Unfriend COAL

Insurance Scorecard Survey Methodology

Source: Pixabay.

Casey Harrell (Unfriend Coal) and Kanchan Mishra (Profundo)

21 August 2018

profundo RESEARCH & ADVICE

Introduction

The fossil fuel sector is the largest contributor to climate change. Accelerating the transition from coal and other fossil fuels to clean energy sources is one of the most effective ways to mitigate climate change.

Insurance groups must play a vital role in meeting the aims of The Paris Agreement: keeping the global temperature rise this century well below 2 degrees Celsius above pre-industrial levels. In investment decisions and insurance underwriting activities, insurance groups can either contribute to or undermine the energy transition from an economy based on fossil fuels towards an economy using renewable energy sources.

Insurers also have a self-interest in addressing climate change. There is risk of an increase in insurance claims due to damages from extreme weather. Insurance groups face reputational and stranded assets risks if they continue investments in fossil fuels, and increased claims if clients fail to mitigate climate risks.

The Sunrise Project together with other civil society organizations in the Unfriend Coal Campaign calls upon the insurance industry to support the transition from fossil fuels to clean energy through their underwriting and investment activities. In 2017, this network sent letters to CEOs of 25 insurance companies to kick off an engagement around these issues. Based on this engagement, the campaign published a ranking of insurance companies climate leadership in November 2017.

The campaign sent another follow up letter to the insurance companies this year on 22 May 2018. This letter reiterated the urgency to take action to mitigate climate change by ceasing to support the fossil fuel industry. To evaluate the progress so far, the coalition is set to conduct the second round of policy evaluation. This note explains the methodology, evaluation criteria, rationale, indicators, and scoring system for this evaluation, to be published later in 2018.

1.1 Key asks

The Unfriend Coal campaign and the participating organisations has set the following expectations towards insurance companies with respect to the fossil fuel sector and climate change. These expectations have been well communicated to the selected insurance companies. In order to mitigate the effects of climate change, the insurance companies must:

- Immediately start divesting from coal companies and companies developing projects to extract and transport tar sands. The divestment should include own assets as well as assets managed for third parties (if applicable).
- Immediately cease underwriting coal and tar sands projects and companies (unless they are engaged in a rapid transition process from coal and tar sands to clean energy that would normally take no longer than two years). Extreme fossil fuel projects which insurers should stay away from include, among others, the Trans Mountain, Keystone XL and Enbridge Line 3 tar sands pipelines. Workers compensation policies, that directly benefit workers in the fossil fuel industry, should be exempt from this policy.
- Quantify the carbon footprint of their investments and insurance activities and reduce the overall footprint of their activities in line with a science-based path which limits average temperature increases to well below 2 degrees Celsius.
- At a corresponding pace scale up investments in clean energy companies and insurance coverage for clean energy projects that follow international human rights, indigenous rights, social and environmental standards.

1.2 The selected insurance companies

The 25 world's largest insurance companies are selected for this evaluation.

Table 1 The 25 insurance companies assessed in the survey

1. AIG	11. Liberty Mutual	21. TIAA Family
2. Allianz	12. Lloyd's	22. Tokio Marine
3. Aviva	13. Mapfre	23. W.R. Berkley
4. Axa	14. MetLife	24. XL Catlin
5. Axis Capital	15. Munich Re	25. Zurich
6. Berkshire Hathaway	16. Prudential	
7. Chubb	17. QBE	
8. Generali	18. SCOR	
9. Hannover Re	19. Sompo	
10. Legal & General	20. Swiss Re	

1.3 Criteria, indicators, and rationale

The expectations mentioned in section 1.1 are translated into three broad criteria and subsequent indicators to evaluate the climate change policies of the insurance companies.

1. **Underwriting policy**

   Insurance companies underwrite legal, financial, and natural risks for fossil fuel companies. As underwriters of the most important risks, insurers play a big role in facilitating the construction and operation of fossil fuel projects. Without this coverage fossil fuel projects could not be funded, built, or operated. Therefore, this criterion evaluates the policies of the insurers around underwriting fossil fuel related projects and companies.

   Indicators

   1.1. Policy: Does the company have a policy restricting underwriting of any fossil fuel projects, companies and associated infrastructure?

