Zurich Insurance: Time to Catch Up on Climate Change and Fossil Fuels

Briefing Paper by Greenpeace Switzerland and the Unfriend Coal coalition
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Introduction

Zurich Insurance (Zurich) is one of the world's largest insurance company, and thus one of the ultimate managers of risk in our society. Yet when it comes to taking climate action the company has so far only taken modest steps. **Most importantly it continues to be highly involved in underwriting coal and in financing other fossil fuel projects. Its investments include holdings in controversial coal companies, yet Zurich could adopt a policy to divest from coal at a very limited cost.**

Scientists have concluded that no more coal plants can be built and existing plants need to be retired early for the goals of the Paris Agreement to be achievable in a cost-effective way.[1] Like all enterprises insurers have a moral obligation to align their business with the goals of the Paris Agreement.[2]

The insurance industry also has a self-interest in avoiding runaway climate chaos. "Left unchecked", the British insurer Aviva spells out this threat most bluntly, climate change will "render significant portions of the economy uninsurable, shrinking our addressable market."[3]

This briefing paper summarizes the financial risks arising from climate change for insurance companies, analyzes Zurich's continued involvement in the coal sector as an investor and underwriter, summarizes the initial steps Zurich has taken to reduce its involvement, and compares the company's position on coal with market leaders. It concludes with a set of recommendations to the Zurich management.

Financial risks from insuring fossil fuels

While the economic costs of natural disasters have seen a steadily increasing trend over the past three decades, the first half of 2017 was marked by rather low costs from natural disaster. In the U.S. however, the month of May 2017 has resulted in an insurance and reinsurance industry loss of around $3 billion due to the impacts of severe convective storms, thunderstorms, tornadoes, large hail and associated damaging winds, taking the industry toll for the year-to-date to over $12 billion, according to

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[1] See Climate Analytics, Implications of the Power Sector for Coal Use in the Power Sector, November 2016, p. 12

[2] See Swiss Re communication and commitment related the the Paris Agreement: http://www.swissre.com/climate_action/Climate_negotiations_in_Paris_Why_success_is_the_only_option.html

[3] Aviva's strategic response to climate change, July 2015, p. 14

Impact Forecasting.[4] It is reasonable to expect that insurers with more exposure to the U.S., like Zurich Insurance, might feel the pinch.

Weather-related catastrophes consistently cause the highest amount of annual insured losses worldwide. Floods in Europe, the U.S. and China, earthquakes in New Zealand, Ecuador, Japan, wildfires in Canada, and hailstorms in the U.S. caused the most severe economic damages over the last few years.[5]

Insurance group Zurich reported that their business operating profit suffered a great loss in 2015 due to the financial impact of catastrophe claims. Major disasters such as Canada's Fort McMurray wildfire, flooding in Europe and hail storms in Texas amounted to $200 million in second-quarter losses that year[6]. The most recent quarters were also marred by claims stemming from Farmers Re arm in the US, which had two consecutive years of high catastrophe losses. More than half of the losses were caused by Texas storms. To put this in perspective – 2016 and 2017 first quarter catastrophe losses exceed the 2013-15 average by more than a factor of four.[7]

Over the medium and long term, the more climate change manifests itself, the harder it will become for insurers to be able to provide affordable insurance covers, however good their models are. And as losses from weather related events continue to rise, their models will gradually reflect this trend, and premiums will rise, making affordable insurance less available. Insurers are already putting more restrictions on areas that are prone to flood risks, which has become a dilemma for their exposed clients.[8]

Furthermore, investments in and insurance services for fossil fuels carry increasing financial risks for Zurich and other re/insurers. **Re/insurers are exposed on multiple fronts to climate related financial risks.**

First, the transition to a low-carbon economy reduces the value of coal, oil and gas companies. **Investments which insurance companies hold in such companies can quickly turn into stranded assets.** Lloyd's of London warns that climate change, and society's response to it, "could potentially strand entire regions and global industries within a short timeframe, leading to direct and indirect impacts on investment strategies and liabilities".[9]

