INSURING COAL NO MORE

The 2018 Scorecard on Insurance, Coal and Climate Change

December 2018

Unfriend COAL

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This report and further information on coal insurance are available at **https://unfriendcoal.com/**

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EXECUTIVE SUMMARY

Our future wellbeing depends on a swift end to the use of coal, the single biggest source of carbon emissions. The latest report from the UN's Intergovernmental Panel on Climate Change found that in order to limit global warming to 1.5°C we must phase out at least 59% of coal power worldwide by 2030 and reduce it effectively to zero by 2050.[1]

The IPCC calls for a "rapid and far-reaching transition" of unprecedented scale to a low-carbon economy.[2] Yet, in the three years since the Paris climate summit set the 1.5°C target, 92 GW of new coal power has been built worldwide. A further 1,380 new coal-fired power plants with a combined capacity of 672 GW are currently under construction or in the pipeline.[3] Completion of these projects would make it impossible to avoid climate collapse.

Insurance companies are in a unique position to accelerate and scale up the required transition to a low-carbon economy. As risk managers they play a silent but essential role in deciding which types of project can be built and operated in a modern society. Without their insurance, almost no new coal projects can be financed and built, and existing facilities will have to find new ways of managing their risks or close. If a project is not insurable, it's not bankable.

Insurers are huge investors with approximately $31 trillion of assets under management, and hundreds of billions of dollars invested in the fossil fuel sector.[4] Their decisions to support fossil fuels or low-carbon technologies help shape the global economy.

They have warned about the risks of climate change for decades, particularly in Europe. Continuing to support the coal sector is incompatible with the industry's public positions on climate change, and with its fundamental mission to protect its customers from catastrophic adverse impacts.

Last year the Unfriend Coal campaign, in its first Scorecard on Insurance, Coal and Climate Change, showed how the world's biggest insurers are starting to pull out of coal. This year's scorecard finds that action has accelerated as more companies have joined the trend and early movers have strengthened their policies.[5]

> "A 2°C World Might Be Insurable, A 4°C World Certainly Would Not Be"
>
> (Henri de Castries, former Chairman and CEO, AXA, 2015)

Insuring Coal No More analyzes the evolving role of the global insurance industry in the coal sector and the transition to a low-carbon economy. It focuses on 24 major insurers, assessing and scoring their policies on coal insurance and divestment, and other aspects of climate leadership. (See the illustration on page 4 for a list of the 24 companies.) The report highlights progress and gaps, calls out leaders and laggards, and identifies challenges and opportunities for the year ahead.[6]

1 Intergovernmental Panel on Climate Change, Global Warming of 1.5°C, October 2018
2 Ibid., Summary for Policymakers, p. 22
3 CoalSwarm, Global Coal Plant Tracker, updated by Urgewald
4 See Simons, M. and J. de Wilde, The Involvement of European Insurance Groups in the Fossil Fuels Sector, Profundo, April 2017; Cynthia McHale and Rowan Spivey, Assets or Liabilities? Fossil Fuel Investments of Leading U.S. Insurers, Ceres, June 2016

5 The term "policies" refers to binding operational guidelines, not insurance contracts in the context of this report.
6 While the focus of the report is on coal, it also scores the role of insurers in underwriting tar sands, the most carbon-intensive form of oil, and other extreme fossil fuels.

INSURANCE COMPANIES ASSESSED IN THIS REPORT

PROGRESS IN THE LAST YEAR:

- Europe's four biggest primary insurers have now limited insurance cover for coal, as Allianz and Generali joined the early movers AXA and Zurich. The traditional power sector underwriter XL Catlin also halted services to coal projects when it was acquired by AXA. The market share of non-life insurers that have limited support for coal more than doubled from 3.1% in 2016 to 7.3% in 2018.[7] (Their market share in commercial property and casualty insurance is likely higher.)
- Reinsurance giants Swiss Re and Munich Re also limited cover for coal, joining SCOR, which took limited action last year. The market share of non-life reinsurers which have restricted their support for the coal sector increased from 3.8% in 2016 to 33.4% in 2017.[8]
- At least 19 major insurers have now divested from coal.[9] Generali, Lloyd's, Hannover Re and French insurers AG2R La Mondiale and Groupama announced new policies, while AXA, Allianz and Munich Re strengthened earlier policies. The combined assets covered by divestment policies increased from $4 trillion to more than $6 trillion, or from 13% to 20% of the insurance industry's global assets.

Leading power insurance brokers report that the contraction of coverage for coal projects has begun to impact their market. In its 2018 Mining Risk Review, insurance broker Willis Towers Watson warned that finding insurance for coal "is likely to become increasingly challenging – especially if North American insurers begin to follow the European lead".[10]

7 Based on figures from Fundación Mapfre, 2017 Ranking of the Largest European Insurance Groups

8 Based on A.M.Best, World's Largest Reinsurers, September 5, 2017, exhibit 1

9 The 19 companies are: Aegon, AG2R La Mondiale, Allianz, Aviva, AXA, California State Compensation Insurance Fund, CNP, Generali, Groupama, Hannover Re, Lloyd's, the Markel Corporation, Munich Re, Natixis, Oslo Pension & Insurance, SCOR, Storebrand, Swiss Re, and Zurich. They all have assets of at least $10 billion except Lloyd's, see footnote 29. The Markel Corporation has indicated its divestment in a survey by the California Department of Insurance but has not confirmed it in public.

10 Willis Towers Watson, 2018 Mining Risk Review

This report awarded the highest scores to Swiss Re ahead of Generali, Zurich, Allianz and AXA for their underwriting policies. Swiss Re got high marks because its policy covers not only coal but also tar sands and other extreme fossil fuels, addresses new and existing projects, and unlike in the case of most of its peers, covers both facultative and treaty reinsurance.

