



Challenges of integrating sustainability in insurance claims fulfilment

This document examines the challenges for insurers and carriers when it comes to promoting sustainability. It gives a high-level overview of sustainability within Crawford & Company[®] and Contractor Connection[®], with a focus on the Contractor Connection Foundation.

Due to the nature of its services, the insurance industry is intrinsically linked with the dangers of climate change and disaster recovery. Globally, the sector helps to spread risks for millions of customers, including businesses and governments, where it manages over \$30 trillion in assets (Surminski, Robins, & Irwin, 2018). It, therefore, has an unquestionable part to play in achieving environmental sustainability; and is actively supporting initiatives such as the Principles of Sustainable Insurance (PSI), a global sustainability framework of the United Nations Environment Programme Finance Initiative (UNEP FI) launched in 2012.

However, in reality, there is a gap between the stated PSI and how these are translated and implemented at an individual property claim level, especially when in need of reinstatement repairs following a loss. In these situations, insurers face a paradox between following the PSI approach or its ultimate obligation to put the policyholder back in the position they were before the loss happened. This is mainly due to the limit of indemnity not allowing for any sustainable methods of construction or use of green materials to be included in the settlement calculation, especially if they would be at a greater cost than a “like for like” repair.

This paper will examine this problem in greater depth and propose ways in which insurers may look to place claims going forward that would support their sustainability targets and obligations. And, in turn, detail what Crawford Contractor Connection[®] is doing to improve its own sustainability best practice methods.

Introduction

One of the fundamental aspirations laid out in the PSI is that the industry must play its part in addressing the “increasing environmental, social and governance (ESG) challenges”. To do that, it states four adoptable principles for the industry to follow and promote across its “spheres of influence”, whilst also recognising it cannot address all ESG issues (UNEP FI, 2012, p. 3)

The principles are:

1. We will embed in our decision-making, environmental, social and governance issues relevant to our insurance business.
2. We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.
3. We will work together with governments, regulators, and other key stakeholders to promote widespread action across society on environmental, social and governance issues.
4. We will demonstrate accountability and transparency in regularly disclosing our progress in implementing the principles publicly.

To support this initiative, many major insurers have developed their own screening procedures and frameworks to test whether their insurance products and investments represent a risk of impact on any ESG issues. (UNEP FI, 2020). However, their own supply chains also need to be aligned to these principals; otherwise, they may not be compliant and will inadvertently create an increased risk for the insurer from those outsourced functions.

Although many of the principals are high level and aspirational, there are implications for those insurers, carriers and suppliers at an individual claim level. For example, Principle 1 states that claims management should “integrate ESG issues into repairs, replacements and other claims services” (UNEP FI, 2020, p. 28). However, Opoku, Ahmed (2014) has estimated that sustainable building materials can cost

on average 25 percent more than traditional mass-produced types typically used by contractors when completing “like for like” repairs under a building insurance claim. How then can insurers ensure they comply with the PSI principles when the repair costs, incorporating sustainable measures, exceed their limit of indemnity?

UK insurance repair claims and sustainability

The challenge of integrating sustainable measures in claim settlements

In the UK, buildings and contents insurance policies are usually policies of indemnity, meaning they aim to put the policyholder back in the position they were before the loss happened (Financial Ombudsman Service, 2020). The ways in which valid claims can be settled are:

- Repairing the damage.
- Replacing something lost or damaged.
- Paying cash to cover the cost of repair or replacement.

Generally, though, the limit of indemnity does not allow for any sustainable methods of construction or use of sustainable materials to be included in the settlement calculation, especially if they would be at a greater cost than a “like for like” repair – as argued by Opoku, Ahmed (2014) and Kansal & Kadambari (2010, p 311)

Unlike new build schemes, where environmentally friendly/sustainable materials and methods can be specified, the majority of reinstatement works undertaken in the insurance sector merely replaces what was damaged as part of the claim. This, therefore, can inhibit the use of many more sustainable materials from being used, as the abiding principle is “like for like” replacement, with anything else being classed as betterment.

