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DIRTY BUSINESS

Insurance companies supporting the growth of Polish coal

February 2018

Unfriend COAL

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EXECUTIVE SUMMARY

In December 2018 delegates from nearly 200 countries will meet in Katowice, Poland, to agree next steps in meeting the Paris Agreement. The UN's COP24 conference will focus global attention on the role played by Polish companies and their insurers and financiers in increasing the use of coal, the biggest single source of CO2 emissions and the cause of thousands of premature deaths every year.

The UN recently called for a stop to new coal power plants and an accelerated phase-out of existing plants as a key step to achieving international climate goals[1]. Yet while a growing number of European countries are announcing plans to phase out coal by 2030 at the latest[2], Polish companies are planning to build more than 10GW of power plants – including 3.2GW under construction - and open new open-pit mines holding more than 3.2 billion tonnes of lignite, the dirtiest form of coal.[3]

This briefing focuses on the non-Polish European insurers playing a critical role in supporting the coal industry and its expansion in Poland. Since 2013, they have signed at least 21underwriting contracts, providing cover without which new projects could not be built and existing operations would have to shut down.[4] European insurers also finance the Polish coal industry through their local Polish pension funds, with over €1.3 billion invested in Polish coal companies.[5]

Katowice, where the COP24 will be held, sits in the centre of the coal mining region of Silesia and is one of the 50 most polluted towns in Europe[6]. Just over 100km away, state-owned PGE is adding 1,800MW to its Opole coal plant, the biggest coal power plant currently under development in Europe. Allianz leads the consortium underwriting Opole, which includes Generali, Munich Re and Poland's PZU[7].

European insurers like these are supporting the Polish coal industry, whose activities are actively working against international attempts to prevent dangerous climate change, and whose pollution causes an estimated 5,830 premature deaths every year, including 4,690 outside Poland[8].

Support for coal is also questionable on a purely business basis. Recent research by Carbon Tracker reveals that more than half of EU coal plants are already loss-making, and the falling cost of renewables, tougher air quality standards, and rising carbon prices will push this up to 97% by 2030. Poland could avoid losses of €2.7 billion by closing unprofitable coal plants early[9].

> **Coal is the most polluting industry and the most damaging for world temperature... for us it is critical to stop production of new coal capacity.**
>
> ***Jad Ariss, AXA's head of public affairs and corporate responsibility[16]***

Insurers faced record losses of $135 billion from natural disasters in 2017 and a warming climate will only increase the number of extreme weather events. Torsten Jeworrek, on the board of Munich Re, described the catastrophic events as "a foretaste of what is to come[10]."

A growing number of insurers are now starting to take action against coal. Research by Unfriend Coal reveals that 15 major insurers have divested from coal or are planning to do so, pulling out at least $20 billion of investments[11]. Four of them - AXA, SCOR, Swiss Re and Zurich - have also taken steps to stop underwriting coal projects[12]. But unfortunately major global insurers, including leading European companies such as Allianz, Generali and Munich Re continue to prop up coal projects and companies with disastrous climate and public health impacts.

Allianz, an early mover on divestment, is not applying the same restrictions to its underwriting business, and Generali has not taken any step to restrict either its insurance or its investment business. This briefing reveals them as the non-Polish European insurers providing the most underwriting support for coal in Poland.

Allianz was one of the first insurance companies to take action on coal when it announced divestment plans in 2015, setting criteria that became an industry benchmark but which only apply to its own assets.[13] More than $1 trillion of third party assets managed through Allianz subsidiaries, such as its Polish pension fund, are not covered by its divestment policy.

AXA, which set milestones for coal divestment last December by adopting far-reaching criteria[14], based on the Global Coal Exit List, also holds a major stake in Polish coal companies, including €56 million in PGE, the number one coal power expansionist in Europe[15]. Again, this is because its policy does not apply to third party assets it manages.

Two years after the world's nations agreed at the COP21 conference in Paris to keep global warming well below 2°C, the insurance industry is still not playing its part. On the road to COP24, insurance companies are under pressure as never before to demonstrate that they are not hampering a European coal phase-out but aligning their businesses to support global action on climate change. Allianz, Generali and other insurers must take immediate action to demonstrate that they are acting in the long-term interests of their customers and shareholders.