The report awarded the highest scores to Swiss Re ahead of AXA, SCOR and Zurich, and Allianz for their divestment policies. Swiss Re again stood out because its divestment policy also covers companies involved in tar sands exploitation and Arctic drilling.

The highest scores for other climate leadership efforts were awarded to AXA, ahead of Aviva and Zurich, and Allianz and Swiss Re. AXA received high scores because it actively advocates for climate action in public and in international bodies, is strongly involved in the Task Force on Climate-related Financial Disclosures (TCFD), and has made climate change a Board-level topic.

GAPS AND LOOPHOLES

While the shift by insurers away from coal is positive and promising, it needs to be broadened and deepened to reach critical mass:

With the exception of Hannover Re, Mapfre and the Lloyd's insurance market, all leading European insurers assessed in this report have ended or limited insuring coal. They have all also divested from coal, are engaging with coal companies or at a minimum have ceased making new investments in the coal sector.

In contrast, no leading US insurers have taken action on coal. Companies like AIG, Chubb, Liberty Mutual and Berkshire Hathaway continue to underwrite and invest in the industry.

Asia-Pacific insurers continue to insure and invest in coal, although there are the first signs of change. Three of Japan's largest life insurance companies, Nippon, Dai-Ichi and Meiji Life, have announced they will no longer fund new coal projects. Australia's QBE is currently reviewing its coal underwriting and investment policies.

Even the coal exit policies of European insurers contain large loopholes. Some fail to cover leading coal developers because their definition of coal companies is exceedingly narrow. Others do not apply to certain types of insurance (e.g. treaty reinsurance) or only restrict certain coal projects (e.g. lignite power plants). Most divestment policies do not apply to assets insurers manage on behalf of third parties – more than $1 trillion in the case of Allianz.

Several insurers have not published their coal policies, or only in the form of general principles. This makes it difficult to hold them to account for their commitments. Veteran insurance practitioners have expressed doubts whether insurers are consistently applying the policies they have adopted.

> "It is very very important that we change our business model and prepare for a carbon-free economy."
>
> (Oliver Bäte, CEO, Allianz, 2018)

ABOUT THIS REPORT

This is the second scorecard on insurance, coal and climate change published by the Unfriend Coal campaign. It analyses the evolving role of the global insurance industry in the coal sector and the transition to a low-carbon economy. It focuses on 24 leading insurers, assessing and scoring their policies on insuring and investing in coal, and other aspects of climate leadership. It highlights progress and gaps, calls out leaders and laggards, and identifies challenges and opportunities for the year ahead.

Twelve organizations active in the Unfriend Coal campaign presented their recommendations to the insurance companies in May 2018, requesting a response by September 24. In August, the campaign shared a questionnaire and a list of criteria detailing how policies would be scored with the companies. By the end of October, 18 of the 24 companies had responded to the NGO letter and questionnaire.[11] The responses and other publicly available information were analyzed and scored by Profundo, a research consultancy, in cooperation with the Unfriend Coal campaign.

All scores were shared with the respective companies before the report went to print. An explanation of the scoring methodology and a list of all documents which were used to prepare the scores are available at https://unfriendcoal.com/2018scorecard/.

11 Axis Capital, W.R. Berkley, Berkshire Hathaway, Chubb, Liberty Mutual and MetLife chose not to participate in the scorecard process. AIG responded to the Unfriend Coal campaign but without offering any substantive information. These companies' policies were analyzed and scored based on publicly available information.

TAR SANDS INSURANCE

Extracting and producing tar sands causes very high carbon emissions, poses massive risks to ecosystems and public health, and almost invariably violates Indigenous rights. There is no credible path to achieving the goals of the Paris Agreement while locking in massive new emissions for decades by developing additional tar sands and pipeline projects.

Extracting, processing and transporting tar sands is highly capital intensive. Developers will only be able to raise the funds and receive the permits for new tar sands infrastructure if they can transfer significant risks to insurance companies. Tar sands insurers include large multiline insurers such as AIG, Chubb, Liberty Mutual and Zurich as well as specialty insurers often operating through the Lloyd's market.

In May 2018, 12 organizations engaged in the Unfriend Coal campaign called on the insurance industry to stop underwriting and divest from the tar sands sector. So far, only two carriers – AXA and Swiss Re – have stopped or limited insuring tar sands projects.

SCORING GRID

	COUNTRY	COAL INSURANCE		COAL DIVESTMENT			OTHER CLIMATE LEADERSHIP	
		RANK	SCORE	RANK	ASSETS*	SCORE	RANK	SCORE
Swiss Re		1	5.3	1	$156 bn	6.5	4	7.8
Generali		2	3.9	6	$581 bn	4.2	7	5.2
Zurich		3	3.6	3	$276 bn	4.8	2	8.3
Allianz		4	3.2	5	$649 bn	4.3	4	7.8
AXA		5	2.5	2	$1,723 bn	5.7	1	8.7
SCOR		6	1.7	3	$18 bn	4.8	7	5.2
Munich Re		6	1.7	8	$268 bn	3.7	12	3.5
Mapfre		8	0.7	10		2.3	17	1.3
Hannover Re		9	0.0	7	$64 bn	4.0	16	1.7
Lloyd's		9	0.0	9	$4 bn	3.5	13	2.6
Aviva		n/a		11		1.7	2	8.3
Legal & General		n/a		12		0.4	6	6.1
QBE		9	0.0	13		0.0	9	4.8
Sompo		9	0.0	13		0.0	10	4.3
Tokio Marine		9	0.0	13		0.0	11	3.9
Prudential		n/a		13		0.0	14	2.2
TIAA Family		n/a		13		0.0	14	2.2
AIG		9	0.0	13		0.0	18	0.9
Chubb		9	0.0	13		0.0	18	0.9
MetLife		n/a		13		0.0	20	0.4
Axis Capital		9	0.0	13		0.0	21	0.0
W.R. Berkley		9	0.0	13		0.0	21	0.0
Berkshire Hathaway		9	0.0	13		0.0	21	0.0
Liberty Mutual		9	0.0	13		0.0	21	0.0

KEY Multiline insurance | Primarily reinsurance | Primarily life insurance

The maximum score for each column is 10.

