



AIA KICK OUT COAL!

November 2020



AIA is one of the world's biggest life insurance companies and one of the largest corporations headquartered in Hong Kong. Its ambitions match its size, in that AIA aims to be "the world's pre-eminent life insurance provider". Its main brand promise is to "help people live healthier, longer, better lives".

In many ways AIA tries to live up to its lofty goals. But the company has a dirty little secret: unlike many of its peers, it still invests in polluting coal companies and projects. These investments contradict its healthy lifestyle brand and set it apart from the leaders in the global insurance industry. They also conflict with the climate commitments of its main sponsoring partner, Tottenham Hotspur Football Club.

AIA came under new leadership in June 2020. Its new CEO, Lee Yuan Siong, has a chance to address the gap in AIA's climate policy and turn the insurer into the global leader it claims to be.

A CORPORATE GIANT WITH A FOCUS ON SUSTAINABILITY?

AIA offers services in 18 countries and regions across the Asia-Pacific and at the end of 2019 held assets of \$284 billion.¹ The life insurer manages more than 36 million individual policies and covers more than 16 million people through group policies. In other words, AIA could cover the whole population of South Korea with its policies.

In a survey conducted by *Forbes* magazine in 2019, AIA was ranked as the world's most respected life insurance company based on its trustworthiness, social conduct, services and role as an employer.² AIA is also considered the best company to work for in several Asian countries.

As a large asset owner AIA has adopted a Responsible Investment Policy, which covers its equity, bonds and real estate holdings. As part of its investment process AIA assesses companies against a range of ESG criteria, including "water shortage, energy supply, climate change, environmental regulations, labor supply and relations, resource scarcity/bottleneck,



"If we are not leading the charge on climate change, who would?"

— Oliver Bäte, CEO, Allianz

management capability and integrity, and financial management".

AIA published a Climate Change Statement in May 2018. According to this statement it "welcomes and supports the Paris Agreement as a critically important initiative to safeguarding the well-being of people across the globe, and towards ensuring sustainable and inclusive growth". The life insurer has signed the UN Principles for Responsible Investment (UN PRI) and is a member of the Climate Action 100+ (CA100+) investor initiative.

As Chief Investment Officer Mark Konyn explained in May 2020, AIA works to align its investment portfolio with the business purpose of the company. At an ESG webinar organized by Bloomberg News, Konyn stated: "Our value proposition is to help our customers lead healthier, longer, better lives. ... The investment program takes that value proposition and turns it into an ethos around how we allocate financial resources. We believe if we pursue investment strategies that are sustainable they deliver the financial results that the group needs but do it in a way that aligns with our value proposition."³

COAL: A STAIN ON A HEALTHY IMAGE

Through its Vitality Program, AIA provides its customers a range of incentives in line with its healthy lifestyle motto. It encourages regular exercise and healthy living, offering discounts on fitness center memberships, health check-ups, nutritional advice, quit smoking courses etc., and offers active program participants reduced insurance premiums.

1 All \$ values in this briefing paper refer to USD.

2 See *Forbes*, The World's Best Regarded Companies, September 18, 2019

3 Bloomberg Women's Buyside Network, The role of ESG in a decade of disruption, May 21, 2020

However, despite its healthy lifestyle image the life insurer is still invested in coal. With estimated coal assets of \$6 billion, AIA has likely invested more than \$100 in the mining and burning of coal for every policy holder and member of a group policy. Supporting coal is the polar opposite of promoting healthier, longer, better lives:

- **Pollution:** Every stage of the coal cycle – from mining to transporting, processing and burning coal – is highly polluting. Open pit mines destroy large swaths of forests and farmlands. Coal mines contaminate rivers, lakes and groundwater with heavy metals like arsenic, copper, and lead. The processing and burning of coal create billions of tons of toxic coal slurry and ash. The burning of coal also emits hazardous pollutants, including particulate matter, sulfur dioxide, nitrogen oxides, carbon dioxide, mercury and arsenic.
- **Health impacts:** The pollution from mining and burning coal increases the risk of lung cancer, stroke, heart disease, infections like COVID-19 and chronic respiratory diseases like asthma. Children, elderly people and pregnant women are at the highest risk of such health impacts. Coal-related pollution is responsible for more than 800,000 premature deaths every year, in addition to millions of people falling ill. 670,000 premature deaths from coal pollution are estimated to occur in China alone every year.⁴
- **Climate change:** According to the Global Carbon Project, burning coal accounted for 40% of global CO₂ emissions in 2018. (This does not include emissions from land use changes, for which no recent data exist.)⁵ With ever worsening heatwaves, droughts, floods and typhoons, climate change severely threatens ecosystems, livelihoods and public health throughout the Asia-Pacific, with many of AIA's main markets being the most severely affected. UN Secretary General António Guterres has called for an end to the construction of new coal projects, and the IPCC has shown that coal combustion needs to be quickly phased out for a chance to limit global warming to 1.5 °C.⁶

4 See <https://endcoal.org/health/> for a compilation of relevant studies.

5 Global Carbon Project, <http://www.globalcarbonatlas.org/en/CO2-emissions>

6 IPCC, Global Warming of 1.5 °C, October 2018

INSURERS DIVESTING FROM COAL

Insurance companies have a long-term self-interest to promote public health, environmental protection and climate mitigation. For this reason, numerous insurance companies have divested their assets from the coal industry in recent years. According to research by the Insure Our Future campaign, 65 insurers with combined assets of \$12 trillion have so far divested from coal.⁷ Among the 20 insurance companies which have joined the CA100+ investor initiative, all except for AIA and two small local insurers have divested from coal or at least adopted some restrictions on new coal investments.