Secondly, the Bank of England's Prudential Regulation Authority warns that **liability claims against companies causing climate change may pose the greatest threats to insurance companies**. "Historical events have shown that over time liability claims can be more disruptive to the insurance industry than losses caused by individual extreme weather events, especially when new sources of claims emerge",

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[4] Artemis, June 9, 2017

[5] https://www.bloomberg.com/news/articles/2017-03-28/insured-losses-from-catastrophes-at-a-4-year-high-swiss-re-says

[6] http://www.reuters.com/article/zurichinsurance-results-idUSL8N1AS0RR

[7] Zurich Investor and Media presentation | Update for the three months ended March 31, 2017, p.65

[8] Strategic Risk publication, in association with Zurich, *Asia Risk Report: The Top Concern of Indonesian Risk Managers,* p. 10

[9] Lloyd's, Stranded Assets: the transition to a low carbon economy, Overview for the insurance industry, February 2017, p. 4

the Authority stated in 2015.[10] By this time, it noted, liability claims against asbestos companies in the U.S. had caused estimated losses of $85 billion to insurance companies.

Several cases against fossil fuel companies claiming damages from climate change are currently pending in U.S. courts and in other countries. Three coastal Californian counties and cities for example recently brought cases against 37 fossil fuel companies, including coal companies such as Peabody Energy, Arch Coal and Rio Tinto. **Once such lawsuits become successful, the insurance companies which have covered the liability risks of fossil fuel companies may well end up holding the bag.**[11]

<u>Zurich as a fossil fuel investor</u>

Zurich is a major investor in clean energy sources, with a goal of investing $2 billion in green bonds. Yet mitigating climate change also requires the rapid transition away from coal. Unlike Aegon, Allianz, Aviva, AXA, HCF, Munich Re, SCOR, Storebrand and Swiss Re, Zurich has so far neither divested from coal or other fossil fuels companies, nor announced its intention to do so. It is also unclear whether its portfolio is aligned with Paris Agreement climate goals.

According to an analysis carried out by the research firm Profundo for this briefing paper, Zurich currently holds bonds of at least $164.7 million in coal companies. The portfolio includes major exposure to coal mining and power companies with a bad environmental track record such as Duke Energy, Glencore and BHP Billiton. Yet the coal holdings make up less than 0.5% of Zurich's total bond portfolio. The insurer could thus adopt the coal divestment policy of its peers at a very limited cost.

At the same time, Zurich continues to hold hundreds of millions of dollars in bonds of other fossil fuel companies such as BP, Chevron, Transcanada, Kinder Morgan and even Energy Transfer Equity, the company behind the controversial Dakota Access Pipeline. The latter company was subject to divestment by many investors and banks in 2017, because Energy Transfer and its subsidiaries disrespected the indigenous rights of the Standing Rock Sioux tribe and have the worst track record regarding oil pipeline spills.[12]

In the fourth quarter 2016, Zurich Insurance doubled its position in Duke Energy Corporation,[13] around the same time that Norwegian Sovereign Wealth Fund announced that they are excluding Duke Energy from its multi billion investment portfolio, due to risks of severe environmental damage.[14]

All of the above leads to the conclusion that Zurich's responsible investment approach is not sufficient. Even though Zurich is close to reaching its target of investing up to $2 billion in green bonds, and $100 million in impact investing, the lack of action on fossil fuels exclusions is very disappointing. Zurich is

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[10] Prudential Regulation Authority, The impact of climate change on the UK insurance sector, September 2015

[11] In 2009, Swiss Re expressed the expectation that "climate change-related liability will develop more quickly than asbestos-related claims and (…) climate change-related litigation could become a significant issue". See Swiss Re, The globalisation of collective redress: consequences for the insurance industry, 2009, p. 3.