* "Assets" refers to insurers' assets covered by divestment policies.

RECOMMENDATIONS

Just as it is no longer acceptable for pharmacies to sell tobacco, insurance companies risk losing their public credibility if they continue to underwrite and enable coal and tar sands projects, which are inconsistent with a 1.5°C goal. To demonstrate they are serious about climate change, insurers need to take the following actions:

1. Immediately cease underwriting coal and tar sands projects and companies.[12] (Exceptions should be made for companies engaged in a just and rapid low-carbon transition that would normally take no longer than two years, and workers' compensation policies.)
2. Immediately start divesting from coal companies and companies developing projects to extract and transport tar sands. Divestment should include insurers' own assets as well as assets managed on behalf of third parties.
3. Quantify the carbon footprint of investments and insurance activities and reduce the overall footprint of their companies' activities in line with a science-based path which limits average temperature increases to 1.5°Celsius.
4. Scale up investments in and develop insurance products for clean energy companies and projects that follow international human rights, indigenous rights, social and environmental standards.

12 See the Criteria for strong coal and tar sands exit policies on page 15 for definitions of coal and tar sands companies.

GROWING MOMENTUM

PRESSURE FOR CHANGE IS BUILDING

The past year has demonstrated the growing urgency of the transition from fossil fuels to a low-carbon economy and the role which the insurance industry (and other financial institutions) can and must play in this process. Many factors are contributing to the accelerating shift of insurers out of the coal sector.

> "There are promising signs that businesses are waking up to the benefits of climate action. (...) One of the world's biggest insurers – Allianz – will stop insuring coal-fired power plants."
>
> (Antonio Guterres, Secretary General, UN, 2018)

Mounting scientific evidence: The latest IPCC report shows that limiting global warming to 1.5°C instead of 2°C would significantly reduce the impacts of climate change in terms of life-threatening heatwaves, droughts, floods, sea level rise, species loss, human health, water stress and food security. It concludes that the use of coal needs to be phased out rapidly worldwide, with a 59% to 78% reduction (from 2010 levels) by 2030 and nearly 100% by 2050.[13]

Unprecedented losses from natural disasters: According to Swiss Re's *sigma* research publication global economic losses from natural and human-made disasters such as hurricanes and wildfires reached $337 billion in 2017, with insured losses of $144 billion.[14] Torsten Jeworrek, a Board member of Munich Re, warned that "some of the catastrophic events (...) are giving us a foretaste of what is to come".[15]

Growing climate risk for the insurance industry: The UK Prudential Regulation Authority and other expert bodies have warned for several years that climate change creates physical, transition and liability risks for the insurance industry.[16] In March 2018, Moody's Investor Service highlighted the growing climate risks for property and casualty insurers:

- Catastrophic events are not only becoming more frequent and severe. Climate risks also increasingly correlate across insurers' balance sheets, thus turning risks that were previously considered unconnected into concentration risks.
- Risk modeling is growing more complex. While insurers can adjust premiums each year, "it becomes more likely that pricing trends will consistently lag actual loss experience, meaning that the industry would be playing 'catch up' in raising premiums to match increasing losses".

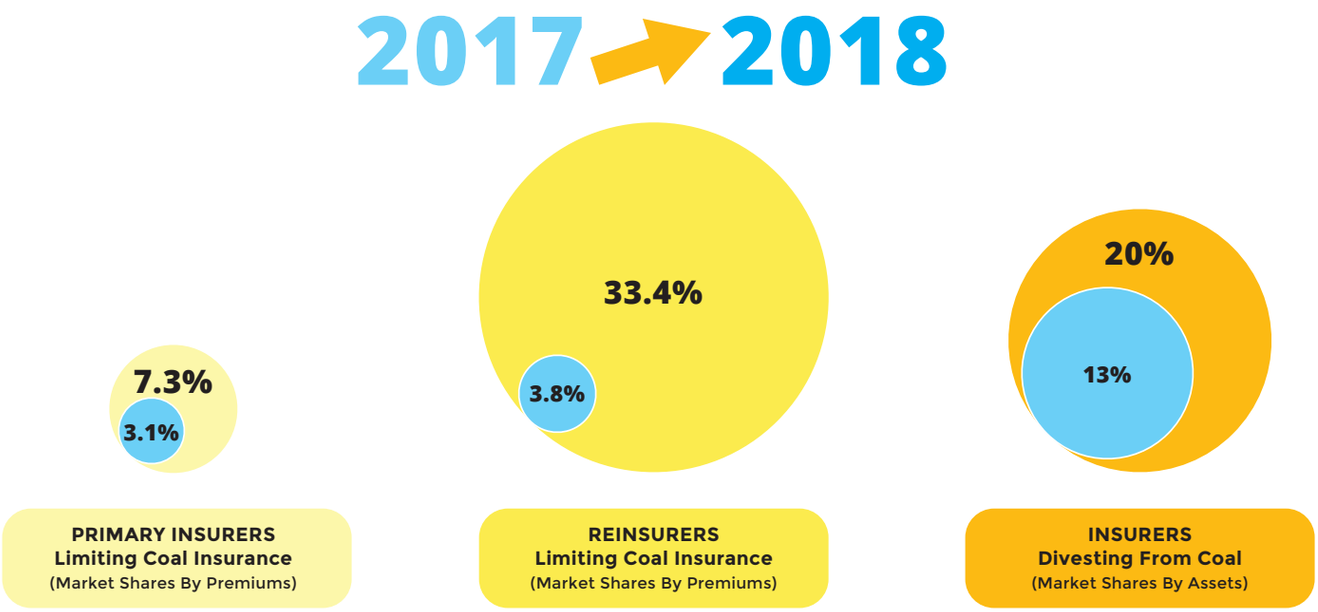
13 Intergovernmental Panel on Climate Change, Global Warming of 1.5°C, Summary for Policymakers, October 2018, p. 22

