REINSURING CLIMATE CHAOS

September 2018

Unfriend COAL

A year ago, a series of superstorms battered the insurance industry, with Hurricane Harvey alone causing USD $85 billion in damage (1). **Scientists and insurers alike recognized that climate change played a role in bolstering the storms' intensity. However, a year later, reinsurers are still underwriting a major climate culprit: coal.**

From September 8-14, 2018, the major players in the world reinsurance market are meeting for the 62nd edition of the Rendez-Vous de Septembre in Monte-Carlo. Gathered in a city-state known for its advantageous tax treatment, its luxury boats and its casinos, they will start negotiating the renewal of reinsurance treaties (2).

Given the increasing frequency and intensity of climate-related events, reinsurers like Munich Re, Hannover Re, SCOR, Berkshire Hathaway and others must not only follow but improve on the example of Swiss Re and end – for good – their insurance and reinsurance support to coal projects and companies.

Climate science has made it clear there is no more room for new coal. The UN recently called for a stop to new coal power plants and an accelerated phase-out of existing plants as a key means of keeping global warming well below 2 °C above pre-industrial levels and as close as possible to 1.5 °C (4). Recent analysis by the IEA into the "beyond 2°C scenario" indicates the need to phase out existing coal capacity by 2030 in the European Union and in Organisation for Economic Co-operation and Development (OECD) countries and by 2040 in the rest of the world.

Reinsurers are uniquely placed to drive the transition from coal to clean energy. Coal companies need insurance coverage to operate their coal mines or build new power plants. But because the risks associated with the coal sector are many, varied and important, with the sums insured for a single project reaching billions of dollars, **insurers tend to cede a part of the risks to a reinsurer. Moreover, with a growing number of major insurers pulling out of the coal sector, smaller insurers might have to cede a bigger share of the risks to reinsurers, increasing the role of these very last managers of risks.**

But reinsurers can decide to stop underwriting and investing in the coal sector. While the number of reinsurers active in the coal market can be counted on the fingers of two hands, it would only need the withdrawal of the biggest among them to challenge the expansion of the coal sector and hasten its phase-out.

> **On behalf of future generations, we should be making every effort to reduce CO2 emissions. After all, the lower we keep the rise in global warming, the less severe the consequences will be for everyone.**
>
> ***Joachim Wenning, CEO Munich Re (3)***

Swiss Re, Munich Re, Hannover Re, SCOR and Berkshire Hathaway dominate the reinsurance market, with a combined share of global premiums of 44% in 2016. Companies accounting for 32% of global premiums have so far adopted some limits on underwriting coal, but all their policies contain large and in many cases gaping loopholes. (5)

In July 2018, Swiss Re became the first and still the only reinsurer to announce it will no longer provide insurance coverage to coal projects and to companies generating more than 30% of their revenues or power production from coal. On the opposite side of climate leadership, **Hannover Re and Berkshire Hathaway have so far failed to take any action on underwriting coal and continue to insure all risks related to the coal sector.**

Between the two poles lie Munich Re and SCOR which have only taken baby steps, ruling out a tiny part of their support for coal and leaving untouched the bulk of it. Contrary to Swiss Re and other major European insurers such as Allianz and AXA, **their policies cover some but not all new coal projects. Moreover, existing projects are hardly affected by their policies or simply ignored.**

But most troubling, **even these restrictions have major loopholes. Typically, they apply only to contracts that cover a specific risk or project – called facultative reinsurance – and not to contracts that cover multiple risks, companies or projects – called treaty reinsurance.** The restrictions they apply to their direct insurance business suffer the same loopholes, with only stand-alone or single-site insurance covered. Under its new policy, Munich Re for example is expected to not directly insure the new Ostroleka C 1000 MW power plant in Poland through its subsidiary Ergo or reinsure it through facultative reinsurance. However, it could still support the project by providing treaty reinsurance to the main Polish insurer, PZU. In fact, coal companies and their insurers could respond to the restrictions on facultative reinsurance by acquiring more treaty reinsurance from the very same carriers.

Reinsurers' failure to act on all types of coverage opens room for inconsistency and allows anyone to question their sincerity about tackling climate change. Their apparent hypocrisy appears even more gross as reinsurers have been among the earliest voices warning about climate-related risks. Munich Re conducted research as early as 1973 that warned about the danger of floods from global warming (6), so there is no doubt that Munich Re has a long-term and deep understanding of the climate impacts being experienced today. And if last year's natural disasters were more frequent than previous ones, they only gave us a "taste of the future", according to the chair of Munich Re's own reinsurance committee, Torsten Jeworrek.