However, there are claim settlement situations where this is possible, especially with materials like timber (where sustainable products are frequently used) or when rebuilding brick walls (where reclaimed bricks



can be utilised). Unfortunately, without this approach being mandatory, it is generally left to the best practice methods being applied by the fulfilment contractor, even if sustainable materials are approved by the insurer, and will ultimately be driven by cost and profit.

In comparison, the larger loss repair schemes, such as flood and fire damaged properties (especially those that go to tender – typically >£50k), do have more scope to include sustainable materials and methods. Although this largely depends on the design specification detailed by the Surveyor/ Architect for the project, which in turn will need agreement from the insurer. Other opportunities exist where contents replacement allow for new eco-friendly appliances to be purchased and fitted as a replacement for those deemed beyond economic repair.

In addition, some insurers have put more emphasis on “repair over replacement” philosophies, using specialist cosmetic repair companies to fix the damage rather than replace the item. By reducing the volume of replacement items, this service saves on waste disposal and reduces the carbon footprint of the claim. Although not the panacea to all situations, it does serve as a viable repair option (albeit on small scale repairs) where circumstances allow.

Repair schemes in insurance claims are predominantly calculated using Schedules of Rates (SoRs) based upon “standard” material costs. And with pressure being more on efficient claim handling than sustainability, there is only one winner when it comes to deciding which preference is taken. However, the OECD paper on “Building Back Better” (OECD, 2020) argues that the recent economic crises have shown that “prioritising short-term economic growth and efficiency over long-term resilience can have huge societal costs”.

Although the Return on Investment (ROI) benefits of using sustainable materials can be as much as 50 percent over the life of the building (Kansal & Kadambari, 2010), unfortunately, that is not



something that is considered in this sector – unlike infrastructure and new build projects. An additional advantage is sustainable buildings normally increase in value by as much 20 percent (Ramboll , 2019).

The UK construction industry and sustainability

The construction industry has been slow to respond to its “Corporate Responsibility”, but increasing regulation in areas (such as carbon emissions and waste) is forcing companies to improve their processes. And many clients are now beginning to demand responsible approaches to design and construction (Constructing Excellence, 2008). In the UK, construction uses about 400 million tonnes of natural resources and produces approx.100 million tonnes of waste (circa 33 percent of the UK total) with 25 million tonnes disposed into landfill (WRAP, 2020) much of which is also hazardous and polluting. Being slow to change is both costing money and reducing sustainability. In addition, this usage/wastage accounts for nearly 40 percent of energy-related carbon dioxide (CO2) emissions, while also having a significant impact on natural habitats (Construction Enquirer, 2020).

One of the findings in a study by Dobson et al. (2013), was that the UK construction industry lacked sufficient knowledge about its working practices and

subsequent impacts on the environment – and that more needs to be done to educate construction firm employees to raise awareness. Recently, however, the increased awareness of some of the UK’s larger construction companies such as Morgan Sindall, Wilmott Dixon and BAM Nuttall, has led to the formation of the UK Contractors Declare initiative (contractorsdeclare.co.uk) to drive this much-needed change in the industry.

Growth in sustainable procurement

In recent years, the UK Government has signed up to the Paris Climate Agreement, committing itself to zero greenhouse gasses by 2050. A knock-on effect of these targets has been the introduction of The Social Value Act which placed a responsibility on local authorities in England to consider social value in service contracts above a certain threshold; a result of which has seen local authorities each develop their own procurement policies in line with the act. In fact, according to research conducted by Social Enterprise UK in 2016, a third of all local authorities now routinely consider social value in their procurement and commissioning process. The weighting of this element in these public procurement tenders is typically between 10–15 percent, but for some authorities, such as Manchester City Council, this can be as high as 20 percent.

The Crawford & Company sustainable approach globally

Crawford & Company is the world's largest publicly listed independent provider of global outsourced claims management solutions to carriers, brokers and corporates, operating in more than 70 countries with more than 9,000 employees. Handling circa 1.6 million claims per year.

The Crawford & Company Code of Business Conduct and Ethics states:

“As part of being a responsible corporate citizen, Crawford does its part to protect the environment in the communities where we live and work. We must always have an eye towards sustainability, making every effort to use natural resources wisely, and we must also ensure that our Company follows all related laws and regulations.”