14 Swiss Re Institute, sigma 1/2018, Natural catastrophes and man-made disasters in 2017: a year of record-breaking losses, April 2018

15 Jeworrek quoted in Scott McGee, 2017 global insured losses reach $135bn – Munich Re, Insurance Times, January 5, 2018

16 See Prudential Regulation Authority, The impact of climate change on the UK insurance sector, September 2015

FIGURE 1: COAL INSURANCE MOMENTUM



- Fossil fuel companies could face climate change lawsuits similar to those brought against tobacco companies. Insurers may have to pay out under liability insurance policies, even if their clients settle cases out of court.
- The low carbon transition creates risks for insurers' investment portfolios. These risks can be mitigated by broadly diversified portfolios and sustainability guidelines, including "the exclusion of investments in sectors that fail to meet sustainability risk hurdles, such as thermal coal".[17]

Regulatory warnings: Regulators are stepping up warnings about the risks climate change poses for the insurance industry. In October 2018, the Bank of England's Prudential Regulation Authority told insurers and banks to make climate risk a core part of long-term business planning, warning that its impact may "be larger than for other types of risks, and is potentially non-linear, correlated and irreversible". It recommended measures on governance, risk management, scenario analysis and disclosure.[18] In a separate report, the International Association of Insurance Supervisors explored actions which insurance regulators could take to address climate risks.[19]

Pressure from investors: Several institutional investors voiced their support for insurers' coal exit policies in July 2018, highlighting insurers' self-interest in taking climate action. "From a risk perspective, every insurer should have a (underwriting) policy on coal," *Reuters* quoted Ingo Speich, a fund manager at Union Investment and Munich Re investor. Commenting on the reinsurer, he said: "We haven't seen any strict policy yet. Is it bad for the company from an outside perspective? In general, yes."[20]

17 Moody's Investor Service, Climate change risks outweigh opportunities for P&C (re)insurers, March 15, 2018. See also Trial By Fire: Managing Climate Risks Facing Insurers in the Golden State California Department of Insurance, September 2018

18 Bank of England Prudential Regulatory Authority, Consultation Paper 23/18, Enhancing banks' and insurers' approaches to managing the financial risks from climate change, October 2018

19 International Association of Insurance Supervisors, IAIS and SIF Issues Paper on Climate Change Risks to the Insurance Sector, July 2018

20 Simon Jessop, Carolyn Cohn, Tom Sims, Munich Re sticks with coal underwriting despite investor pressure, Reuters, July 6, 2018

Grassroots campaigns: Combining engagement with public pressure, NGOs engaged in the Unfriend Coal campaign turned up the heat on insurers which underwrite and invest in coal in 2018. They arranged bilateral and industry-wide round table meetings while also organizing protests at industry conferences, shareholder meetings and branch offices. Through several online petitions, AVAAZ and other groups mobilized close to a million signatures calling for an end to coal insurance (See the Insure Our Future campaign box on page 19).

Public opinion: Public opinion clearly turned against insurers that support coal projects in 2018. In an editorial in January the *Financial Times* called insurers' exit from the coal sector a "welcome and logical development".[21] Respected papers in Germany, France, Italy and the US took similar positions and in September, UN Secretary General Antonio Guterres applauded the decision by Allianz to stop insuring coal as a "promising sign".

Political pressure: Political pressure on investors and insurers to exit the coal sector is growing. By October 2018, 28 national governments, 19 sub-national governments, and 28 other organizations had joined the Powering Past Coal Alliance. New York and London, two global insurance centers, are divesting their pension funds from fossil fuels, and in September 2018, their mayors called on other cities to do the same. The city councils of Paris and San Francisco – the host cities of this year's annual meeting of insurance industry think-tank the Geneva Association and the Global Climate Action Summit – also called on insurance companies to divest from and stop insuring coal projects.

21 Insurers join in on the slow squeeze on coal, Financial Times, January 9, 2018

"Global insurance market capacity for thermal coal risks may be under threat. [Finding insurance for coal] is likely to become increasingly challenging in the months and years ahead – especially if North American insurers begin to follow the European lead."

(Willis Towers Watson, 2018)

Moves towards ethical underwriting: The insurance industry is showing a growing readiness to apply ethical limits to underwriting. In October 2017, more than 20 insurers in cooperation with the UN and Oceana committed to stop insuring illegal, unregulated and unreported fishing around the world. After the Parkland school massacre in Florida, in February 2018, Chubb, Lloyd's and other insurers decided to stop underwriting gun liability policies marketed by the National Rifle Association. In July 2018, Swiss Re and other insurers committed to stop "insuring and investing in companies or projects whose activities could damage World Heritage Sites, whenever possible".