[12] http://www.reuters.com/article/us-usa-pipeline-nativeamericans-safety-i-idUSKCN11T1UW

[13] https://sportsperspectives.com/2017/07/30/armor-investment-advisors-llc-purchases-664-shares-of-duke-energy-corporation-nyseduk-updated-updated-updated.html

[14] https://www.nbim.no/en/transparency/news-list/2016/decision-on-exclusion-of-companies-from-the-government-pension-fund-global2/

lagging behind its peers on that front at a time when the world urgently needs fossil free, human rights compliant investments, which exclude carbon majors and industries that are inherently unsustainable.[15]

Zurich as a fossil fuel underwriter

For better and for worse, insurance companies play an essential role in underwriting the development of industrial society. No highrise could be built, no factory operated without insurance. The same is true for climate-destroying coal mines, pipelines, mega dams and thermal power plants.

There are three main pillars to Zurich's underwriting business: General Insurance, which accounts for about 46% of profits; Global Life, with 25%; and the Farmers Insurance Group, with 29%. According to research by Profundo, Zurich is one of the main global property insurers, based on its ability to deploy capacity and issue paper on a global basis. It remains one of the key actors in the power sector in North America. As for casualty insurance within the power market, Zurich has proven to be a significant insurer in the utilities space and is in it for the long term. It frequently underwrites global activities (with the ability to issue numerous local policies) and is the lead underwriter in these cases, offering limits up to US$ 100 million, dependent upon type of risk and location.

In April 2017, AXA decided to no longer offer insurance services to coal companies in the interest of a consistent climate policy. In contrast, Zurich has so far not taken any steps to rule out underwriting new coal projects. **The company is, in other words, prepared to still insure and invest in coal and fossil fuels projects, and this marks a blind spot of the insurer's climate policy.**

According to recent litigation records, Zurich appears to have provided insurance service to such companies as Murphy Oil USA and Arch Coal. Murphy Oil was in dispute with excess liability insurers like Zurich and Swiss Re after a crude oil spill at Murphy's Meraux refinery, caused by Hurricane Katrina.[16] The spill (which has been characterized by the U.S. Environmental Protection Agency as the largest Katrina-related environmental release), concomitant property damage, related alleged injuries and harm resulted in more than 26 class action lawsuits.

Zurich also allegedly provided excess liability cover for Arch Coal for operations at the Thunder Basin Coal Mine, which is the largest single surface coal-mining complex in the world.[17] Arch Coal is one of the coal companies targeted by the recent climate change liability suit in California.

The agenda of the new CEO Mario Greco for Zurich is to create a simpler, leaner, more accountable and business-focused organization. A priority is to reduce the volatility of the commercial insurance results and focus more on non-life retail business.[18] In this context Zurich should also focus on reducing its exposure to fossil fuels, starting with a stop to underwriting coal companies. This would be a responsible, prudent and forward-looking decision that will pay off in the long run.

[15] See also *Reinsurers Find Sense in Ethical Investing* by Nathaniel Bullard, 21.07.2017
[16] http://www.klgates.com/files/Uploads/Documents/Global_Insurance/Energy_Industry.pdf
[17] https://www.gpo.gov/fdsys/pkg/USCOURTS-moed-4_12-cv-00231/pdf/USCOURTS-moed-4_12-cv-00231-1.pdf
[18] Bloomberg Intelligence news (11/29/16)

Conclusion and recommendations

As an investor and underwriter of coal companies, Zurich has taken some small steps **but need to do more to match the activities some of its leading peer companies have taken to address their responsibility for averting catastrophic climate change.** Zurich needs to communicate such steps transparently.

In June 2017, Greenpeace Switzerland and 12 other member organizations of the global Unfriend Coal coalition **asked Zurich to take the following actions on coal and climate change:**

- By October 2017, Zurich needs to adopt a policy to stop underwriting and divest from coal companies (broadly defined as companies deriving at least 30% of their revenues or electricity generated from coal);
- Beyond October 2017, Zurich will also need to stop underwriting and divest from other fossil fuel companies;
- As the company withdraws from the coal and fossil fuel sectors, it needs to increase its support for clean energy sources accordingly.

In November 2017, the Unfriend Coal coalition will publish a scoring exercise which will analyze and rank the positions of 25 leading insurance companies, including Zurich, on coal and climate change. **By following the above recommendations, Zurich can protect its long-term self-interests and contribute to its ultimate mission in society: to provide protection for its customers from catastrophic risk.**

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