To supplement this is Crawford's purpose to “Restore and enhance lives, business and communities”, delivered through our values of RESTORE. Each of the letters of RESTORE represents a deep-seated value we all live by, irrespective of which country or division we operate in. The letter “S” represents Sustainability, meaning we “focus on corporate social responsibility, giving back and being good stewards in our communities.”

Crawford believes in minimising environmental impact and takes meaningful steps to ensure its processes are efficient and sustainable. At Crawford, we incorporate sustainability criteria into our purchasing policies, from selecting vendors that offer eco-friendly solutions to using fuel-efficient, lower emissions fleet vehicles. We have implemented programs to reduce energy consumption in our data centres and use audio and video conferencing to reduce travel impacts. Every administrative and operational process is carefully reviewed to potentially reduce our carbon footprint.

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Corporate Social Responsibility (CSR)

Crawford believes in giving back to the communities it serves and responsibly stewarding its resources. Just a few examples of the initiatives we undertake are:

- Engaging in our Global Day of Service, where Crawford employees and their families come together to support charities and outreach efforts around the globe.
- Continuing to support charities with donations, in alignment with our purpose to restore and enhance lives, businesses, and communities.
- Contributing a yearly CSR donation to Child Focus.
- Making charitable donations to an association which helps disabled people.
- Being involved in an initiative with The Woodland Trust, where we pay for trees to be planted for every one cut down, as part of the remediation of a subsidence claim in the UK.
- Setting up the Crawford Contractor Connection Foundation to work with charities and organisations to promote diversity, inclusion and opportunity for people – as well as supporting Insurance against Dementia, which has committed to raising £10 million for research into the disease.



Environmental

Crawford acknowledges the impacts of its activities on the environment at a local, national, and global level. We, therefore, seek solutions to environmental problems by adopting sound principles and best practice according to the principles of sustainable development.

We are committed to:

- Promoting the protection of the environment and minimising the impact of all of our activities upon the environment.
- Integrating environmental management policies and practices into every level and every Crawford department.

This encompasses many facets of Crawford's global operation, details of which are beyond the scope of this document, but a sample list of areas under consideration would be:

- **Premises** – energy-efficient offices.
- **Heating, energy and water consumption.**
- **Waste** – paper management, using electronic data where possible, recycling of plastics, IT equipment.
- **Transportation** – car sharing, public transport.
- **Homeworking.**
- **Audio/video conferencing** – Crawford Contractor Connection's Supply Chain Requirements and Standards.
- **Network** – Recruit local contractors who employ from the local labour market to minimise travel distances and reduce carbon emissions.

Crawford Contractor Connection

Contractor Connection, being part of Crawford, abides by all of the above corporate guidance in its daily activities. However, as Contractor Connection utilises the services of an outsourced supply chain to undertake construction, environmental, drainage, stabilisation and other specialist works, it is imperative that its values and working practices are effectively being delivered in alignment with Crawford's position. To achieve this, we undertake several approaches:

- Communicate and embed our corporate Purpose, Vision and Values to all suppliers, both initially as part of the rigorous onboarding process and subsequently via contractor forums, audits, and in general communications.
- Choose suppliers based on their adoption of good environmental practice concerning the selection of materials, the work undertaken, and removal and segregation of waste etc.
- Ensure all suppliers must have their own Environmental Policy, detailing good practice approaches to waste management, sustainable materials, carbon reduction, and efficient work planning etc.
- Undertake audits of contractors to ensure compliance with their own procedures and our practices.

Contractor Connection network sustainability survey

Contractor Connection has recently surveyed 66 members of its repair network, regarding environmental and sustainability measures, and received responses from 30 (46 percent).

100%

of respondents have their own Environmental Policy which has been witnessed.

100%

of respondents have a named senior person responsible for applying its policy.

9%

of contractors have ISO 14001 Environmental Accreditation.

20%

of contractors are actively looking at the future purchase of electric vehicles and vans.

“We try to identify materials which can be re-used on all jobs to minimise waste/delivery and environmental impact.”

We also asked contractors to stipulate some of the environmental principles they apply when conducting insurance claims. Some of the responses we received are listed below:

“We try to identify materials which can be re-used on all jobs to minimise waste/delivery and environmental impact.”

