

Our Standard Recommendation for Downstream Scope 3 of Life and Non-Life Insurers and Reinsurers

Our recommendation, reinforced by discussions in 2023 with several insurers operating in France, is as follows:

1 - The downstream Scope 3 of life (excluding savings) and non-life insurance should fall under category 11 of the GHG Protocol.

Non-life insurance aims, for an insured, to perpetuate the ownership and use of their assets or the exercise of their activities, private or professional, by providing them with certainty:

- continuously, a peace of mind allowed by the guarantee of a trusted third party, and, if necessary, the satisfaction of an insurance obligation, and,
- in certain circumstances, the compensation of a claim preceded by a tailored service.

This same double value proposition remains valid for **life risk insurances**: Disability, health, with or without connection to the use of a private or professional asset.

The active role that the insurer can take during a claim that triggers its guarantee justifies that the downstream Scope 3 of risk insurance falls under category 11 of the GHG Protocol “Use of Sold Products”.

2 - To reflect an entity performance in terms of Climate impact, the allocation of downstream emissions should differ between categories 11 and 15.

The attribution of emissions should, in our opinion, be handled consistently with that used by judges in liability law. Globally, there are traditionally two doctrines in liability law for attributing damages in the presence of multiple authors:

- the theory of equivalent conditions chooses to assign a share of responsibility to all authors even if the contribution to the damage was minimal;
- the theory of adequate causation seeks to identify causes that have a sufficiently direct and foreseeable link with damage to justify attributing responsibility. Only the major actors are then held responsible.

Regarding category 15, the generally accepted choice is to adopt the theory of equivalent conditions. We therefore adopt it.

Regarding category 11, the theory of adequate causation seems more appropriate. Indeed, to respect the principle of relevance of the GHG Protocol, ***the evaluation of emission attribution must follow the rule of decisive influence.***

The application of this principle leads to:

- on one side, eliminate from the insurer's downstream Scope 3 emissions related to the use by its clients of insured goods or the exercise of activities over which it has negligible influence,
- on the other side, to retain a total (or partial in case of co-insurance) allocation to the insurer only when the insurer exercises a real influence over the choices and behaviors of the insured.

3 - For risk insurances, the downstream Scope 3 mainly stems from the compensation of claims and rare cases of subscription

For life and non-life risk insurances belonging to category 11, applying the principle of decisive influence by the insurer leads to only consider two circumstances for evaluating the emissions of downstream Scope 3 of these insurers for these activities: the compensation of claims and rare cases of subscription

A - Regarding claims management, the insurer can play a decisive role in choosing assistance, repair, or replacement solutions. For illustration:

- if the replacement vehicle for the one involved in an accident is electric rather than thermal,
- if recycled parts are used for car repairs,
- if a heat pump replaces the old gas boiler destroyed,
- if a second-hand or more energy-efficient equipment replaces a destroyed equipment,

the insured's GHG emissions will be significantly reduced during or after the claim thanks to the remediation modalities organized or proposed by the insurer.

Thus, we propose as a main principle for risk insurances to calculate the GHG emissions of Scope 3 primarily based on the compensation of claims.

According to the principle of adequate causation, the emission attribution factor related to compensation should therefore be 100%.

A lack of data for a precise calculation of these emissions both retrospectively and prospectively could be objected.

In this regard, insurers may choose between an "in concreto" approach related to their own compensation activity and a lump-sum approach based on:

- the number of claims by nature and severity bands,
- carbon intensity factors related to the nature of claims, adjusted if necessary to account for decarbonization modalities introduced in their management (transport/materials/recycled parts..),
- themselves based on parameters generally accepted by national agencies in charge of decarbonization or studies conducted by insurers' federations.

B - Regarding the use of insurance linked to the peace of mind provided by the guarantee and allowing the use of the insured asset or the exercise of an activity, it must be noted that the insurer's influence capacity is most often marginal or nil. Indeed:

- the choice of the type of asset or activity is generally made by the insured before the insurance subscription,
- competitive pressure typically gives the insured a strong position to choose their insurer rather than the opposite,
- the use of the asset corresponds to a service it provides or a value it creates. In its economic equation, the cost of insurance is most often secondary compared to other OPEX.

