprotocol.org/scope-3-calculation-guidance-2, p. 138, notes (April 2013) ("Accounting for emissions from insurance contracts is not required")

property and casualty insurance company's investment portfolio, is not readily available and, where it is available, the data quality remains uneven. In the absence of a phased approach whereby our insureds and investees are reporting their Scope 1 and 2 emissions before we would be required to report our Scope 3 emissions (which would be the preferred approach), we are reliant upon data provided by third parties who in turn rely on approximations and industry averages. Additionally, there is no global standard for which industry approximation or industry averages to use, resulting in a lack of consistency and comparability amongst reporting organizations. Furthermore, we are concerned that any reported Scope 3 emissions for property casualty insurers have a high chance of being misused or misinterpreted since existing Scope 3 emissions methodologies for underwriting portfolios, as developed by the Partnership for Carbon Accounting Financials (PCAF), are considered "synthetic" and generate values that are not additive or comparable across different lines of insurance.[2] Indeed, requiring Scope 3 emissions for insurer underwriting portfolios would be particularly inappropriate. Insurers have limited control over the purchasing decisions of their policyholders. In many types of transactions, insurance is only purchased after the policyholder makes the purchase or has decided to enter into the business relationship. In the case of certain personal lines transactions such as the purchase of a car or a home, such disclosures could penalize insurers in a manner that would have a disproportionately negative impact on economically vulnerable consumers. For example, disclosures of Scope 3 emissions would effectively penalize insurance companies for providing automobile coverage to drivers or businesses that do not have electric or hybrid cars, which are not yet widely available at an affordable price for many people. Auto insurers would also be penalized for covering people who drive longer distances for work or other obligations, such as in rural areas and cities where reliable public transit may not be available. There are similar concerns for homeowners' insurers, for example, because insurance companies do not have control over whether their policyholders can afford the newest and most efficient appliances or fixtures.

The data shortcomings described above related to calculating GHG emissions associated with a property and casualty insurance company's underwriting portfolio are exacerbated by significant challenges in determining how to allocate companies' GHG emissions among the many lines of insurance coverage an individual or company may purchase. Most commercial insurance customers purchase multiple lines of coverage, including, for example, general liability, commercial auto, workers compensation, umbrella, professional liability, cyber and employment practices liability coverages.

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[2] Partnership for Carbon Accounting Financials (PCAF), Insurance-Associated Emissions (November 2022) at https://carbonaccountingfinancials.com/files/downloads/pcaf-standard-part-c-insurance-associated-emissions-nov-2022.pdf, p. 62 ("With the synthetic nature of any insurance-associated emissions methodology and inherent double counting")

Even small businesses tend to purchase 5 or more lines of coverage, and middle market customers sometimes purchase 10 or more lines. These lines of coverage are often purchased from several different insurance companies. Further complicating this, due to the higher limits desired by large customers, it is typical to have multiple insurers providing a layer of coverage for the same risk in what is called a “tower”. In both of these situations, there is a significant lack of clarity and complexity in terms of how a commercial customer’s GHG emissions should be apportioned to each of its many insurers. Further complicating the allocation challenge is that primary insurance carriers often reinsure a portion of their underwriting portfolio, and there is no established or credible methodology to allocate the GHG emissions among the primary insurance carriers and the reinsurers.

With regard to calculating Scope 3 GHG emissions related to a property and casualty insurance company’s investment portfolio, there are significant challenges in determining how to attribute companies’ GHG emissions to owned investments. In making such a determination, it is important to distinguish between an accounting-based approach and a risk-based approach. The accounting-based approach commonly attributes an investee company’s GHG emissions to the investor based on the investor’s total investment (debt and equity investment) divided by a measure of the investee company’s enterprise value. While this approach might seem straightforward, it does not differentiate between the relative riskiness of potential transition costs associated with a company’s GHG emissions borne by debt versus equity holders. We also note that Scope 3 reporting by investees is plagued with data quality issues and a concerning level of double-counted emissions. For example, most insurers have an investment portfolio of fixed-income assets such as municipal bonds and corporate debt. When accounting for the emissions associated with these investments, the emissions associated with a corporation who operates within the boundaries of the municipality will be double-counted – once for the municipality and again for the corporation. Both of which assumes the municipality and corporation are reporting their emissions.

We note the regulatory burden related to reporting under IFRS 17 and we urge the Treasury to sequence this reporting initiative with reporting under the new accounting regime given the tight timeline for the finalization of this proposed reporting, particularly for Group 1 entities. We also note that Interoperability with standards in other jurisdictions, such as the U.S. Securities and Exchange Commission (SEC) proposed rule on climate related disclosures, is critical to allow for comparability across jurisdictions, and to ensure that information provided to investors and other stakeholders is meaningful and decision useful. APCIA has filed comprehensive comments in response to the SEC proposed rule that further elaborate on our concerns with Scope 3 emissions reporting.

Additionally, disclosures of Scope 3 emissions should not be required of property and casualty insurance companies at this time due to significant costs and minimal benefits.

As described above, disclosing Scope 3 emissions presents significant challenges to a property casualty insurance company. Scope 3 reporting at present is an undertaking requiring significant time and resource with the risk of unintended consequences. Scope 3 reporting is difficult to calculate and requires input from many stakeholders across reporting companies, as well across the value chain with external entities. For the most complex supply chains, external support may be required in the form of specialist consultancy services, as well as sophisticated tools and software for collecting and managing data in a controlled environment. Both can pose significant costs to businesses.

For all of these reasons, at this time, most, if not all, property and casualty insurers cannot accurately calculate the total emissions of their overall underwriting portfolio. It is additionally unclear what, if any value reporting Scope 3 emissions will provide since insurers touch virtually every part of the economy and Scope 3 emissions do not provide valuable or meaningful insights. Until a mechanism is developed that can deal with these shortcomings, underwriting and investment portfolio Scope 3 emission reporting should not be required.

Conclusion

For these reasons, APCIA urges that insurers not be required to report their Scope 3 emissions. Thank you for considering the topics addressed in this letter, and please do not hesitate to contact us if you have any questions.

Sincerely,

The APCIA