   To score maximum points for this indicator: A policy exists that restricts underwriting activities within some facet of the fossil fuel sector; if exemptions are made to an existing policy, companies must detail how often, when, where, for which project and for what reasons was each exemption made.

   1.2. Scope: Which fossil fuel classes and associated infrastructure are subject to underwriting restrictions?

   To score maximum points for this indicator: The restriction covers all thermal coal related projects and at least three sub-categories of other fossil fuels including: Tar Sands, arctic oil and gas, ultra-deep drilling, LNG, and shale oil and gas.

   1.3. Threshold: What thresholds are used to define companies that are subject to underwriting restrictions?

To score maximum points for this indicator: Thresholds for coal exclusion should follow the principles of the Global Coal Exit (coalexit.org), and restrict insurance from companies that meet any of the following criteria:

- Receive 30% or more of its revenue or power production from coal,
- Generate 20 million tons of coal a year or have 10 GW of installed coal power
- Have expansion plans for new coal mines or coal power expansion plans
- In addition, companies should announce that they plan to lower these thresholds in the next few years.

- Thresholds for tar sands exclusion should restricting insurance in companies that have more than 20% of reserves in tar sands, with plans to lower this threshold over time; and
- Thresholds should be defined for underwriting restrictions for companies with significant operations in two or more of the following areas: shale oil and gas, arctic oil and gas, LNG, ultra-deep drilling.

1.4. Coverage type: Does the policy apply to new and existing projects and packages? Does it apply to insurance at the corporate level?

To score maximum points for this indicator: The restrictions must be applicable at the individual project level, as well as package restrictions that include new fossil fuel projects. Restrictions must also apply for corporate level insurance;

1.5. Reinsurance only: Does the policy apply to both treaty and facultative insurance?

To score maximum points for this indicator: For reinsurers, the policy must cover both facultative and treaty insurance.

1.6. Disclosure: Does the insurance company disclose any KPI around its fossil fuel infrastructure underwriting e.g. number of policies, value, share to the total underwriting?

To score maximum points for this indicator: The company discloses how much fossil fuel infrastructure it insures (in number of policies and overall premiums) and additionally break this down in terms of types of coverage (stand alone, package, corporate, facultative, treaty).

2. **Investment policy**

Insurance companies create capital from the premiums paid by clients that they invest to generate return and to also cover their expenses and claims. The insurance industry is one of the largest institutional investors and is heavily invested in fossil fuels. The insurance companies' investments are managed by either an internal asset management subsidiary/team of the insurance company or is outsourced to an external asset manager. In both the cases, it is the responsibility of the insurance company to ensure that their investments are done responsibly. Most insurance companies also offer asset management services to clients and hence are responsible for investing on behalf of clients. It is expected that investments on behalf of clients are also managed responsibly by the insurance companies and that they develop a policy that restricts their investments in the fossil fuel sector.

Indicators

2.1. Policy: Does the company have a policy mandating divestment for any fossil fuels and associated infrastructure?

To score maximum points for this indicator: The company has a policy that restricts at least some of its investments within the fossil fuel sector.

2.2. Scope: Which fossil fuel classes and associated infrastructure are subject to divestment?

To score maximum points for this indicator: The restriction covers all thermal coal related projects and at least three sub-categories of other fossil fuels including: Tar Sands, arctic oil and gas, ultra-deep drilling, LNG, and shale oil and gas.

2.3. Threshold: What thresholds are used to define companies that are subject to divestment?

To score maximum points for this indicator: Thresholds for coal exclusion should follow the principles of the Global Coal Exit (coalexit.org), and restrict investment in companies that meet any of the following criteria:

  - Receive 30% or more of its revenue or power production from coal;
  - Generate 20 million tons of coal a year or have 10 GW of installed coal power;
  - Have expansion plans for new coal mines or coal power expansion plans; and
  - In addition, companies should announce that they plan to lower these thresholds in the next few years.

- Thresholds for tar sands exclusion should restrict investment in companies that have more than 20% of reserves in tar sands, with plans to lower this threshold over time; and
- Thresholds should be defined for investment restrictions for companies with significant operations in two or more of the following areas: shale oil and gas, arctic oil and gas, LNG, ultra-deep drilling.