We call on all insurers to end coverage for all new and existing coal plants, mines, and associated infrastructure projects, as well as to divest from companies covered by the following criteria :

1. All companies which plan investments in new coal power plants, mines and associated infrastructures;
2. All companies which generate more than 30% of power from coal or have more than 10 GW of installed coal power capacity;
3. All companies which derive more than 30% of their turnover from coal or produce more than 20 million tonnes of coal a year.

Coal divestment should cover both the insurers' own assets and assets managed on behalf of third parties. In addition, insurers should only underwrite and invest in major coal companies which fall outside the above criteria if they have published a fair coal phase-out plan.

UNDERWRITING POLAND'S DIRTY COAL INDUSTRY

The underwriting decisions of the insurance industry play a critical role in shaping industrial society, with huge implications for public health and climate change. Without insurance cover, new coal projects could not be built and existing operations would have to shut down.

Since 2013, international insurers have underwritten at least 21 coal projects in Poland, the European country with the largest coal expansion plans. Three of the companies most closely involved are Italy's Generali and Germany's Allianz and Munich Re (through its subsidiary Ergo Hestia), which have respectively entered into at least 8, 9 and 12 contracts since 2013.[17]. Allianz and Munich Re have adopted coal divestment policies, but they have not set any restrictions on underwriting. Generali has not taken any steps to exit the coal sector so far.

Burning coal creates particulates, ground-level ozone and nitrogen dioxide, all of which cause cardiovascular and respiratory health problems. A report published in 2016 by the WWF European Office, CAN Europe, Sandbag and HEAL found that Polish coal power plants cause an estimated 5,830 premature deaths each year: 1,140 in Poland and 4,690 in other countries[18].

The involvement of Allianz, Munich Re and Generali is highly paradoxical since Germany and Italy are the two countries outside Poland with the highest number of premature deaths caused by Polish coal plants: 620 and 430 deaths respectively[19]. Allianz and Generali, which are both important health and life insurers, are effectively underwriting climate impacts, diseases and even deaths of the very same people they are supposed to insure against risks.

> **Unsustainable business will become un-investable and uninsurable business**
>
> ***AXA's CEO Thomas Buberl[20]***

NEXT STEPS FOR ALLIANZ, MUNICH RE AND GENERALI

Poland is a perfect case study to illustrate why responsible insurance companies should stop underwriting coal. Planned new coal projects will harm the health of people all over Europe, undermine the EU's coal phase-out policy and make it harder to achieve the Paris Agreement's target of keeping climate change well below 2C and as close to 1.5C as possible.

In 2017, AXA, Zurich and SCOR all announced restrictions on underwriting coal and Swiss Re is preparing a similar policy to take effect in 2018. The Financial Times applauded the new trend as "a welcome and logical development"[21].

Allianz, Munich Re, Generali and other insurers should immediately :

1. Commit to not renew existing coal insurance contracts or sign new contracts for coal projects in Poland. Several existing contracts will expire in the coming months.
2. Adopt a policy to end all insurance cover for new and existing coal mines, power plants and related infrastructure projects.

KOZIENICE HARD COAL POWER PLANT

Owner: Enea (state-owned)
Underwriters: Generali, Allianz, Munich Re, PZU[22]
Capacity: 4,016 MW including a new 1,075 MW unit completed in December 2017.

Kozienice is the second largest coal power plant in Europe. Before its recent expansion it was Europe's 10th most polluting coal plant, an estimated 650 premature deaths, 14,140 asthma attacks in children and more than 11 million tonnes of CO_2 emissions per year[23]. It is estimated that the new unit will cause a further 72 premature deaths annually[24]. In spite of these impacts, in April 2013 Generali, Allianz and Munich Re signed an underwriting contract[25] for the new 1,075 MW unit as part of a consortium led by Polish insurer PZU. Munich Re and Allianz should have been well aware of the plant's impacts, given that they have been part of the consortium underwriting the 10 original coal units through a contract ending in June 2018[26].

OPOLE HARD COAL POWER PLANT

Owner: PGE (state-owned)
Underwriters: Allianz, Generali, Munich Re, PZU[27]
Capacity: 1,532 MW with 1,800 MW additional capacity under construction.

