



# Good Practice Guide

Engaging with supply-chains for  
Insurance and Long-Term Savings Providers

8 June 2022



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### **The UK insurance and long-term savings market and the ABI**

*The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over 321,300 individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.*

*The UK insurance and long-term savings industry manages investments of over £1.9 trillion, contributes over £16bn in taxes to the Government and supports communities across the UK by enabling trade, risk-taking, investment and innovation.*

*We are also a global success story, the largest in Europe and the fourth largest in the world. Therefore, action to reduce emissions across our sector's operations and supply chain will have a major impact across the globe.*

*The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.*

*ABI members are committed to playing a leading role in moving the economy to Net Zero. The ABI is committed to driving collaboration and meaningful action on climate change.*

*As a Race To Zero accelerator, we promote the uptake of ambitious action on climate change across our membership and to working with the Race To Zero affiliated campaigns to subject our commitments to credible external scrutiny and collaboration.*

*As a member of ClimateWise, the ABI is committed to the ClimateWise Principles. We work closely with ClimateWise to ensure our approach to climate change is in line with the ClimateWise principles and aligns with standards being developed across the wider sector.*

*This best practice guidance has been designed for ABI members operating in the UK market. However, the ABI also hopes it will be of interest to the wider insurance market and to international firms. We have been actively part of the Sustainable Market Initiative Insurance Task Force's work on Green Supply Chains and are also actively looking to collaborate with our international counterparts trade associations on all aspects of climate.*

*For the purposes of this guidance, 'insurers' refers to insurance, reinsurance and long-term savings companies.*

# Good Practice Guide

## *Engaging with supply chains for Insurance and Long-Term Savings Providers*

8 June 2022

### Executive summary

- This best practice guidance for ABI members represents the first stage of taking forward the commitments made under Pillar Three of the [ABI Climate Change Roadmap](#).
- In our Climate Change Roadmap, we set out **four pro-active steps** that the industry would be taking on supply chains.
- Through this best practice guidance, we aim to drive action on the first two of these four pro-active steps<sup>1</sup>
  - Taking account of emissions reduction strategies and targets in supplier on-boarding
  - Making sustainability a factor in decision making on suppliers
- As ABI members will often source services from the same suppliers, this consistency will create a strong incentive for more businesses across different parts of the economy to review their emissions and identify where they can make emission reductions.
- This guidance sets out expectations for engagement with **larger businesses** in our sector's supply chain – where the provision of data and evidence on environmental impact and greenhouse gas emissions is already becoming more widespread through a combination of voluntary initiatives (including the [Science Based Targets initiative](#) (SBTi) and the UN Framework Convention on Climate Change (UNFCCC)'s [Race To Zero](#) campaign) and mandatory requirements, such as the UK's implementation of the TCFD principles on a mandatory basis.
- This guidance also sets out expectations for engagement with **smaller businesses** – where we recognise that the capacity to provide granular data and in-depth transition plans will be more limited. However, we intend to drive change in these businesses through a consistent approach from ABI members and alignment with the approaches developed specifically for SMEs by the [SBTi](#) and the [SME Climate Hub](#).
- Effective implementation of these practices will allow the sector to then focus on the third and fourth pro-active actions outlined in our Climate Change Roadmap – tracking and reducing emissions and simultaneously encouraging a circular economy.

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<sup>1</sup> More details on Pillar Three of the ABI's Climate Roadmap and a full description of the four pro-active steps we intend to take on supply chains can be found [here](#)

## *Why do emissions from the insurance and long-term savings supply chain matter?*

- Analysis by businesses of their Greenhouse Gas emissions across the three ‘scopes’ used in the most widely-used international accounting tool, the Greenhouse Gas (GHG) Protocol, shows that supply chain (services, equipment and parts provided by other businesses on a contractual basis) often make up a considerable proportion of their overall Greenhouse Gas Emissions.
- These supply chains of purchased goods and services are included within Scope 3 of the GHG Protocol.
- ABI members operate in a wide range of different markets and manage investments worth £1.7trn. Therefore, the exact nature of their Scope 3 emissions varies considerably. However, estimates by some insurers indicate that, for some firms offering General Insurance (GI) or Health Insurance, as much as 90% of their total GHG emissions could be in their supply chain.
- The sector’s operational supply chain provides direct support to homes and businesses across the UK by arranging pension and income protection payments, organising repairs and replacements, commissioning healthcare treatments and repatriating overseas travellers, and reducing supply chain emissions can have a major impact on behaviour across society.
- ABI members depend on the partnerships they have established with their supply chain to provide services to their customers and restore claimants.
- Therefore, it is essential that ABI members are able to fully understand the relationship between their supply chains and climate change. Reducing GHG emissions in supply chains can play a major role in driving the transition to Net Zero and will also make business models more resilient to the risks associated with climate change, both ‘physical risks’ from rising global temperatures and ‘transition risks’ from the economic changes arising as a result of climate change policy (a concept known as ‘double materiality’).