For illustration, the insurer has little influence on the amount of fuel consumed by the guaranteed vehicle or the amount of gas consumed by the company's guaranteed boiler.

Regarding the use linked to the peace of mind provided by the guarantee, the "attribution factor" of the insurance activity should generally be null.

Only a few rare circumstances give the insurer a real lever on the insured's decisions. These are situations where a limited offer of insurance can lead the client to question the relevance of their investment or the modalities of their activity due to its impact, prior to its implementation. This applies to:

- areas of very high risks: Space, air, maritime, and certain cases of civil liability (nuclear, specific sectors or geographies),
- territories where insurance licenses are issued sparingly,

all these contexts resulting in a market share of the insurer typically greater than 20%.

In these rare contexts, a non-null attribution coefficient can then be admitted, since the insurance offer unequivocally determines the choice to invest or launch the covered activity. We recommend that it be at the level of the net co-insurance share carried by the insurer, (the part ceded in reinsurance, not being known to the client, does not impact their behavior).

C – the activity segments to consider

In coherence with the principles previously stated:

Regarding claims, the segments to consider are those on which the insurer can exercise an influence regarding the repair or replacement modalities by the insured. This includes in particular:

- damages to private or professional properties,
- automotive damages,
- including assistance.

this excludes a priori

- life insurance,
- health insurance (except with direct health services to beneficiaries),
- liability insurance,

- business interruption insurance,
- crop insurances.

Regarding emissions linked to the mere existence of guarantees, only quasi-cartelized markets (clients x product x geography) where the insurer has a real power of influence over the strategy or operational management of the insured deserve to be considered.

For each of these segments, the total volume of emissions related to the use of the asset or the exercise of the activity must be included in the insurer's Scope 3, using the previously seen allocation factor.

Finally, each insurer must be asked to justify the inclusion or exclusion of segments based on these principles.

4 - For Savings, Retirement, and Pension Fund activities, the downstream Scope 3 of insurers falls under category 15 of the GHG Protocol.

Insurance activities of savings, retirement, and pension funds cover advisory services, periodic information, savings management, and payment of benefits. These services are assimilable to those of any other financial advisory and management activity. The indirect emissions related to the investments of this saving clearly fall under category 15 "investments" of the Scope 3 of the GHG Protocol.

5 – For Reinsurance activities, the downstream Scope 3 depends on the type of business: treaty or facultative.

Regarding emissions related to facultative reinsurance activity, the role of the reinsurer is assimilable to that of the insurer, both in terms of claims management and subscription.

It, therefore, seems relevant to classify the resulting downstream Scope 3 in category 11 of the GHG Protocol. The attribution factor, both at the level of compensation and for rare cases of subscription, should be at the level of the quota share of the risk borne by the reinsurer, gross of retrocession (the retroceded part, not being known to the client or the reinsurer, does not impact their behavior).

Regarding treaty reinsurance activity, this activity primarily aims at reducing the need for equity capital of the cedent. Consequently, the resulting downstream Scope 3 must fall under category 15 of the standard.

Following the theory of equivalent conditions, the factor for attributing emissions to reinsurers should theoretically be evaluated in proportion to the capital saved to the insurer compared to the total capital that would be required in the absence of this reinsurance. In practice, the difficulty in collecting data necessary for this calculation reliably seems to justify a temporary exemption at least for reinsurers on this part of their downstream Scope 3.

6 – For their investment management activity, the downstream Scope 3 of insurers and reinsurers falls under category 15 of the GHG Protocol.

This results from the very definition of category 15 of Scope 3 of the GHG Protocol. (Cf. Corporate Value Chain (Scope 3) Accounting and Reporting Standard - Supplement to the GHG Protocol Corporate Accounting and Reporting Standard).