Mounting scientific evidence, growing climate risk, increasing pressure from all sides, and precedent cases for ethical action in other sectors should make it easier for forward-looking insurance companies to end their involvement in the coal and tar sands sectors.

> "European insurers clearly believe coal is now a bigger reputational threat than it is a commercial opportunity. This is a welcome and logical development."
>
> (Financial Times, 2018)

US AND JAPAN LAG BEHIND EUROPE

There is now a stark and growing gap between the insurance industries in Europe and those in the United States and Japan. Most major European insurers now recognize the need to phase out coal, their own responsibility to act, and the financial risks of continuing to support the industry, but insurers elsewhere are lagging behind.

Of the 10 major European underwriters assessed in this report, seven have by now stopped or limited insuring coal projects. Mapfre is currently considering action on coal insurance, Lloyd's is in a somewhat different position as a market place, while Hannover Re is the only major European underwriter continuing to support coal. None of the six major US underwriters assessed in this report have taken any action on coal.[22]

Of the 12 major European insurers assessed in this report as investors, nine have divested from coal, Aviva and Legal & General are focusing on engagement with coal companies while divesting in exceptional cases, and Mapfre has stopped making new investments and is currently considering its position on existing coal assets. None of the nine major US insurers assessed as investors have taken any action on coal.

All 15 European, Japanese and Australian insurers have answered the Unfriend Coal scorecard questionnaire, but only two of the nine US insurers (TIAA and Prudential) have done so.

Like their European peers US insurers have full access to the latest climate science and are incorporating climate change into their risk models. Yet while they are increasing premiums or ending coverage for customers exposed to serious climate risks for example in coastal or wildfire-affected areas, they continue to fuel climate change by enabling new coal and tar sands projects as underwriters and investors.

Two Japanese underwriters assessed in this report have also taken no action on coal. However, as reported above, three Japanese life insurers have at least ended new funding support for coal projects. Australia's QBE is currently reviewing its coal underwriting and investment policies.

In September 2018, 17 major US climate and consumer groups got together to launch the *Insure Our Future* campaign, asking US insurers to close the gap with their European peers as part

22 Chubb is incorporated in Switzerland but is managed from the US and listed on the New York Stock Exchange. Chubb is considered a US company for the purpose of this report.

of the Unfriend Coal campaign. Two months earlier, four Japanese NGOs published a Fair Finance Guide assessing the climate policies of Japanese insurers as a launching pad for Unfriend Coal activities in Japan. Laggards in the US and in Japan will attract growing attention by Unfriend Coal campaigners in 2019.

> "We have no room to build anything that emits CO2 emissions."
>
> (Fatih Birol, Executive Director, International Energy Agency, 2018)

COAL IS FEELING THE SQUEEZE

Some of the world's biggest, oldest and most trusted insurers are now exiting the coal sector, sending a strong message to governments, utilities, investors, analysts and other insurers that the dirtiest fossil fuel has no future. The withdrawal of insurers also has practical consequences for the coal industry. While hard data is not publicly available, the following observations are based on conversations with several insurance industry practitioners with experience in the power sector.

Premiums for global coal power insurance in 2017 amounted to $4.128 billion.[23] Adding premiums for coal mining and transport, the total global coal insurance market can be estimated at approximately $6 billion per year. While insurance is significant for the coal sector, the reverse is not true. The coal market only accounts for about 0.3% of annual non-life premiums (even though it is more significant for some insurers). "European insurers clearly believe coal is now a bigger reputational threat than it is a commercial opportunity," the *Financial Times* observed in January.[24]

Glenn Preece, a senior broker at Marsh Energy & Power, estimates the total market capacity for power generation property insurance at about $6-7 billion. This figure includes non-coal power projects but excludes the China market as well as many other types of coverage than property insurance. Of the total figure, Marsh indicates, "potentially 1 billion dollars (...) is now taking a more limited stance or approach to providing insurance".[25]

Leading power insurance brokers report that the withdrawal of carriers for coal projects is already impacting their market. In its 2018 Mining Risk Review, insurance broker Willis Towers Watson warned that finding insurance for coal "is likely to become increasingly challenging – especially if North American insurers begin to follow the European lead".[26]

Just as significant as the contraction in insurance market capacity may be the withdrawal of expertise. According to a veteran power insurance broker, only a small group of insurers can act as "lead" in conducting due diligence and underwriting power projects in Asia, where most new coal projects are being developed: Allianz, Zurich, AIG, Chubb, Munich Re and Swiss Re. (Generali plays this role in certain countries, QBE occasionally gets involved, and Tokio Marine and SOMPO may play a lead role with Japanese-sponsored projects.) Of the global leaders in the sector, all but AIG and Chubb have by now ended or limited their involvement.