Opole is the biggest coal power plant currently under construction in Europe, just over 100 kilometers from Katowice, where the international community will meet for COP24 in December 2018 to discuss the next steps to implement the Paris Climate Agreement. The plant already emits 5.8 million tonnes of CO_2 per year and it is estimated that the two new 900 MW units, due to be operational by 2019, will cause 62 premature deaths and 4,135 asthma attacks every year[28]. Opole is a symbol of the Polish government's determination to support its coal industry despite the costs to health, climate and the economy. PGE's CEO cancelled the expansion plan in 2013 because of its high financial risks, but was then put under political pressure to resign and the project was revived[29] . Allianz leads the consortium underwriting the expansion plan, which includes Generali, in a deal worth €34 million[30] that runs until February 2021[31].

TURÓW LIGNITE OPEN-PIT MINE

Owner: PGE
Underwriters: Generali, Munich Re[32]
Capacity: 7.5 million tonnes per year and over 300 million tonnes of reserves[33].

PGE plans to expand Turów mine to provide coal to a 460 MW unit currently under construction at its mine-mouth coal plant and keep both the mine and the plant operational until 2044. This development is strongly opposed by communities across the border in the Czech Republic because the mine already causes a significant reduction in groundwater levels, affecting drinking water for 30,000 people[34], while the coal plant affects air quality, an estimated 360 premature deaths per year. Generali and Munich Re are part of a consortium that provides cover to the mine in a contract running until 2019[35]. A landslide in the mine in autumn 2016 cost insurers nearly €12 million in equipment damage.

ZE PAK LIGNITE MINES AND POWER PLANTS

Owner: ZE PAK
Underwriters: Allianz, Munich Re[36]
Capacity: 1,906 MW of power capacity.
Production: 12.5 million tonnes per year and an additional 1 billion tonnes planned.

Lignite is the dirtiest form of coal and the sole business of ZE PAK. ZE PAK plans three new open-pit mines holding over a billion tonnes of lignite. Protests against ZE PAK's operations have attracted many thousands of people in southern Wielkopolska[37]. Allianz and three other insurers decided in 2016 to extend cover to ZE PAK plants and mines until March 2019, allowing the burning of lignite to continue and increase.

RISKY INVESTMENTS: FINANCING CLIMATE CHANGE

Beyond underwriting risks, insurance companies play a central role in financing the global economy. With total assets under management of approximately $31 trillion, they are one of the world's largest groups of institutional investors. Their decisions on where to invest this money can make a significant difference in the speed of our transition to a low-carbon economy. Divestment from coal not only hastens the phase-out of the most polluting fossil fuel, it also forms part of a prudent business strategy. In a speech to the insurance industry[39] Mark Carney, governor of the Bank of England and chairman of the international Financial Stability Board, warned in 2016 that investors risk "potentially huge" losses from climate action that could leave vast reserves of fossil fuels as worthless stranded assets.

Polish coal companies deserve to be at the top of every divestment list. Most of them, including PGE, Enea, ZE-PAK and Tauron, depend on coal for over 90% of their energy production and are planning or currently developing new coal mines or power plants. Most Polish power companies feature among the more aggressive coal plant developers on the Global Coal Exit List[40].

Despite government subsidies, it is estimated that around 80% of Polish coal mines are unprofitable. In fact, the entire coal mining industry in Poland generated a loss of €1.05 billion in 2015[41].

Forthcoming EU regulations on climate and air pollution as well as an EU Council decision to end subsidies for unprofitable coal mines from 2018 onwards will only increase the costs of producing and burning coal in Poland. Closing Polish coal plants early in line with the Paris Agreement could avoid losses of €2.7 billion[42].

Nevertheless, six European insurers hold a major stake in Polish coal companies through their local Polish pension fund subsidiaries owning more than €1.3 billion of shares between them. They own 8.6% of PGE, worth €468 million; 16.4% of ZE PAK, worth €30 million; 10.7% of ENEA, worth €201 million, 9.8% of Tauron, worth €117 million; and 7% of Energa worth €92 million[43].

The US insurer Metlife and the Polish insurer PZU also hold shares in these companies. In total, the eight insurers hold over €1.7 billion shares between them.