“We encourage vehicle sharing with staff to reduce miles driven and fossil fuel usage.”

“We try to measure materials pre-job, which will cut down into the required pieces, in an attempt to reduce waste and offcuts of surplus materials when sheets or lengths of timber are bought oversized. This reduces manufacture costs and landfill costs.”

“Segregated waste streams wherever feasible on-site.”

“All our materials are sourced from sustainable, responsible suppliers.”

“Site induction meetings are conducted identifying environmental considerations.”

“We always plan our works to ensure the trades we use are as close as reasonably possible to the site – this reduces the impact of emissions into the air and also reduces long driving hours, so our people are safe at the wheel.”

All contractors report direct benefits from this way of working, including savings in fuel costs, more efficiency due to careful planning, and a significant reduction in waste.

The Crawford Contractor Connection Foundation

To improve our own sustainability, Contractor Connection launched its Foundation in September 2018 to address some of the industry issues discussed above, including the challenges of labour shortage and a male-dominated demographic. Through the work of the Foundation, we have been able to create highly valuable partnerships with several influential bodies. These include the National Association of Women in Construction (NAWIC), which champions female construction workers; Women in Construction and Building Heroes, which retrains military veterans as tradespeople. To help overcome challenges relating to labour shortages, we have also set up a general apprenticeship scheme where for every £500,000 of business we provide to a particular contractor we encourage that organisation to employ an apprentice – either one they source themselves or a recent trainee from NAWIC, WIC or Building Heroes.

In addition, we have partnered with the UK Green Building Council (UKGBC), a UK construction industry-led network with a mission to improve the sustainability of the built environment radically. It also lobbies government to promote a greener and more socially fair environment in the residential and commercial construction sectors. The UKGBC and Contractor Connection collaborate to learn and implement sustainability best-practice methods within our contractor network. Furthermore, the council speaks at our national conference and holds workshops/seminars for our contractors to understand more about their own impacts on the environment, and how small changes in the practices can make a big difference. As an example, one of the key messages it communicates is the alarming fact that 13 percent of products delivered to construction sites are sent directly to landfill without ever being used! This is an eye-opener for contractors and gets them to consider how well they plan their materials and projects to reduce waste and improve profitability. Especially important in today's post-Brexit world, when material costs are expected to increase (UKGBC publication, 2019).

Contractor Connection and UKGBC are investigating ways in which their work can support the Foundation and its members further in the coming years, such as participating and contributing to the UKGBC Contractors Forum: www.ukgbc.org/ukgbc-work/contractors-forum/.

The judges said,
“Tackling diversity and inclusion in a difficult sector, Crawford Contractor Connection was the standout entry in this category.”

Industry Awards for Contractor Connection Foundation

Contractor Connection is immensely proud of its Foundation and was pleased to be recognised at three Insurance Industry Award evenings in 2019:

Insurance Times Awards – Gold Winner for Diversity & Inclusion Excellence.