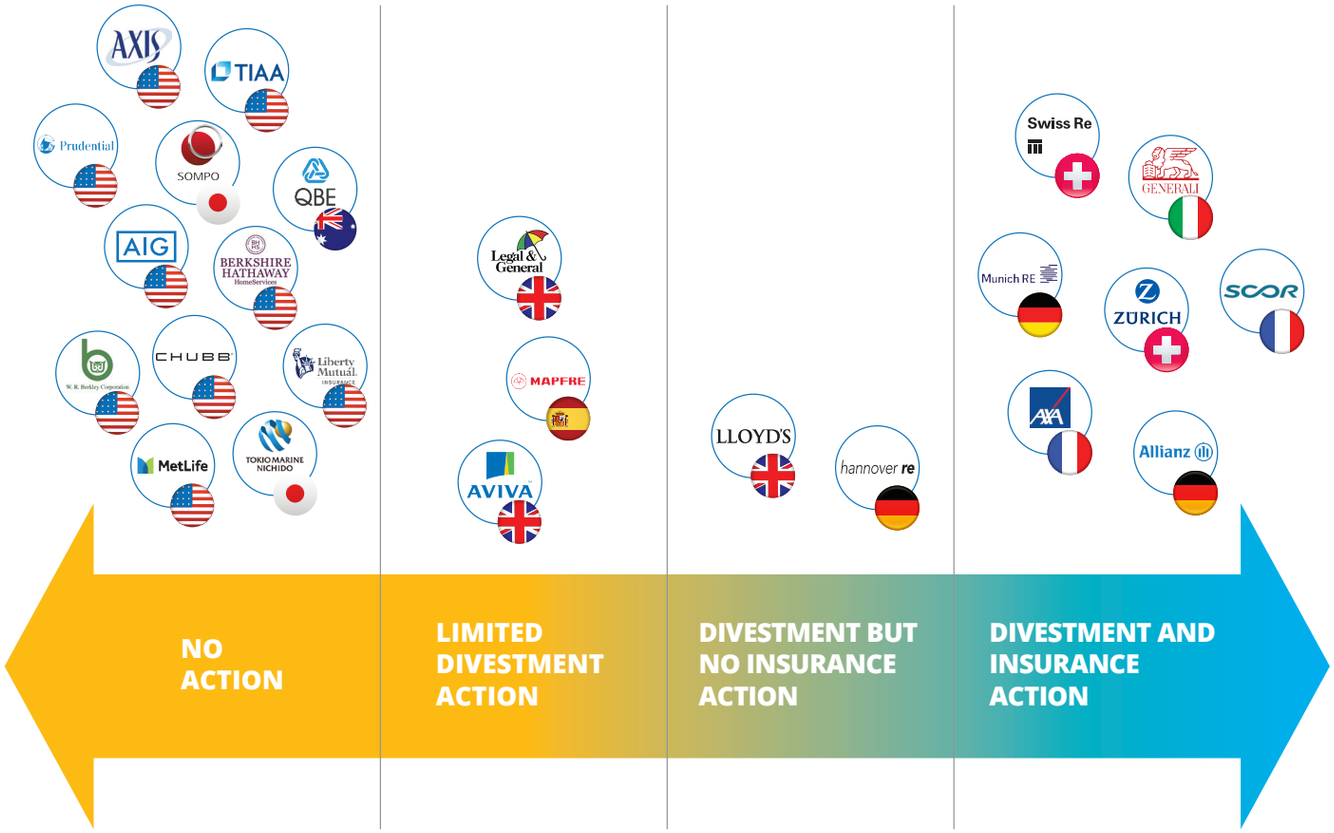
23 Finaccor, research for the Unfriend Coal campaign, January 2018. Other insurance insiders have expressed lower estimates.

24 Insurers join in on the slow squeeze on coal, Financial Times, January 9, 2018

25 Glenn Preece, Coal-Fired Generation Faces a Changing Market, in: Brink Asia, July 1, 2018

26 Willis Towers Watson, 2018 Mining Risk Review

FIGURE 2: EUROPEAN VS US INSURERS



It is possible that large US insurers, specialty insurers using the Lloyd's market and national insurers, particularly from the host countries of coal projects, will step up to at least partially fill the gap left by leading European insurers. Yet given their limited expertise, many of them would require a higher degree of reinsurance to fulfill this role, and typically charge higher premiums. As many of the biggest primary insurers withdraw from the coal sector, the position of reinsurers becomes all the more important for the ability of coal companies to transfer the risks of their projects.

According to industry insiders, Polish utilities are currently struggling to secure sufficient insurance for the proposed Ostroleka C thermal power plant because several leading European insurers are no longer covering new coal projects. Forward-looking power sector developers, whose coal projects typically take three to four years to reach the construction stage, should be worried about the availability of insurance once their projects reach financial close.

Divestment is also impacting the coal sector. Goldman Sachs stated in October 2018 that "the coal divestment movement has been a key driver of the coal sector's 60% de-rating over the past five years".[27]

Insurance action is not a panacea for preventing or phasing out coal projects, which often enjoy deep political support, but it is already helping to accelerate the sector's demise. Climate campaigners will ramp up their pressure on insurers, and will continue targeting a wide array of actors including governments, utilities, coal financiers, export credit agencies and investors.

27 Goldman Sachs Equity Research, Is the divestment movement nearing a tipping point? 25 October 2018

INSURERS' COAL POLICIES

CRITERIA FOR STRONG COAL AND TAR SANDS EXIT POLICIES

The following elements make up a strong and comprehensive coal and tar sands exit policy (and were used by this report's scorecard to assess insurers' current policies):

UNDERWRITING POLICIES:

- **Scope**: Policies should rule out insurance for all types of thermal coal infrastructure (not just lignite; mines as well as power plants) and for other extreme fossil fuels such as tar sands, associated pipelines, Arctic and deep-sea drilling.
- **Coverage types**: Policies should apply to insurance for new and existing projects and for coal companies. Reinsurers' policies should apply to treaty as well as facultative reinsurance.[28]
- **Coal companies**: Policies should define coal companies as enterprises that: depend on coal for more than 30% of their mining revenue or power generation; or produce more than 20 million tons of coal per year; or operate more than 10 GW of coal power plant capacity; or plan to develop new coal facilities. Tar sands companies should be defined as companies holding at least 20% of their oil reserves in tar sands. In line with the need to completely phase out coal and other extreme fossil fuels, these thresholds should be lowered over time.

