

An aerial photograph of a solar farm with rows of blue solar panels installed in a green field. The image is transformed into a kaleidoscope pattern, creating a symmetrical, geometric design. The text is overlaid on the left side of the image.

# **Sustainable Markets Initiative** Insurance Task Force

Driving sustainable supply chains  
Best practice guidance



**Sustainable  
Markets  
Initiative**



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# This Guide

This best practice guidance is designed to support implementation of the SMI Global Supply Chain Pledge, by providing a consistent methodology for insurers around the world to encourage their suppliers to adopt sustainable practices and develop climate change targets.

By embedding sustainable practices in global supply chains it will result in more businesses having a better understanding of how they can take meaningful action to implement emission reduction strategies.

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Step 1	Calculating supply chain emissions
Step 2	Engaging with suppliers
Step 3	Reporting transparently and identifying 'hotspots' to drive further change

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## Step One: Calculating supply chain emissions

We recommend that the first step for any insurer is to calculate the shape of its emissions. Most companies start by calculating their operational Scope 1 and 2 emissions and then moving onto supply chain emissions as part of Scope 3.

By using the Greenhouse Gas (GHG) Protocol an insurer can identify where emissions sit within their carbon footprint and produce an analysis across three emission categories, commonly referred to as 'Scopes'.

There are a number of tools and resources provided for free by the GHG Protocol, including the GHG Protocol's Corporate Value Chain (Scope 3) Standard that requires minimal data collection.

In addition, a number of climate organisations are expert in helping companies navigate the GHG Protocol and help companies to collate relevant energy data and then calculate emissions to a granular level of detail in order to identify carbon intensive hotspots across a business' operations.

By identifying the level of spend a company makes within its supply chain, environmental models can calculate the emissions impact of individual items of spend. For instance, using the Extended Input-Output (EEIO) model is an option to consider.

The benefit of using routes such as this is providing a comprehensive and consistent framework for individual companies to break down their supply chain spend and identify carbon intensive areas which can influence their own supply chain engagement strategy.

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### The three 'Scopes' of emissions

Greenhouse Gas emissions are split into three categories of emissions, commonly referred to as 'Scopes' using the international accounting tool, the Greenhouse Gas (GHG) Protocol:

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<b>Scope 1</b>	This covers direct emissions firms contribute to the atmosphere from sources which a business owns or has operational control over.
<b>Scope 2</b>	These are indirect emissions a business typically uses on a day-to-day basis. For example, by purchasing electricity a firm will need to account for its production.
<b>Scope 3</b>	This covers all other indirect emissions that occur in the value chain to support a company's operations. This is where supply chain emissions sit and covers the goods and services an insurer purchases.

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## Step Two: Engaging with suppliers

The process to calculate and categorise the emissions breakdown undertaken in Step One will give insurers the granular emissions analysis to identify how and where they want to engage their supply chain.

Engagement in the first instance is primarily an information gathering exercise where insurers will start a dialogue with their suppliers to understand what progress they are making to reduce their emissions. This can focus on understanding if suppliers have:

- **Committed to setting Science-Based Target initiatives**
- **Set Science-Based Targets**
- **Assessed their Scope 1, 2 and 3 emissions**
- **Published their emissions footprint as part of external reporting obligations**
- **Taken action to embed other sustainability initiatives within their supply chain**

To start the process of engagement we recommend engaging with large suppliers first as they will likely have the highest emissions insurers will need to address and are also more likely to have started an assessment of their Scope 1, 2 and 3 emissions. The analysis undertaken in Step 1 will help insurers to guide individual strategies.

We recognise that for smaller suppliers who may be in the early stages of implementing sustainable initiatives, outlining an approach will require more time and support. For instance, larger suppliers who are signed up to Science Based Targets are expected to assess their Scope 1, 2 and 3 emissions, whereas SMEs are likely to start with an obligation to assess only Scopes 1 and 2. To assist SMEs there are supportive initiatives, such as the UK's [SME Climate Hub](#), or the [Resources](#) section of the Science Based Targets Initiative website, which includes guidance specifically for SMEs.

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## Step Three:

### Reporting transparently and identifying 'hotspots' to drive further change

As insurers gain better insight on their supply chain emissions we would expect companies to report transparently on their supply chain emissions, including where they sit within their overall procurement approach, which will also enable the identification of carbon intensive 'hotspots'.

To ensure accountability, signatories of the Supply Chain Pledge will engage suppliers in order to develop and report progress over the long-term. For some insurers this may form part of their Science Based Target reporting commitments and for others who are in the early stages of their approach it could involve using existing reporting mechanisms which guide firms.

The purpose over the long-term is to:

- **Help identify and prioritise suppliers that have lower emission footprints based on the information gathering exercise undertaken by insurers**
- **Allow consumers and clients to make informed decisions about which insurance provider offers the most sustainable supply chain options**

A further step which insurers can consider is changing their sourcing approach. There should be flexibility on how insurers do this as it will depend on individual sustainability strategies, supply chain models and should not risk commercial obligations. However, options can include increasing weighting criteria over the long term. For example:

**Short-term:** Placing positive weighting criteria on how far suppliers measure and disclose Scope 1, 2 and 3 emissions and if they are committed to Science Based Targets.

**Mid-term:** Increasing weighting criteria further where more emphasis is placed on whether suppliers publish their Scope 1 and 2 emissions and scoring is based on actual tCo2e per £revenue.

**Long-term:** Sustainability weighting is increased further and certain hotspot suppliers may no longer be invited to bid.

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