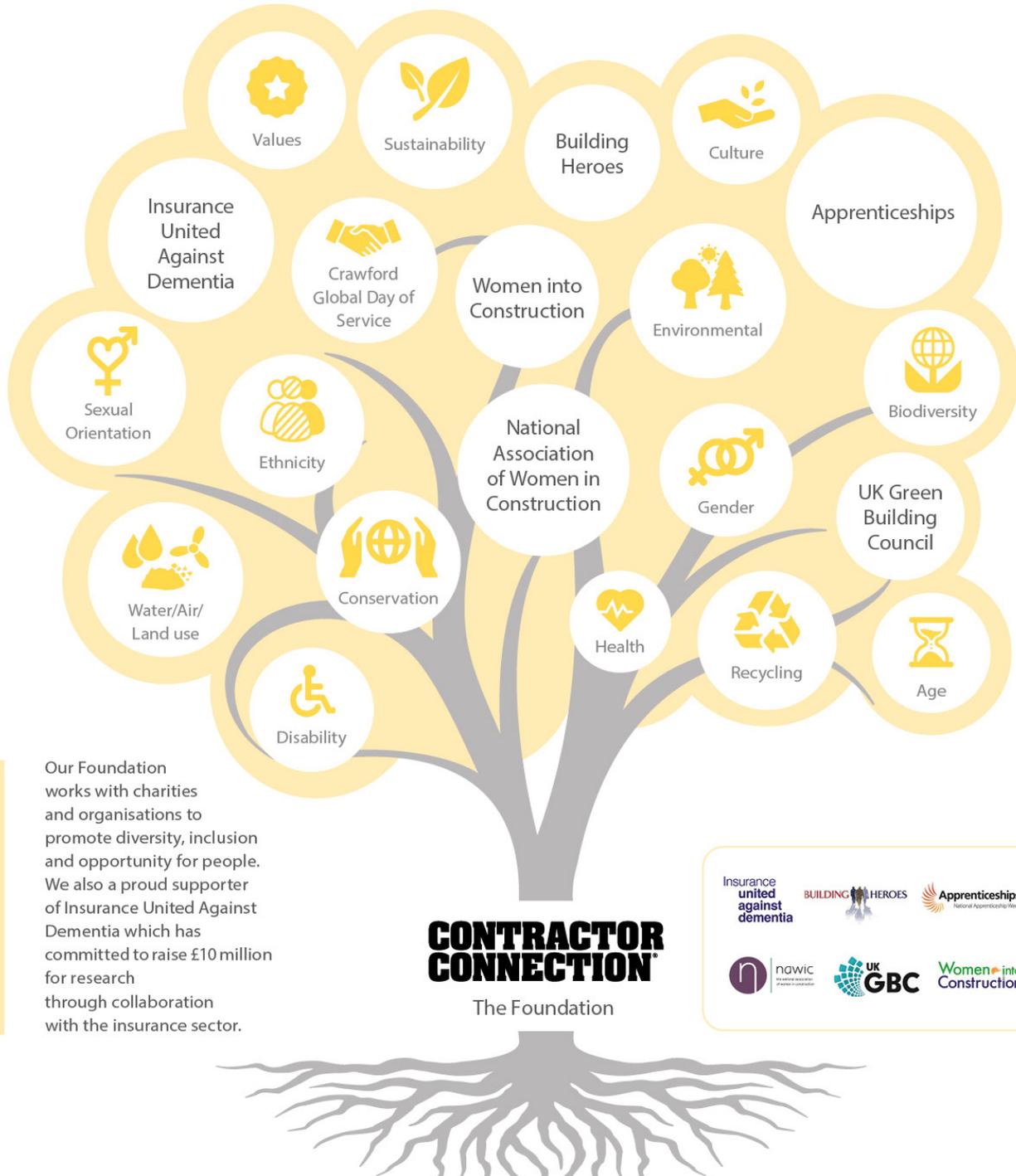
British Insurance Awards – Finalist in the Business Sustainability/Corporate Social Responsibility Initiative of the Year Award.

Women in Insurance Awards – Highly Commended Contribution to Gender Diversity.

The judges said, “Tackling diversity and inclusion in a difficult sector, Crawford Contractor Connection was the standout entry in this category.”

DOING THE Right THING.

Crawford Contractor Connection believes we have a duty to give back to the communities we serve and be responsible stewards of our resources. Our commitment to our clients and our communities is best demonstrated through our actions.



Our Foundation works with charities and organisations to promote diversity, inclusion and opportunity for people. We also a proud supporter of Insurance United Against Dementia which has committed to raise £10 million for research through collaboration with the insurance sector.





Recommendations for integrating sustainability into insurance repairs

As we have seen, carriers and clients, as well as organisations like Crawford & Company, face a paradox of needing to integrate solutions/comply with initiatives such as the PSI and cost management at an individual claim level. This is not an easy fix, but some of the measures all stakeholders can take are:

Insurance sector

- Collaborate and develop industry best practice on the use of sustainable measures in property repairs – similar to the work historically undertaken in the motor claim sector (UNEP FI, 2007).