DIVESTMENT POLICIES:

- **Scope**: Policies should cover all types of thermal coal as well as tar sands and associated pipeline companies.
- **Types of assets**: Policies should cover: equities and bonds; actively and passively managed funds; insurers' proprietary assets and assets they manage for third parties.
- **Coal companies**: Policies should define coal and tar sands companies using the criteria listed above for underwriting policies.

PROGRESS ON UNDERWRITING

AXA was the first insurance company to announce that it would no longer underwrite coal projects

28 Facultative insurance covers a specific risk or defined package of risks; treaty insurance covers all risk of a certain type.

in April 2017 and Zurich announced restrictions in November 2017. Momentum has grown rapidly with five major insurers announcing restrictions in the last year. This section indicates insurers' position on the scorecard and summarizes key elements of their policies.

Allianz (4): In May 2018 Allianz, the world's biggest insurance company by assets, announced that it would no longer provide stand-alone insurance coverage for the construction and operation of coal-fired power plants or coal mines. The insurer will gradually phase out all remaining coal-based risks from its property and casualty business by 2040. "It is very very important that we change our business model and prepare for a carbon-free economy," Allianz CEO Oliver Bäte said as the company announced the new steps.

Swiss Re (1): In July 2018, Swiss Re, one of the two global reinsurance giants, announced that it would no longer provide re/insurance to businesses with more than 30% exposure to thermal coal across all lines of business. The new policy applies to both existing and new coal mines and power plants, and is implemented across all lines of business and Swiss Re's global scope of operations. Unlike other reinsurers, Swiss Re also applies its policy to treaty reinsurance, although details are not available.

Munich Re (6): Reversing a previous position Joachim Wenning, CEO of Munich Re, the other reinsurance giant, announced in August 2018 in an article in *Frankfurter Allgemeine Zeitung* that his company would in principle no longer insure stand-alone coal mines and power plants in industrialized countries. Following this announcement Munich Re clarified that the policy applies to both industrialized and non-industrialized countries. Exceptions could only be made in countries where a significant part of the population has no access to electricity and based on a list of criteria.

Generali (2): In November 2018, Generali decided not to accept new coal company clients, and to stop insuring the construction of coal projects. In 2019, existing clients in Poland and the Czech Republic, two of Generali's strongholds, will be phased out or granted a two-year grace period if they have credible transition plans.

XL Catlin: XL Catlin, a major fossil fuels insurer, was acquired by AXA and rolled into a new entity called AXA XL in 2018. At the end of November 2018 (after this report went to print), AXA XL is expected to announce that it will fully apply AXA's coal exit policy to investments and underwriting.

AXA (5): AXA was the first insurer to stop underwriting coal companies, even if with a weak 50% threshold for what it considered a coal company. In December 2017, it tightened its definition of coal companies (see under divestment) and decided to stop insuring all coal projects. AXA also announced it would stop insuring the main oil sands and the associated pipeline businesses.

Zurich (3): In November 2017, Zurich decided to stop insuring companies which depend on coal for more than 50% of their revenues after a two-year transition period. The Swiss insurer did not change its policy in 2018.

Spanish reinsurer **Mapfre (8)** informed the Unfriend Coal campaign in September 2018 that it was reviewing its coal underwriting and investment policies and would submit proposals to its governing bodies in the coming months. Australia's **QBE (9)** is currently also reviewing its coal underwriting and investment strategies in a lengthy process. **SCOR (6)** remains unchanged.

PROGRESS ON DIVESTMENT

The first major insurers started divesting from coal in 2015 and a year ago these policies applied to $4 trillion of assets. Generali, Lloyd's and Hannover Re made announcements in the last year taking the number of divesting insurers to 19. Meanwhile, AXA, Allianz and Munich Re expanded their divestment policies. More than $6 trillion of investments is now subject to coal exclusions – 20% of the insurance industry's global assets. This section indicates insurers'

position on the scorecard and summarizes key elements of their policies.

Generali (6): In February 2018 Generali announced that it would gradually divest its bond and equity investments in thermal coal companies. Generali adopted comprehensive criteria for the definition of coal companies but said it would allow exceptions for companies in countries with no medium-term alternatives to burning coal as a source of electric power.

Lloyd's (9): In April 2018, Lloyd's adopted a coal exclusion policy for its Central Fund.[29] The company did not adopt any measures to encourage the divestment from coal by syndicates and corporate capital providers using its market place.

Hannover Re (7): In June 2018, Hannover Re informed Unfriend Coal campaigners that it had divested its assets from companies depending on coal for more than 25% of their revenues. The company did not make its divestment policy available to the public.

AXA (2): In December 2017, AXA strengthened its divestment threshold, applying it to companies depending on coal for 30% (rather than 50%) of their business, building more than 3GW of new coal-fired plants, or producing more than 20 million tons of coal per year.

Allianz (5): In May 2018, Allianz expanded its divestment criteria to all companies planning "more than 0.5 GW of thermal coal capacity additions which are not in line with the 2°C ceiling". Allianz also announced that it would tighten its divestment criteria over time and become completely coal-free by 2040.

Munich Re (8): Along with its initial coal underwriting policy, Munich Re in August 2018 strengthened its divestment threshold to companies depending on coal for 30% (rather than 50%) of their business.

British life insurer and asset manager **Legal & General** (**L&G, 12**) has not adopted a divestment policy, but started naming, shaming and divesting from the worst climate performers in its portfolio in June 2018. **Mapfre (10)** does not appear to have a formal divestment policy either but informed the Unfriend Coal campaign in September that it would no longer invest in companies depending on coal for more than 30% of their business. Like L&G, **Aviva (11)** focuses on engaging with coal companies in its portfolio and has begun divesting from some of them.