TABLE 1: INSURANCE COMPANIES INVESTING IN POLISH COAL

INSURER	TOTAL INVESTMENT (€MILLIONS)	POLISH COMPANY INVESTMENTS									
		PGE	ZE PAK	ENEA	ENERGA	FAMUR	JSW	Kogeneracja	Kopex	LW Bogdanka	Tauron
Nationale Nederlanden	493 €	X	X	X	X	X	X	X	X	X	X
Aviva (UK)	421 €	X	X	X	X	X	X	X		X	X
PZU (Polnd)	304 €	X	X	X	X	X	X	X		X	X
AEGON (NL)	162 €	X	X	X	X	X	X	X	X	X	X
AXA (France)	126 €	X	X	X	X	X	X			X	X
Metlife (US)	114 €	X		X	X	X	X			X	X
Generali (Italy)	73 €	X		X	X	X	X				X
Allianz (Germany)	38€	X	X	X	X	X		X			

THE TIDE TURNS AGAINST COAL INVESTMENT

Since 2015, 15 major insurers have announced action on coal. Dozens of small insurers have taken action as well. However, many have yet to take action, such as Generali which actually increased its holdings in Polish coal companies by €9.7 million in 2017.

Allianz, AXA and Aviva all began divesting from coal in 2015/16, but as the table shows, there are loopholes in their policies that leave them with substantial investments in Polish companies:

- Allianz is divesting its own assets from coal, but not the more than $1 trillion in third party assets, which it manages through subsidiaries such as PIMCO.
- Aviva is engaging with a number of coal companies but has only divested from very few, and like Allianz, its divestment policy does not extend to the third-party assets it manages. The fact that Aviva is still heavily invested in Polish companies that are actively expanding their coal business reveals the limitations of its divestment approach.
- AXA was the first major investor to announce in December 2017 that it would exclude the biggest coal producers from its portfolio as well as all the biggest coal plant developers. However, its policy only extends to some of the third-party assets it manages leaving parts of its global portfolio untouched by its coal policy.

"It is hard to justify backing an expansion of coal – even on commercial grounds, given the fact that most European coal plants are running at a loss and the risk that a clampdown by policymakers will create billions of 'stranded assets'

Financial Times editorial, 9 January 2018[38]

PGE - THE DIRTY DARLING OF THE INSURANCE INDUSTRY

Poland's PGE plans to build 5,260 MW of new coal power capacity, making it the number one coal power expansionist in Europe[44]. PGE is already Europe's second biggest CO_2 emitter and operates two of the continent's most polluting coal plants : Belchatów and Turów. Based on 2015 emissions of all EU coal power plants, PGE is estimated to be the company the most responsible for premature deaths due to air pollution[45]. PGE is building two 900 MW hard coal units at its Opole power plant and adding 460 MW of capacity to its lignite power plant at Turów. PGE is an active lignite miner with an annual production of 47 million tonnes, 79% of Polish lignite production, with plans to both expand its Turów mine and construct huge new greenfield mines. PGE also recently finalised the acquisition of the Rybnik hard coal power plant from French utility EDF.Despite clear evidence that PGE has no plan to diversify and align its activities with the Paris climate targets, eight insurance companies, all European with the exception of the US insurer MetLife hold shares worth €634 million, 11.7% of the company. Nationale Nederlanden and Aviva (€122 million) are by far the biggest investors, followed by AEGON, AXA, Generali and Allianz. Allianz and Generali have increased their percentage of shares in PGE from 2016 to 2017.

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CONCLUSION

Two years after the world's nations agreed at the COP21 conference in Paris to keep global warming well below 2 degrees Celsius and to pursue efforts to limit the increase to 1.5 degrees, some major European insurers are still not playing their part. By underwriting coal projects and investing in the companies behind, these projects, these insurers are supporting an industry that blocks the transition away from coal, causes thousands of premature deaths a year and is endangering the long-term well-being of all their clients.

Generali, Allianz and Munich Re are among major European insurance companies in Europe that still lack policies that limit their underwriting of coal projects. As this briefing reveals, they are the most actively involved in insuring dirty coal projects in Poland even though customers in their home countries, Germany and Italy, suffer the worst health impacts of Polish coal pollution outside of Poland itself.