The escalating climate crisis will sooner or later overwhelm the industry's ability to absorb growing risks through increased premiums, and make growing parts of the planet uninsurable. But **insurers already face the risk of losing the support of major climate-conscious shareholders. In June of this year, Nordea, Hermes and Union Investment made publicly clear that insurers who fail to act quickly enough on climate issues will be subject to close scrutiny by a growing number of investors.** Ingo Speich, a fund manager at Union Investment, a top-10 Munich Re investor, stated, "We haven't seen any strict policy yet. Is it bad for the company from an outside perspective? In general, yes." (7)


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From a risk perspective, every insurer should have a (underwriting) policy on coal.

Ingo Speich, Union Investment's fund manager (7)

While there is still time to act, Munich Re, Hannover Re, SCOR, Berkshire Hathaway and other reinsurers should join other leaders of the industry and move away from coal. To act now would be very timely. This week, political and economic leaders are meeting in San Francisco for the Global Climate Action Summit. This event, which intends to "Take Ambition to the Next Level" in order to "put the globe on track to prevent dangerous climate change and realize the historic Paris Agreement," will open a series of other international meetings that will pave the way toward the UN's COP24 conference in December 2018.

The UN's COP24 conference will focus global attention on the role played by Polish companies and investors, insurers and financiers in undermining the transition from coal to clean energy sources. Katowice, where delegates from nearly 200 countries will meet to agree on next steps to implement the Paris Agreement, sits in the center of the coal mining region of Silesia and is one of the 50 most polluted towns in Europe.

Very recently, SCOR published a new report that examines the risks linked to air pollution, and recommends a disengagement from the coal industry on both the asset management and the underwriting sides (SCOR, Health impacts of air pollution, July 2018). There has definitely never been a better time for the reinsurance industry to stop talking and start acting.


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OVERVIEW OF THE POLICIES ADOPTED BY MAJOR REINSURERS ON COAL (8)

		SWISS RE	MUNICH RE	HANNOVER RE	SCOR	BERKSHIRE HATHAWAY
	Market share in %	13.8	12.9	6.7	5.7	4.9
	Based in	Switzerland	Germany	Germany	France	US
UNDERWRITING POLICY APPLIES TO	New coal mines and plants	Strong policy	Highly limited policy	No policy	Highly limited policy	No policy
	Existing coal mines and plants	Strong policy	No policy	No policy	Highly limited policy	No policy
	All companies which generate more than 30% of their revenues or power from coal	Strong policy	No policy	No policy	No policy	No policy
	All companies which produce more than 20 million tons of coal a year or have more than 10 GW of coal power capacity	No policy	No policy	No policy	No policy	No policy
	All companies with coal expansion plans	No policy	No policy	No policy	No policy	No policy
	Treaty reinsurance and package insurance	Highly limited policy	No policy	No policy	No policy	No policy
DIVESTMENT POLICY APPLIES TO	All mining companies which generate more than 30% of their revenues from coal	Strong policy	Strong policy	Strong policy	Strong policy	No policy
	All companies which produce more than 20 million tons of coal a year	No policy	No policy	No policy	No policy	No policy
	All mining companies with coal expansion plans	No policy	No policy	No policy	No policy	No policy
	All companies which generate more than 30% of power from coal	Strong policy	Limited policy	Limited policy	Limited policy	No policy
	All companies which have more than 10 GW of coal power capacity	No policy	No policy	No policy	No policy	No policy
	All power companies with coal expansion plans	No policy	No policy	No policy	Limited policy	No policy
	Third party assets	N/A	No policy	N/A	No policy	No policy

Strong policy · Limited policy · Highly limited policy · No policy

REINSURERS FAIL TO ADOPT UNDERWRITING EXCLUSION ON ALL COAL

There is no room for new coal in the world carbon budget available to keep global warming well below 2°C. However, more than 1200 coal power units accounting for over 630 GW of new coal capacity currently remain in planning or under construction (9).

Only Swiss Re has taken notice of this threat and has adopted restrictions criteria which apply to all new coal mines and plants. **SCOR has only ruled out support to new coal mines and new lignite plants, leaving room to underwrite new coal plants worldwide. Munich Re has recently stated it may keep providing insurance coverage to new coal projects located outside the industrialized world. Although this term needs to be clarified, it already seems like a huge loophole. If "industrialized countries" refers to countries that are classified by the World Bank as having a high-income economy, Munich Re's exclusion covers less than 8% of the new coal capacity that is currently planned or under construction (10).**

Regarding existing projects, even fewer reinsurers have started to act. Again, Swiss Re is the only one to have adopted restrictions that cover all existing coal mines and plants, while SCOR's policy only applies to existing lignite mines and plants.

Swiss Re is also the only reinsurer to have adopted restrictions that cover some companies (rather than only projects) active in the coal sector. Swiss Re excludes companies that generate more than 30% of their revenues or power production from coal.