The scorecard assesses the divestment policies of all 24 insurers covered by this report, including **Swiss Re (1)**, **Zurich (3)** and **SCOR (3)** which have not changed the policies they adopted in 2017.

Between April and September 2018, **Nippon, Dai-ichi and Meiji Life**, three of the largest life insurance companies in Japan, announced that they would no longer fund new coal projects, in one case at least overseas. The three life insurers have so far not adopted policies divesting their current assets from coal.

POLICY LOOPHOLES

While the growing number of insurance companies taking action on coal is positive, several have made commitments that are extremely limited and shallow. The most important loopholes include the following:

Coal insurance: Zurich's 2017 policy restricts insurance for new but not for existing coal projects, and limits cover for coal companies, but with a weak 50% threshold. Generali will not offer coverage to new projects and new corporate clients, but can still insure existing coal clients. In contrast, Allianz only ceased underwriting specific coal projects, but not companies.

Coal reinsurance: Swiss Re's policy covers facultative as well as treaty reinsurance for coal projects and companies, although no details on the latter are available.[30] Munich Re and SCOR

29 While the $4 billion Central Fund does not meet the $10 billion threshold for other insurers on this list, Lloyd's is included given its traditional role as a global insurance market place.

30 As mentioned above, facultative insurance covers a specific risk or defined package of risks; treaty insurance covers all risk of a certain type.

only limit the facultative reinsurance of coal, which creates the risk that coal companies can compensate a shortfall through increased treaty cover. SCOR only rules out underwriting new coal mines and lignite power plants, but not other new coal power plants. Munich Re will, under certain conditions, continue to reinsure coal projects in countries where a significant part of the population have no access to electricity, a loophole which covers one quarter of all coal projects under construction and in the pipeline globally.

Definition of coal companies: Allianz, AXA, SCOR, Swiss Re and other insurers define coal companies as enterprises depending on coal for at least 30% of their business. Zurich applies a weak 50% threshold. This allows it to continue insuring and investing in numerous companies with significant coal operations and expansion plans.

Third party assets: Some insurers manage up to a trillion dollars for other asset owners. Zurich and Storebrand have divested some or all of their third-party assets from coal as well. Allianz – one of the world's largest asset managers – and other insurers have divested their own assets but not applied their policies to third-party assets, thus creating a double standard within their portfolios. In 2018, Allianz and AXA, which have divested their own assets from coal, for example both put more than $400 millions of third party assets into new coal investments.

OTHER CLIMATE LEADERSHIP

Insurers should take action on climate change beyond coal and tar sands. Important examples of strong climate leadership include:

- Paris alignment: Insurers should commit to aligning their insurance operations and investments, including their engagement as shareholders, with the goals of the Paris Agreement.
- Climate solutions: Insurers should invest at least 1% of their assets in credible climate solutions, and define targets for increasing this proportion over time. They should also be proactive in assessing new low-carbon technologies and creating innovative risk management tools for them.
- Transparency: Insurers should make their coal and climate policies publicly available. They should also align their own financial reporting with the recommendations of the Task Force on Climate-related Financial Disclosures.
- Board involvement: Insurers' boards of directors should include climate risks when reviewing corporate strategies, and provide climate-related performance incentives for executives.
- Public policy: Insurers should publicly advocate for strong climate action, including through their trade associations.

THE INSURE OUR FUTURE CAMPAIGN

In September 2018, 17 consumer and environmental groups launched the Insure Our Future campaign to pressure U.S. insurance companies to exit the coal and tar sands sectors and support the transition to a low-carbon economy. Insure Our Future is part of the Unfriend Coal campaign, which is coordinating insurance campaigns around the world.

Combining direct engagement and public pressure, these campaigns are pursuing a variety of strategies to reach their goals, including:

- Conducting research on the support of insurance companies for coal projects and publish case studies and briefing papers.[31]
- Conveying their critique and recommendations to the insurance industry through direct communication, presentations at insurance conferences, and roundtable discussions. Many of the groups involved also engage insurers within their countries in an ongoing dialogue and raise their demands at shareholder meetings.
- Drawing attention to coal insurers' responsibilities by staging protests at industry events, such as the annual meetings of the Geneva Association and the National Association of Insurance Commissioners in the United States.
- Putting pressure on individual insurers who are lagging behind. For example, in spring 2018 Greenpeace organized protests at Generali offices throughout Italy and a public protest at the company's 2018 shareholder meeting. AVAAZ mobilized more than 850,000 signatures for a petition calling on Munich Re to exit the coal sector.
- Convincing cities and businesses to cut ties with insurance companies that are shirking their responsibility to stem runaway climate change. In San Francisco, for example, the Board of Supervisors passed a unanimous resolution pledging to cut the city's contracts with insurance companies that refuse to stop investing in and insuring coal and tar sands projects.
- Creating public interest in holding the insurance industry accountable for its role in accelerating climate change through articles and comments in mainstream media, trade journals and social media work.

In 2019, the Insure Our Future campaign will continue to ramp up pressure on U.S. insurance companies that are falling farther and farther behind their international peers.

31 See for example Unfriend Coal campaign, Dirty Business: Insurance companies supporting the growth of Polish coal, February 2018

INSURING COAL NO MORE

2018 Scorecard on Insurance, Coal and Climate Change

The shift of insurance companies away from coal is accelerating. Seven leading insurers have stopped or limited underwriting coal projects, and at least 19 major insurers with combined assets of more than $6 trillion have divested from coal. This report analyzes the role of the insurance industry in the coal sector, scores the coal and climate policies of 24 leading insurers, and identifies early movers and laggards in the industry.