By divesting from coal and shifting investments into renewable energy, insurance companies can put their money where their mouth is. "If we are not leading the charge on climate change, who would?", asked Allianz CEO Oliver Bäte, whose company has lost billions of dollars from natural disasters in recent years.⁸ Mario Greco, the CEO of Zurich, said that this "is simply the right thing to do".⁹

Divesting from coal doesn't only align insurers' investments with their public brands, it also makes good business sense. Since Allianz divested from coal in November 2015, the Dow Jones US Coal Index has on average lost more than 25% of its value every year. In comparison, the S&P 500 index gained an average of 11% year by year during this period.

Investors in other words have made an annual profit of almost 37% on shifting their assets from the US Coal to the S&P 500 index since 2015. In contrast, investors which kept coal in their portfolios saw their assets largely being stranded over the past five years.

7 Insure Our Future campaign, Insuring Fossil Fuels No More, 2020 Scorecard on Insurance, Fossil Fuels and Climate Change (forthcoming)

8 See Allianz commits to a low-carbon economy, May 4, 2018, viewed at <https://www.youtube.com/watch?v=4LCy9EVzCvU&feature=youtu.be>

9 Zurich signs up to UN business pledge to limit global temperature rise and announces it will use only renewable energy by 2022, Media release, June 25, 2019



Will AIA divest from all coal assets, including Tenaga's power plants in Malaysia?
(Source: Power Engineering International)

AIA'S COAL INVESTMENTS

AIA manages a large investment portfolio of more than \$200 billion. It typically holds close to 80% of its assets in corporate and government bonds, about 10% in equities and the rest, in loans, real estate, cash and other instruments. According to the life insurer's 2019 ESG report, AIA has invested about \$30 billion in the infrastructure sector.

Due to a lack of disclosure requirements, it is impossible to identify exactly how much AIA has invested in the coal industry. Using a variety of methods, an analysis commissioned for this briefing paper concluded that the life insurer has invested at least \$3 billion and most likely about \$6 billion in the coal sector.¹⁰ These investments include bonds and equities of coal power utilities as well as loans for specific coal projects.

To mention two specific examples, AIA currently has an equity holding of approximately \$125 million in Tenaga Nasional Berhad. Tenaga operates more than 26,000 megawatt of power plants in Malaysia and other countries, 54% of which consist of coal power capacity. In 2013 AIA's wholly owned subsidiary Philam Life extended a loan of \$21 million for the Toledo coal power plant in Cebu/Philippines.

Astoundingly, according to AIA's 2019 ESG report, the average carbon intensity of the life insurer's equity portfolio amounts to 301.8 tonnes of CO₂e per million US dollar. This compares unfavorably with the MSCI Emerging Markets ESG Leaders, whose investments according to the MSCI Index Carbon Footprint Metrics had an average carbon intensity of 208.8 tonnes per million US dollar in April 2020. Dollar for dollar AIA, in other words, emits almost 50% more carbon from its investment portfolio than the companies it considers its peers.

Several Asian life insurers are known to consider divesting from coal but with policies which are often very weak and allow the financing of hundreds of new coal projects. To be credible an AIA divestment policy must cover all types of coal companies and investments (see p. 6).

10 Norman Waite, Overview of AIA Group investment exposure to thermal coal energy, October 2020

END IT LIKE BECKHAM

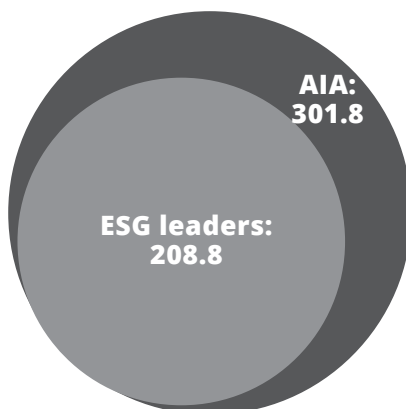
Since 2013 AIA has had a global presence as the shirt sponsor of Tottenham Hotspur, the London-based Premier League football club which reached the finals of the UEFA Champions League in 2019. The team's Korean top scorer Son Heung-Min is considered the most popular football player in Asia.