However, **even these minor restrictions do not apply to all insurance products provided by the reinsurance industry to the coal sector.** Munich Re and SCOR's commitments only apply to stand-alone insurance and facultative reinsurance, when only the risks specific to a single coal asset are covered. Swiss Re says it applies its policy across all business lines but does not offer any details on how the policy is applied to treaty reinsurance.

While these loopholes might not have a big impact on new coal, they undermine the value of the commitments taken on existing coal assets. Indeed, while new coal assets are likely to be insured mainly through stand-alone insurance, or through facultative reinsurance, existing assets are likely to be insured mainly through insurance packages or treaty reinsurance. **Unless reinsurers close this loophole, they will not play their part in guaranteeing all existing coal capacity is phased out on time to meet the Paris Agreement's climate targets.**

OSTROLEKA C COAL POWER PLANT: A TEST CASE FOR THE REINSURANCE INDUSTRY

The 1000 MW new coal plant Ostroleka C in Poland is a good test case to assess how serious reinsurers are when it come to tackling climate change and supporting Europe to move beyond coal. **Developed by Polish state-controlled utilities Energa and Enea, the proposed plant would begin operation in 2023 and run 40 years until 2063. This is 33 years after the timeline for Europe to have phased out its coal power plants, as required in order to meet the Paris Agreement's climate targets.**

According to independent experts, over 30 years of operation, **the Ostroleka C power plant would cause between 900 and 2000 premature deaths, over 3000 cases of bronchitis, and between 50,000 and 100,000 asthma attacks in children.** The pollution caused by the project would also have disastrous impacts on biodiversity and water quality. Ostroleka C is planned near two Natura 2000 regions (11). Finally, critics widely question Ostroleka C on economic grounds. The project was put on hold in 2012 because of high economic risks, and the economic prospects of the project have only worsened as the prices of carbon allowances have gone up.

Research by the Foundation "Development Yes - Open Pit Mines No" and the Unfriend Coal campaign found that Munich Re was one of the biggest insurers of polluting coal mines and power plants in Poland, with its subsidiary Ergo Hestia signing at least 18 insurance contracts since 2013. Only **the Polish insurer PZU and TuIR Warta, a subsidiary of the Talanx group to which Hannover Re belongs, have been involved in more contracts: 20 each since 2013.**

Moreover, **Munich Re, Hannover Re, Scor and Swiss Re were listed in 2016 as the top reinsurers, through treaty reinsurance, of the Polish insurer PZU (12). Munich Re and Hannover Re were again identified as top reinsurers,** along with Lloyd's and VIG, in PZU's 2017 annual report (13). **Because PZU is playing a growing role in underwriting the Polish coal market, reinsurers must not only commit to not directly insure Ostroleka C (or indirectly if the plant gets insured through an insurance package) but must also rule out for good all support to coal projects and companies through treaty reinsurance.**

REINSURERS FAIL AS INVESTORS TO CLEAN UP THEIR PORTFOLIO

Like others players in the insurance industry, reinsurers started divesting from coal before finally starting to apply restrictions on coal to their main activity, which is underwriting. Despite the fact that four of the five top reinsurers have now divested part of their assets from coal, they are still lagging behind best practices in many ways.

Swiss Re, Munich Re, SCOR and Hannover Re have committed to divesting from companies based on the percentage of their exposure to the coal sector. While Swiss Re, SCOR and Munich Re used the commonly used threshold of 30%, Hannover Re went further, with a 25% threshold. However, Munich Re, SCOR and Hannover Re fail to apply the policy to the assets they manage for third parties.

Apart from SCOR, who committed to no longer invest in the 120 companies listed in urgewald's Coal Plant Developers List (14), no other reinsurer has adopted a forward-looking divestment criterion and excluded companies based on their expansion plans in the coal sector.

Finally, none has adopted an absolute divestment threshold that would cover diversified companies that don't meet the relative exclusion threshold but whose sheer size of coal operations ranks them among the top coal plant operators and top coal producers.

The Unfriend Coal campaign calls on all reinsurers to adopt a public and detailed "no-coal policy" in which they commit to end all insurance coverage for new and existing coal plants, mines, and associated infrastructure projects, and to stop underwriting and divest from companies covered by the following criteria:

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

This should cover both facultative and treaty reinsurance and be applied to existing and potential new customers alike.

Moreover, reinsurers should commit to align their business models with climate science-based targets that are consistent with the goals of the UN Paris Climate Agreement. This implies that they must actively engage with coal companies that are not covered by the above criteria in order to push them to close all their coal assets by 2030 in OECD/Europe, and by 2040 globally.

SOURCES AND CREDITS

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This briefing paper and further materials on coal insurance are available at www.unfriendcoal.com. This briefing is part of the Unfriend Coal campaign which holds insurers to account for their action and inaction on climate change.

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