Claims Carbon

Insurance Claims Emissions

Prepared by

Espen Husstad
Shahab Zafar
Solomiia Pereviznyk

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claimscarbon.com

Emissions of insurance claims count to 1-2 % of all global emissions. Now is the time for disclosure and net zero plans for insurers.

Emissions materialize through energy and material spent repairing what is damaged in response to an insurance claim. Replacing embodied emissions through spare parts used to repair a collision damaged vehicle following an insured event is such a case. Few insurers are disclosing such emissions, and the methodology has not been widely discussed.

A material opportunity

Claims settlements are spent in many material and energy demanding industries such as Automotive, Construction and Manufacturing. Spend analytics suggest that 1,7% (640 million tonnes CO2e) of all global emissions materialize from property and casualty insurance claims. Moreover, insurers have the possibility to impact these emissions both through the terms and conditions of the insurance policies as well as their claims settlement processes.

Complements Insurance-associated emissions and emissions from purchased goods and services

Claims emissions are not covered in the Partnership for Carbon Accounting Financials (PCAF) standard for insurance-associated emissions. This is e.g. seen in the case of Motor retail insurance where the PCAF standard covers enabling tailpipe emissions in the use phase of the vehicle. This is a separate physical and economical activity from replacing embodied emissions in a vehicle in the case of an insurance claim.
Moreover, when a claim is triggered, both the insurance policy and the policyholder play a crucial role in determining how to handle the claim, in contrast to ordinary procurement processes. This means that claims emissions at the outset neither sit well under Scope 3.15 nor Scope 3.1.

1-2% of all global emissions

Insurance comes into play when a claim is filed

The claims emissions are most naturally classified as downstream since they occur after the insurance has been sold, and even after a claim has occurred.

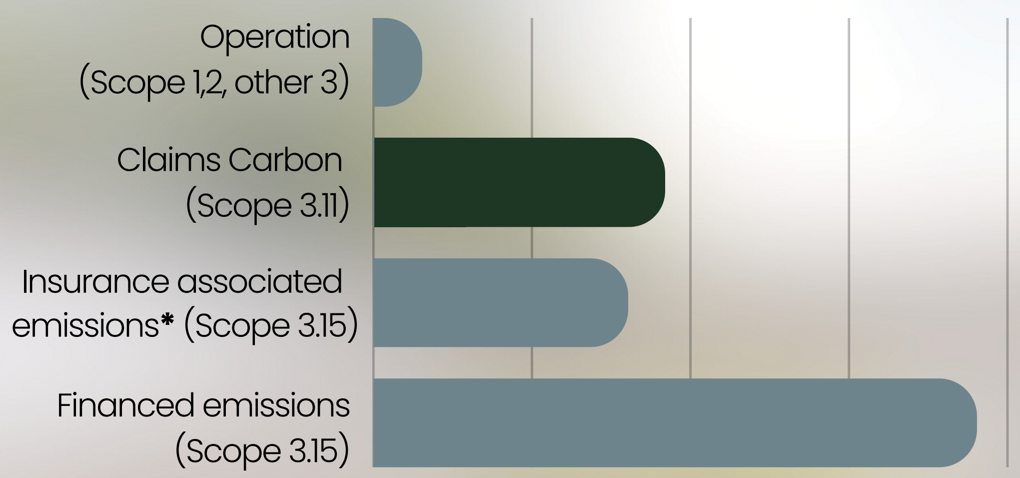
Back to back with financial reporting

Claims emissions are caused due to the use of a sold insurance product, this means that they should be reported under Scope 3.11 of the GHG Protocol. The Protocol directs companies to report expected lifetime emissions from the use of sold products within the reporting year.
There is a similarity between these instructions in the GHG protocol for "the use of the sold product" and the instructions concerning the financial disclosure of claims where all future claims of a sold insurance are assessed and disclosed in the reporting year. Thus, though insurance clearly was not in scope for this part of the protocol, we suggest classifying claims emissions as Scope 3.11. The table below illustrates how the profile of material emissions for an insurer typically look like.

Claims emissions are complex

Physical and economical consequences of insurance incidents come in all shapes and forms due to the risk nature of the insurance cover. Moreover, there is a variety of settlement processes including, but not limited to, internal claims handling departments steering repairs to suppliers, cash settlements where the customer handles the repair/replacement, casualty covers managed by other insurers through intercompany agreements and third party loss-adjusters.

Emission profile of a typical P&C insurer



Source: Claims Carbon data

**reporting of insurance associated emissions are voluntary under CSRD*

Finally, finding appropriate emission data and matching to these various activities is not straightforward.
We suggest taking a step by step approach by e.g. focusing on the following maturity levels:

Maturity level	Activity	Emissions
1	Financial Insurance and claims data for financial reporting	Spend Input/output models
2	Operational Insurance and claims data already collected and structured by most insurers for insurance operational purposes	Industry/supplier Tailored insurance models/ supplier network sustainability data
3	Climate Activity data tailored to climate purposes	Bottom-up EPD/LCA approach

We consider Maturity level 1 as a reasonable initial approach to double materiality assessment, baseline reporting and target setting under Corporate Sustainability Reporting Directive (CSRD). This allows insurers to meet the reporting deadline for the fiscal year of 2024. Maturity levels 2 and 3 offer increased accuracy and enhanced net zero planning ability, and we would expect insurers to expand external disclosures beyond Maturity level 1. Though bottom-up data availability increases, a full implementation at Maturity level 3 is not likely in the foreseeable future. Rather, hybrid combinations of the three maturity levels for various insurance claims activities, seems like a natural outcome.

Claims Carbon offers software and implementation support for the analytics of both Claims emissions and Insurance-associated emissions. Reach out to learn more:

contact@claimscarbon.com