AIA has also engaged former football star David Beckham as its global brand ambassador. Both endorsements are meant to emphasize the life insurer's healthy lifestyle brand.

Working with film maker David Attenborough, David Beckham has been vocal about the need for stronger climate action. Tottenham has also expressed support for climate action for more than 10 years. In October 2020, the football club was a founding member of the Count Us In climate campaign and will engage its global fanbase to take some of the 16 steps advocated by campaign over the coming year.

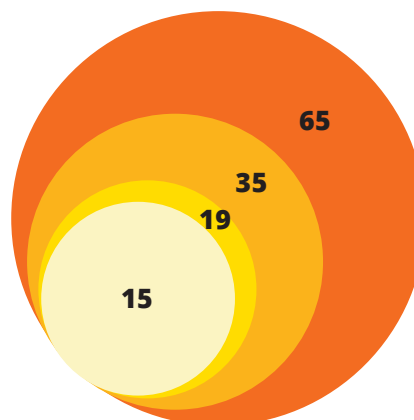
One of the steps the Count Us In campaign propagates is to "green your money: choose financial institutions and funds that invest responsibly". What will David Beckham and Spurs do when they find out about AIA's ongoing support for the coal industry? Will Spurs have to call on their fans to shift their insurance policies away from their main sponsor AIA?

**FIGURE 1:
CARBON INTENSITY
OF INVESTMENTS**

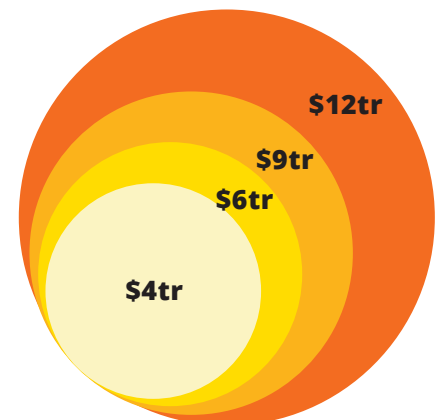


Carbon intensity of investments, in tonnes of CO2e per million USD

**FIGURE 2:
INSURERS DIVESTING FROM COAL**



Insurers divesting from coal in some form (number)



Insurance assets covered by divestment policies (approximate)

CONCLUSION

“There will be situations where certain assets within the business potentially become stranded as we move forward with the ESG agenda particularly around climate change”, AIA’s CIO Mark Konyn stated at a webinar in May 2020.¹¹ This situation has clearly arrived for the life insurer’s coal assets.

AIA has likely invested approximately \$6 billion in bonds, equities and loans to coal companies. The carbon intensity of its equity portfolio is almost 50% higher than the carbon footprint of the portfolio of the MSCI Emerging Markets ESG Leaders. AIA is the only international insurance company in the CA 100+ investor initiative which has neither divested from coal nor adopted any other restrictions on coal investments.

AIA’s continued support for coal undermines the credibility of its pledge to “help people live healthier, longer, better lives”. It contradicts the climate commitments of its sponsoring partner, Tottenham Hotspur, and its brand ambassador David Beckham. It also does not make good business sense. In short, continued support for coal is incompatible with AIA’s goal to become “the world’s pre-eminent life insurance provider”.

In June 2020, Lee Yuan Siong joined AIA as the company’s new CEO. He has a real opportunity to align the insurer’s investments better with its public brand, address the gaps in its climate policy and live up to its ambitions as a corporate leader. Under Lee’s leadership AIA should adopt a coal divestment policy which meets the following criteria:

- The policy should cover all companies that are planning new coal mining, power or infrastructure projects; or generate at least 20% of their revenue from mining coal or at least 20% of their electricity from burning coal; or produce at least 10 million tonnes of coal per year, or operate at least 5,000 megawatts of coal-fired power stations.
- The policy should cover all types of financial assets (equities, bonds and loans).
- The policy should be binding and publicly accessible.

If and when AIA divests from coal, it needs to do so without any exceptions. Simply divesting from companies which depend on coal for more than 30% of their revenues would allow AIA to continue investing in 188 companies with a combined coal power capacity of 527,500 megawatt – more than a quarter of the world’s current coal fleet. It would also allow the insurer to continue investing in 166 companies which still plan to build 223,600 megawatt of new coal projects – three times the current coal capacity of the U.S.¹² If AIA exempted projects which are included in host governments’ climate plans, it could likewise still finance scores of new projects which violate the Paris Agreement.

Divesting from sectors which are not compatible with its brand is not an alien concept for AIA. According to its responsible investment policy, the life insurer “excludes companies manufacturing tobacco and cluster ammunition from its investment portfolio” without any exceptions. It is high time for the company to divest from all coal as well.

IMPRINT:

AIA’s Dirty Little Secret

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www.AIAkickoutcoal.com



11 Bloomberg Women’s Buyside Network, The role of ESG in a decade of disruption, May 21, 2020

12 Analysis of the Global Coal Exit List conducted by Urgewald for the Insure Our Future campaign, November 2020