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Allianz: Frontrunner on Climate Change in Danger of Losing Ground

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Introduction

Since 2015, Allianz has been rightfully praised for its divestment from coal. The company must now also take the next logical steps:

1. The company must cease to offer insurance services to coal companies from which it has divested share and bond holdings.

2. Recent research on financial investments shows that the Allianz investment portfolio still contains vast amounts of shares and bonds from major coal companies such as India's NTPC or the Polish energy utilities PGE, Energa and Enea. This is in line with the Allianz divestment decision because the decision only pertains to investments the company makes on its own account. To fully exclude coal investments from its portfolio, Allianz must extend its divestment decision to funds it manages on behalf of third parties.

French insurance company AXA committed to doing just that at its 2017 Annual General shareholder meeting (AGM): Exclude insurance of coal companies covered by its divestment decision and extend the divestment to funds the company manages on behalf of third parties.

3. Alliance must also cut ties with companies that do not fall under the threshold of at least 30 percent share of coal but that have massive expansion plans for coal extraction or consumption.

In 2015, Allianz made history with its announcement to exclude coal companies from its portfolio. The divestment decision applies to companies that generate a minimum of 30 percent of their revenue from the sale of coal and those that use coal for at least 30 percent of their electricity generation. Shares of companies that fall under either of these criteria will be sold and bonds will not be renewed when they mature. Allianz CEO Oliver Bäte has since become a welcome guest at events on divestment and corporate climate responsibility of investors.

Allianz must not rest on its laurels. Competitor AXA took the logical next step at its AGM in April 2017: the French insurance company announced that it will phase out underwriting of coal companies from which it has divested because of their share of coal in earnings or electricity generation. For Allianz to maintain its position as frontrunner on climate protection, it must now also take this next step. The company even has the opportunity to stay ahead of the curve: the Allianz divestment decision is based on a threshold of 30 percent share of coal and thus includes more companies than the AXA commitment with its 50 percent threshold on the share of coal in revenue or electricity generation.

Good Reasons for Exclusion of Coal Companies

To dry up investment available to coal companies and exclude them from insurance services is necessary on ecological grounds because coal is the most damaging fossil fuel when it comes to climate change. Scientists have warned 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]

The insurance industry has a self-interest in avoiding runaway climate chaos. During the last three decades, insurance payouts as a result of natural disasters have shown a continuous rise. *"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."*[2] A study commissioned by the German Ministry of Finance equally warns that increased and more widespread and variable damage as a result of extreme weather events will reduce insurability of climate risks. *"In the extreme case,"* the study notes, the *"solvency of individual companies could be called into question."*[3]

Regulators and investors have thus taken in the fact that climate change presents a risk to the market. They are also aware of the problem of a "carbon bubble": that the unavoidable transition to a low-carbon economy reduces the value of coal, oil and gas companies and that there is an increasing risk of having to write off entire investments (e.g. in coal fired power stations or coal mines). Insurance broker 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."* [4]

Risks arising from insuring coal

Climate liability lawsuits, which are on the rise worldwide, present a new risks for insurance companies. They are directed not only at governments that approve new coal fired power stations or fail to reduce national greenhouse gas emissions but also against corporations. In California, for example, three counties and cities have brought cases against 37 fossil fuel companies, including coal companies such as Chevron, BP, ExxonMobil, Shell as well as Peabody Energy, Arch Coal and Rio Tinto, citing corporate liability for rising sea leaves**.**[5]

The Bank of England's Prudential Regulation Authority warns that such 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*

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

[3] www.bundesfinanzministerium.de/Content/DE/Monatsberichte/2016/08/Inhalte/Kapitel-3-Analysen/3-2-Relevanz-des-Klimawandels-fuer-die-Finanzmaerkte.html , own translation

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

[5] 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.

claims emerge", the Authority stated in 2015.[6] By 2015, liability claims against asbestos companies in the U.S. had caused estimated losses of US$85 billion to insurance companies.

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Ecological Performance of Allianz

The Allianz website suggests that the insurance company has taken the problem on board:

"Any talk about sustainability is incomplete if climate change is not considered. At Allianz, we are not only actively engaging in this discussion but also take action at the company level to make our contribution."[8]

In November 2015, Allianz announced its divestment from coal. Since then, it has sold shares worth EUR 225 million and did not renew bonds worth EUR 3,9 billion.[9] According to its 2016 Sustainability report, Allianz invests EUR 4,6 billion in Renewable Energies and is planning to at least double in the medium term.[10]

However, much remains to be done: Research carried out in April 2017 by the consultancy Profundo found that Allianz continues to hold and manage fossil fuel related investments worth US$ 59 billion, a share of 6,6 percent of all investments found.[11] This includes investments Allianz managed for third parties. The coal divestment declaration currently only applies to investments Allianz makes on its own account. Another reason for the high figures is that in addition to coal investments, investments in oil and gas were also included in the research. With investments of $59 billion, Allianz is by far the largest fossil fuel investor among all the world's insurance companies.

Current equity holdings of Allianz in coal

Additional research from July 2017 by Profundo assessed Allianz equity and bond holdings in coal companies that are among the 120 most important coal power plant developers worldwide, which Urgewald published in late June 2017 at https://coalexit.org/ . The companies included on the Urgewald list are responsible for around two thirds of the planned new coal power plant capacity worldwide.

The new Profundo research includes both bonds and shares. Bonds held at the end of 2016 were compared with current bond figures. In the case of equity, the value of shares held at the end of October 2015 (before the divestment declaration) was compared with current figures.