Companies are under pressure as never before to demonstrate that they are aligning their businesses to support global action on climate change and to prosper in a low-carbon world. Allianz and Generali must take immediate action and clean up their underwriting and investment portfolios in order to act in the long-term interests of their customers and shareholders.

We call on all insurers to end coverage for all new and existing coal plants, mines and associated infrastructure projects. We further call on all insurers to end coverage and divest from companies covered by the following criteria:

1. All companies which plan investments in new coal power plants, mines and associated infrastructure;
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The Unfriend Coal campaign is an initiative by international civil society organisations to hold insurers to account for their action and inaction on climate change.

SOURCES AND CREDITS

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This briefing paper and further materials on coal insurance are available at www.unfriendcoal.com.

1 - UNEP, The Emissions Gap Report, 2017.

2 - Austria by 2020, France by 2022, UK by 2025, Italy by 2025, Netherlands by 2030, Portugal by 2030, Finland by 2030.

3 - Polish Geological Service, December 12, 2016, **Bilans zasobów złóż kopalin w Polsce. Stan na 31 2016**, p.33/36.

4 - At least six non-Polish European insurers have underwritten coal in Poland since 2013. Five have been involved in many contracts: Allianz; Generali;
Munich Re, through its subsidiary Ergo Hestia; Tuir Warta, which is part of Talanx, the majority owner of Hannover Re. Under Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors, state-owned companies have a mandatory requirement to publish information on the underwriting process.ZEPAK, a private company mentioned in this briefing, published information about its insurance cover in **its board report for 2016.**

5 - Six European insurers invested in Polish coal companies: Nationale Nederlanden, Aviva, AEGON, AXA, Generali, Allianz. Polish pension funds are required to publish their yearly portfolio at the end of each year by 15.01 of the following year in accordance with art. 193 ust. 3 of the bill from 28 August 1997 on the organization and functioning of the pension funds (Dz. U. z 2017 r. poz. 870 ze zm.)

6 -The Economist, January 18, 2018, Why 33 of the 50 most-polluted towns in **Europe are in Poland**, viewed on January 29, 2018.

7 - Tuir Warta is also involved in this contract, which is part of the German insurance company Talanx, which is the majority owner of Hannover Re. Munich Re is involved through its subsidiary Ergo Hestia.

8 - WWF European Office, CAN Europe, Sandbag, HEAL in Brussels, June 2016, **Europe's Dark Cloud,** p. 16.

9 - Carbon Tracker Initiative, December 2017, **Lignite of the Living Dead**, p. 33.

10 - The Financial Times, January 4, 2018, **Insurers faced record $135bn in costs from natural disasters in 2017** – Munich Re, viewed on January 29, 2018.

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13- Allianz divested from mining companies deriving 30% or more of their revenues from mining thermal coal as well as from electric utilities deriving 30% or more of their generated electricity from thermal coal. **Allianz, November 2015, Allianz Statement on Coal-based Investments.**

14 - Friends of the Earth France and urgewald, **AXA sets milestone for fossil fuel divestment**, viewed on January 29, 2018.

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16 - The Financial Times, January 8, 2018, **Insurers go cold on coal industry,** viewed on January 29, 2018.

17 - See footnote 4

18 - WWF European Office, CAN Europe, Sandbag, HEAL in Brussels, June 2016, **Europe's Dark Cloud**, p. 16.

19 - WWF European Office, CAN Europe, Sandbag, HEAL in Brussels, June 2016, **Europe's Dark Cloud**, p. 17.

20 - Thomas Buberl, AXA press release, December 12, 2017, **AXA accelerates its commitment to fight climate change.**

21 - The Financial Times, Editorial, January 9, 2018, **Insurers join in on the slow squeeze on coal.**

22- Munich Re is involved through its subsidiary Ergo Hestia. Tuir Warta is also involved in this contract, which is part of the German insurance company Talanx, which is the majority owner of Hannover Re.

23 - WWF European Office, CAN Europe, Sandbag, HEAL in Brussels, June 2016, **Europe's Dark Cloud**, p. 34/37.

24 - Greenpeace, June 2016, **Coal kills**, p. 32.

25 - Source: **Teb website,** viewed on January 29, 2018.

26 - Source: **Ted website**, viewed on January 29, 2018.

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35 - Source: **Ted website,** viewed on January 29, 2018.

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