## *Our commitment on reducing supply chain emissions*

- The UK Insurance and long-term savings is committed to reaching Net Zero by 2050 and to the global target of a 50% reduction in emissions by 2030 – in line with the Intergovernmental Panel on Climate Change (IPCC)’s Paris Climate Goals.
- As a sector, we also recognise that a long-term goal for 2050 is not enough – action needs to be taken now and then followed through with regular milestones every five years.
- By 2030, the targets in the ABI Climate Roadmap require firms to have engaged pro-actively with suppliers to ensure supply chain emissions are included within the scope of the sector’s 2030 target of reducing overall emissions by 50% and longer term targets to meet the global climate change targets reaffirmed at COP26.
- Where there is an extensive and ongoing relationship between ABI members and other parts of the

### **The immediate four pro-active steps that the ABI will be working with its members to deliver across the sector are:**

1. Taking account of emissions reduction strategies and targets in supplier on-boarding
2. Making sustainability a factor in decision making on suppliers
3. Tracking Emissions and Driving Further Change
4. Changing how we use products and services to support a ‘circular economy’

economy through the industry's supply chain, the ABI will be working through our membership of the CBI and with our respective counterpart trade associations to ensure we have a shared understanding of best practice and to maximise opportunities for collaboration to reduce emissions.

### *What ABI members should do to understand the footprint of their supply chains*

- We recommend that, as a first step, all ABI members conduct a screening exercise to understand the nature of the GHG emissions in their supply chain.
- There are a number of organisations that can help businesses conduct these reviews – to varying levels of data granularity.
- But, as a first step, [the tools and resources provided for free by the GHG Protocol](#) should provide firms with enough insights on where their 'hotspots' are.
- Once these 'hotspots' have been identified, these areas should then be the focus for gathering and analysing more granular data.
- It is likely that there will be common trends across lots of ABI members, as many will procure services from a similar group of businesses and have similar supply chains.
- However, it is important that each firm conducts its own screening exercise – as not all operating models are the same, and some insurers will provide a service 'in house' (by directly owning facilities or employing staff), while other insurers will procure the same service from an external supplier.

**Greenhouse gas emissions are categorised into three groups or 'Scopes' by the most widely-used international accounting tool, the Greenhouse Gas (GHG) Protocol.**

- **Scope 1** typically covers direct emissions from sources the business owns or has complete operational control over
- **Scope 2** typically covers purchased services used within a businesses' day-to-day operations (such as electricity and heating)
- **Scope 3** includes all other indirect emissions that occur in a company's "value chain" – services they procure or commission from other businesses that allow them to meet their obligations to customers and clients

Supply Chain emissions therefore fall under Scope 3.

### *What businesses in our supply chains can expect*

- ABI members already face a range of regulatory expectations to establish transparent strategies to reduce their GHG emissions and minimise their exposure to climate risk, including with their supply chains. These expectations were set out in the Prudential Regulation Authority's [2019 supervisory statement](#) on climate change.
- They also face mandatory obligations to comply with the requirements of the [Task Force on Climate Related Financial Disclosure](#).
- As the UK Government's Greening Finance Roadmap indicates, further regulatory expectations will be imposed on our sector throughout the years up to 2025. This includes the obligation to publish Net Zero Transition Plans, covering the full scope of their operations and investments.
- Therefore, as a direct result of this, ABI members will be obligated to make Climate Change and Sustainability a core feature of any decisions they take about how to manage their supply chain.

- This will mean that businesses that are part of the Insurance and Long-Term Savings' supply chain can expect:
  - to be asked to provide evidence of how they are approaching GHG Emissions and the Net Zero Transition – including their current GHG footprint and their Net Zero transition plans
  - to be able to demonstrate clear progress in line with the overall national and international Net Zero goals, with a particular focus on the interim 2030 target
- The ABI is committed to helping its members work together collaboratively so that there is as much consistency as possible.
- This will both maximise the opportunities to support businesses that are committed to sustainability and also reduce any operational/practical burdens for businesses (especially SMEs) dealing with a large number of insurers.
- In particular, we are committed to ensuring that businesses should be able to submit information on GHG Emissions in a consistent format and that, where multiple ABI members are asking for this information from the same business, equivalent and consistent information can be submitted for each request.

### *How individual ABI members can engage with their suppliers*

- It is important that all ABI members make Climate Change and Sustainability a priority when they engage with their supply chain. This will allow them to understand their suppliers' GHG footprint, their emissions reduction strategies and what targets they are working to.
- A process of taking account of sustainability strategies through engagement should initially apply to all businesses within the supply chain – as this engagement will provide an evidence base to inform subsequent prioritisation of where targeted additional engagement/actions can have the most impact.
- However, the scope of that initial engagement should be tailored to the size and structure of the organisation being engaged with.