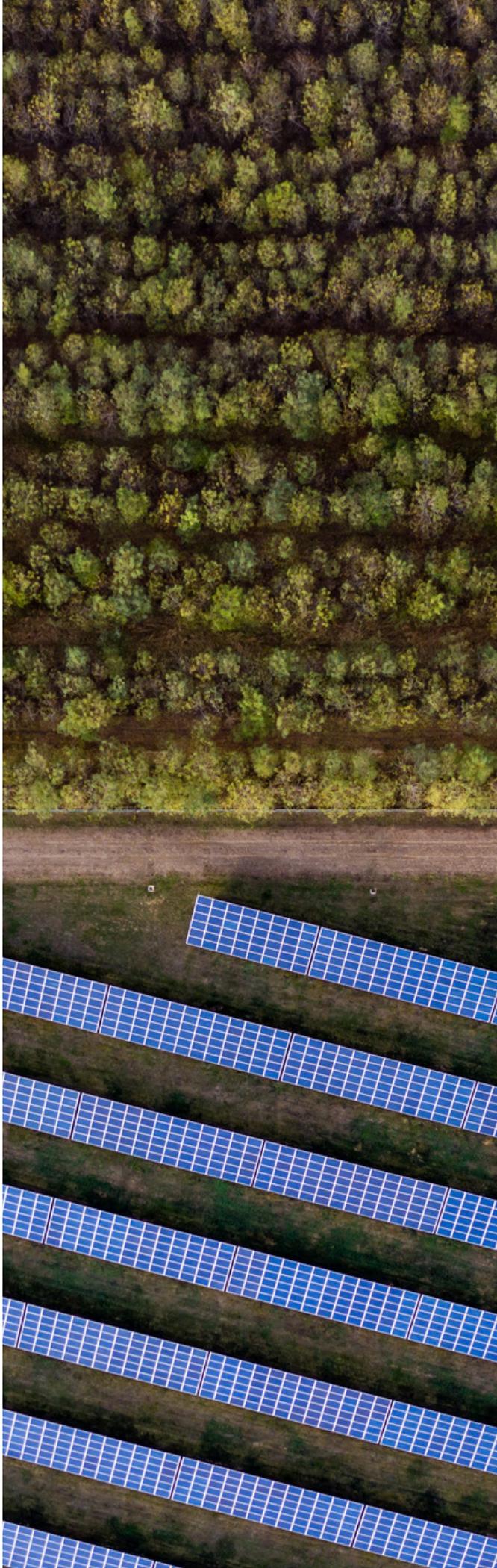
Clients

- Adapt schedule of work pricing tools to incorporate sustainable materials wherever possible.
- Utilise supply chain solutions that have a clear sustainable strategy for fulfilling claims in a green way – loss adjusters, third party validation, claims fulfilment networks, surveying services etc.

- Adapt contracts and make them more dependent on effective sustainability management/adoption by suppliers and their own costing models.
- Introduce performance metrics to assess sustainability measures and environmental impact savings within clients' supply chains.
- Ensure underwriting take into account properties that brought up to recommended sustainable standards upon policy renewal.

Supply chains

- Introduce centralised buying/procurement to drive down costs of green/sustainable materials on behalf of contractors and suppliers.
- Improve recruitment and on-boarding of suppliers to increase sustainability awareness and methods.
- Introduce performance metrics to assess sustainability measures and environmental impact savings.
- Promote/mandate environmental accreditation (e.g. ISO 14001) for supplier qualification.



Suppliers

- Work with supply chain networks in the promotion of sustainability techniques and training/adoption.
- Obtain sustainability accreditation for staff and introduce incentives for compliance.
- Apply best practice to promote sustainability.
- Amend procurement practices in line with sustainable requirement standards.
- Train/mandate suppliers' own supply chains to be more environmentally aware.

Summary

One of the buzz phrases in Supply Chain Management (SCM) today is Supply Chain 4.0. This references the growing intelligence of SCM using technological advances such as the Internet of Things, advanced robotics, analytics and big data to jump-start performance and customer satisfaction (Alicke, Rexhausen, & Seyfert, 2020). One of the key “four pillars” of Supply Chain 4.0 is having a “Sustainable Supply Chain”. Journals such as Supply Chain Management Review and Supply Chain 247.com go further, stating that clients will look to employ greater resilience in their supply chains as they rethink their supply strategies, with sustainability being an integral part, especially post-COVID-19.