Company	Country	Value of **Bonds** before End of 2016 (in US$)	Value of **Bonds** held at 07 /2017 (in US$)
RWE AG	Germany	-	27,784,000

[6] Prudential Regulation Authority, The impact of climate change on the UK insurance sector, September 2015, pp. 7f.
[7] Swiss Re (2009), The globalisation of collective redress: consequences for the insurance industry, p. 3.
[8] www.allianz.com/de/presse/news/engagement/umwelt/170314_Klimawandel/
[9] www.allianz.com/v_1491902296000/media/investor_relations/en/results/2016_fy/2016-Sustainability-Report-Embracing-the-Future.pdf P.34
[10] ibd. P. 16
[11] https://de.scribd.com/document/346370379/Profundo-Report-Final-The-involvement-of-European-insurance-groups-in-the-fossil-fuels-sector#from_embed, P.11 ff.

Eskom	South Africa	44,400,000	15,050,000
CEZ	Czech Republic	15,334,000	15,334,000
NTPC	India	1,900,000	1,100,000
Tauron	Poland	202,000	-
Posco	South Korea	6,300,000	6,300,000
Total		68,136,000	65,568,000

Source: Profundo research July 2017

Surprisingly, the list of Allianz holdings continues to include bonds issued by energy utilities RWE, Eskom, CEZ, NTPC, Tauron and Posco. At present, coal based electricity generation at South Korean Posco makes up 8 percent of total electricity production, which keeps the company well below the 30 percent threshold for coal included in the Allianz divestment declaration. The company has been included in the list of key developers of coal fired power plants because of its involvement in coal power expansion plans in South Korea, Botswana and Mongolia.

All other companies listed do not only have significant expansion plans but their share of coal in electricity generation is already above the 30 percent threshold of the divestment declaration. Bonds of these companies should thus already no longer be part of the Allianz portfolio. There are two possible explanations for the continued presence of these companies on the list: either, bonds in these companies have not matured yet. An indication that this might be the case is the shrinking value of bonds (with the exception of RWE). Or these bonds are managed by Allianz for third parties, and are thus not covered by the divestment decision which applies only to investments Allianz makes on its own account.

Companies	Country	Value of **Shares** (31.10.2015)	Value of **Shares** (End of June 2017)
Korea Electric Power Corporation	South Korea	150,786,159	83,447,033
PGE Polska	Poland	50,194,788	30,027,065
CLP Holdings	Hongkong	1,516,205	18,524,139
Energa SA	Poland	52,206,613	9,292,674
CEZ	Czech Republic	18,998,697	8,964,348
Enea	Poland	9,845,430	6,605,519
RWE AG	Germany	3,855,210	6,257,095
NTPC	India	-	1,514,796
PT Adaro Energy	Indonesia	389,165	336,898
PT Bukit Asam	Indonesia	43,892	-
Marubeni Corporation	Japan	9,137,363	10,881,895
Total		296,973,522	175,851,462

Source: Profundo research July 2017

The list of coal company shares includes mainly corporations for which coal contributes more than 30 percent either to electricity generation or revenue. They therefore fall under the divestment criterion, and the total value of shares has significantly fallen since the divestment decision. The only exception is the Japanese mixed company Marubeni with a coal share of only 12 percent in electricity generation. However, the company is involved in plans for new coal power plans in Botswana, Egypt, Indonesia, Japan, Mongolia, Myanmar, the Philippines, South Africa and Vietnam.

Of concern, however, is that Allianz continues to have shares worth more than US$ 175 million on its books that belong to companies covered by its divestment decision. These are companies that are planning construction of new coal fired power plants with a combined capacity of more than 70,000 megawatt. Their appearance in the Profundo research indicates that Allianz manages these shares on behalf of third parties.

The figures reveal the shortcoming of the Allianz divestment decision, namely that it is limited to investments on its own account. Allianz claims that it cannot dictate decisions on third parties. AXA, however, recently showed that progress is possible. At its AGM in April 2017, the company announced that it will also apply its divestment criteria to the funds managed for third parties (at least in Europe). That may be easier for AXA which set the divestment threshold at 50 percent than for Allianz with its 30 percent threshold. What AXA's announcement does show, however, is that such a step is possible.

Conclusions

In November 2015, Allianz made history and assumed corporate responsibility in the fight against climate change with its divestment decision. It showed the way for other insurers to follow and rightfully received praise for the decision. The company must now not rest on its laurels.

Recent research on bonds and shares show that for a truly clean portfolio, Allianz must extent its divestment criterion to funds managed for third parties. Applying the divestment criterion only to investments made on its own account is insufficient. Coal companies whose share of coal currently falls below the divestment threshold but that have massive expansion plans must also be excluded from the portfolio.

Finally, insurance companies need to start addressing their core business if they want to make a decisive contribution to the fight against climate change: they must stop to provide insurance to coal companies. Allianz argues that one insurer alone does have limited influence as companies would simply turn to other providers. However, Allianz is a major player in the insurance industry whose decisions do not go unnoticed in the sector. A group of insurers announcing that they will no longer insure coal companies, and above all, cease to underwrite new coal fired power plants, could make an important contribution to the transition. Such a decision would significantly increase the stakes for the construction of new coal fired power plants and has the potential to lead to a reconsideration of investment decisions in expansion of coal fired electricity generation. AXA has taken the first step in this direction. Allianz should follow and engage other insurance companies to follow suit.

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