### **Large Businesses:**

- It is reasonable to expect any larger organisation (typically those with a workforce of more than 500 employees and/or an annual turnover of more than £500m) within a supply chain to already be able to provide a comprehensive assessment of the breakdown of their Scope 1 and 2 emissions. These businesses should also have capacity to provide a detailed assessment of their Scope 3 emissions and identify where their capacity for compiling Scope 3 data will evolve further as the process of implementing TCFD and Transition Plan requirements in the UK and similar EU and international reporting requirements evolves<sup>2</sup>.
- ABI members should expect larger businesses within their supply chain to have a set a target that is in line with the Paris Agreement and, where applicable, to have joined the UN-backed 'Race To Zero' campaign.
- As a first step, ABI members should ascertain what commitments have been made when selecting

<sup>2</sup> A full list of the companies that have made a commitment under the Science Based Targets initiative is available [here](#) and other businesses have made sectoral commitments as part of organisations affiliated to the Race To Zero campaign.

and onboarding new suppliers and, where appropriate, during mid-contract engagement with these suppliers.

- This will allow ABI members to confirm the status of these suppliers and use this to inform their own Scope 3 Emissions. These calculations would then be included within regulatory returns, financial reporting and any statements made as part of membership of a Race To Zero accredited initiative.
- The Transition Plans developed by ABI members will need to demonstrate how firms are adapting their business models towards Net Zero. We expect, therefore, that pro-active action to make Net Zero alignment a material factor in procurement decision-making will increasingly form part of these Transition Plans between 2025 and 2030.

### Small and Medium Sized Businesses:

- The ABI and its members appreciate that many smaller businesses – including those formally classified as SMEs and some slightly larger businesses operating within sectors that do not yet have clear sectoral transition strategies - will still be evolving their approach.
- For these smaller organisations, in line with the SBTi’s recommendations for best practice in Scope 3 Greenhouse Gas Management ([published November 2018](#)), the ABI expects its members to apply a supportive and informative approach.
- Furthermore, given that many ABI members will procure services from the same businesses or sectors, we recommend that all ABI members should seek consistency with their industry peers in how they apply this supportive and informative approach.
- The ABI will facilitate further discussions between ABI members on this and engage with counterparts in other sectors of the economy to ensure this is effective.
- High quality engagement should be based on common principles and concepts and should direct businesses within the supply chain to trusted external organisations that can help them calculate their GHG emissions and set a science-based target to align with the global Net Zero target.
- ABI members should direct SMEs within their supply chain towards The Science Based Targets initiative (SBTi)’s [streamlined process](#) for businesses within fewer than 500 employees to set Emissions Reduction Targets and then have them validated
  - For businesses that do not yet have the capacity to complete the SBTi process, an alternative option is the [SME Climate Hub](#), which provides a ‘one stop shop’ that allows businesses to make an internationally-recognised climate change commitment and join the Race To Zero
- The SBTi’s current recommendations for SMEs to set targets relating to their Scope 1 and 2 emissions.
- For scope 3 emissions, they recognise that this “requires elaborate data collection and analysis that often goes beyond the resources available to smaller companies”. They do expect SMEs to measure and reduce their Scope 3 targets, but do not require quantified targets.
- Therefore, the ABI’s recommendation is that any routine data collection from SMEs on GHG emissions focusses initially on their Scope 1 and 2 emissions.
- We do not believe it is possible to routinely insist on the provision of Scope 3 data (although this will be kept under review).

- However, where engagement with businesses in the supply chain extends beyond data collection, it is our assessment that best practice entails considering Scope 3 data – especially if an ABI member is actively building performance on Net Zero transition into procurement processes.
- To play a leadership role on climate change, firms should provide additional support to their smaller supply chain partners to help them develop their capacity – in particular, access to relevant data and evidence that can help these SMEs understand their Scope 3 emissions.

## *Timelines*

- This engagement should begin as soon as possible – many insurers are already actively engaging with their supply chain and other firms should therefore be able to learn from their experience and adopt the same goals.
- By 2025, we expect this engagement to be a routine feature of procurement processes across the sector.
- The aim of this engagement by ABI members should be to achieve one or more of the following longer-term objectives:
  1. to allow businesses within the Insurance and long-term savings’s supply chain to provide the data on their own GHG Emissions that our sector is obliged to include within its own Scope 3 Emissions targets
  2. where appropriate, to allow individual Insurance and Long-Term Savings providers to consider incorporating performance on GHG emissions reductions into their competitive procurement processes (provided this allows ABI members to meet their contractual and legal obligations to policyholders, clients and third-party claimants)
  3. where appropriate, to make informed decisions on excluding certain businesses from supply chains where they have failed to make reasonable efforts to reduce their GHG emissions
- The ABI is committed to working with our stakeholders (including Government, regulators and counterpart trade bodies representing sectors within our supply chain) to ensure that there is a common understanding of Scope 3 and that the overall reliability and consistency of this data improves.
- As initiatives such as TCFD reporting and the UK Government’s Green Taxonomy develop, we would expect a great number of businesses to be in a position to provide data covering Scopes 1, 2 and 3.