As demonstrated in this paper, Crawford and Contractor Connection are very aware of their social responsibility. We believe strongly in being sustainable and giving back to the communities we serve. From our Global Day of Service, where every October Crawford employees worldwide join together in service of their communities, to our embedded values of RESTORE, where the “S” means Sustainability, we take our responsibilities seriously.

The Contractor Connection Foundation is an award-winning initiative seeking to bring together charities and other companies that share the same

philosophy of being kinder to the environment and working in collaboration to challenge each other and the status quo. We will further develop the Foundation as necessary to ensure it stays relevant and can meet the challenges of the sector.

This paper has highlighted the challenges faced by the insurance sector in meeting its own obligations of the PSI and balancing out its limit of indemnity in settling claims. However, market forces will drive down costs of green materials and services as long as the use is specified and allowed in fulfilling insurance claims. Otherwise, the sector will always be battling the paradox.

By adopting the recommendations stated above, the industry will address some of these challenges. And by partnering with organisations such as Crawford and Contractor Connection, it can create and adopt best practice for the entire industry to follow in the future.

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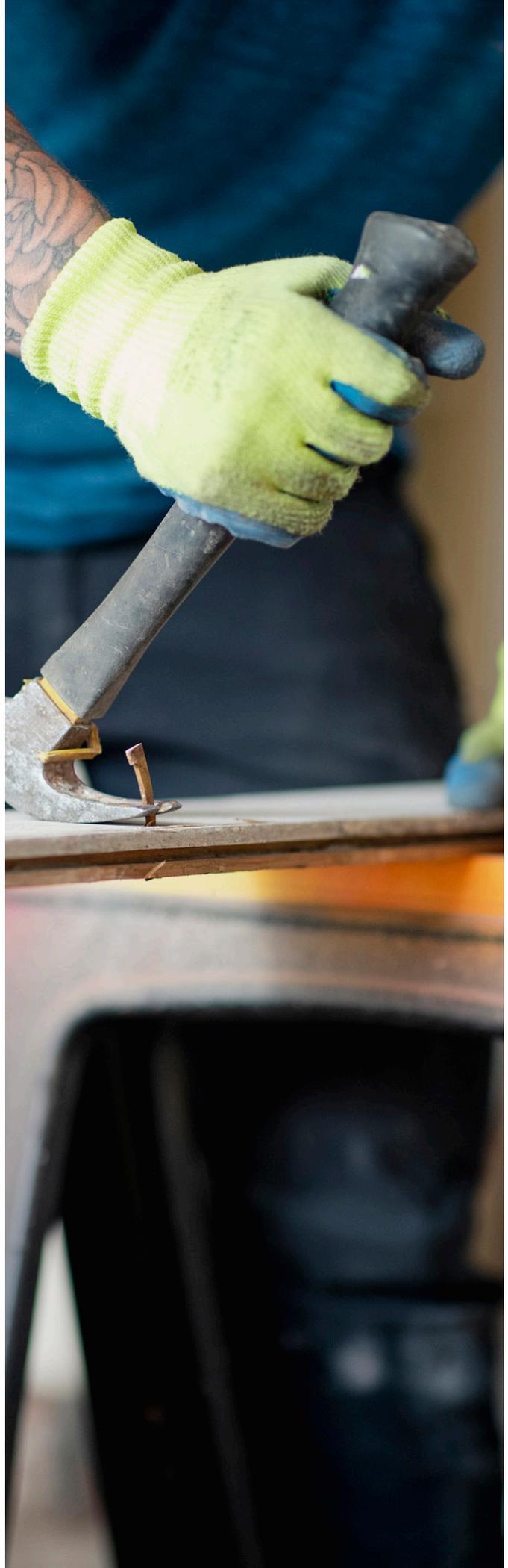
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About Crawford & Company[®]

For over 75 years, Crawford has solved the world's claims handling challenges and helped businesses keep their focus where it belongs – on people.



Loss
Adjusting



Third Party
Administration



Managed
Repair



Medical
Management



On-Demand
Services



Catastrophe
Response

9,000 employees | **50,000** field resources | **70** countries | **\$18B+** claims managed annually