2.4. Coverage: Does the policy apply to all asset classes (bonds, equities, etc.) and to both actively and passively managed funds?

To score maximum points for this indicator: Restrictions are applicable to all kinds of asset classes (bonds and equities) and to both actively and passively managed funds.

2.5. Managed assets: Does the policy apply to the assets managed for clients? (if applicable).

To score maximum points for this indicator: Restrictions are also applied to assets managed for clients (if applicable).

3. **Other Climate Leadership**

In addition to phasing out all fossil fuel from underwriting and investment activities, insurance companies can also play a large role in mitigating climate change in various ways such as aligning investments with the Paris Agreement, investing in climate solutions, disclosing climate risk, improving governance of climate issues at the board level, and public lobbying for strong climate policies.

Indicators

3.1: Paris Agreement: Are the insurer's investments and engagements aligned with the Paris Agreement?

To score maximum points for this indicator:

- Align their investments with the Paris Agreement climate targets well below 2 degrees Celsius; supporting detail is shown, such as a portfolio audit with an action plan to reduce greenhouse gas (GHG) exposure;

- Create a time-bound engagement plan to set GHG science-based reduction targets well below 2 degrees Celsius for companies not subject to divestment criteria; and
- Show a track record of voting for 2 degrees stress test shareholder resolutions.

3.2: Climate Solutions Investment Approach

3.2.1: Does the insurance company have a public strategy that clearly defines its approach towards investing and insuring climate solutions, including how it defines climate solutions?

3.2.2: Does it report on related KPIs such as the amount invested in climate solutions as a percentage of total investments or other similar metric?

3.2.3: Does the company have set goals to increase climate solutions investing over time?

To score maximum points for this indicator:

- Define what is considered to be a climate solution and have a publicly stated strategy that details the categories of investment. For green bonds, investments must adhere to the Climate Bonds Initiative, Climate Bonds Standard, and/or International Capital Markets Association Green Bond Principles;
- State what percentage of their investments are climate solutions; and
- Set a target for increasing investments in climate solutions over the next five years.

3.3: TCFD and transparency

3.3.1: Has the company endorsed the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and incorporated it into its reporting?

3.3.2: Does the company publicize its climate related policies (including on coal)?

To score maximum points for this indicator:

- Endorse TCFD and have TCFD-aligned financial reporting in the next financial reporting cycle;
- Make their climate related policies publicly available.

3.4: Board focus

3.4.1: Does the board consider climate change while reviewing the company's strategic direction?

3.4.2: Does the board consider climate change as material for both investments and underwriting activities?

3.4.3: Does the company have climate-change based performance incentives for its executives?

To score maximum points for this indicator:

- Provide evidence of the board’s commitment on climate change while discussing the insurance company’s strategic direction;
- Provide evidence if the board considers climate change as a material risk for the business; and
- Provide evidence that the executive pay includes climate-based performance targets.

3.5: Public policy advocacy and other actions

3.5.1: Please give examples (as many as possible) where the company has publicly exhibited strong political advocacy for climate action (binding cuts in line with science-based targets, Paris, well below 2 degrees Celsius) in the past 2 years (in any language).

3.5.2: Are there other instances of action on climate that has not been captured in this survey (e.g. strong public education about climate change)?

To score maximum points for this indicator:

- The company shows examples of climate related advocacy that supports binding climate reductions in line with the Paris Agreement; and
- Other relevant examples of climate leadership for additional consideration.

1.4 Timelines

The table below shows the timelines for this research:

Project milestones	Deadline
Email to insurance companies about the evaluation cycle and information request	21 August 2018
Deadline for insurance companies to submit their response	21 September 2018
Profundo shares the final scores with the insurance companies for any factual error	Between 5 - 9 October 2018
Insurance companies' deadline to provide feedback on the final scores	Within one week from receiving the final scorecard
Publication of the report	December 2018

1.5 Changes to the last assessment methodology

Based on last year's findings during the policy assessment and progress within the industry in the past year, the following adaptations are made to the previous policy assessment methodology:

- The last year methodology focussed primarily on coal underwriting and divestiture policy. This year, we expanded the scope of each indicator to also cover other fossil fuels and not just coal. This is done to encourage insurers to expand the coverage of their policies. Therefore, to be able to score good under underwriting and investing policy, a wider policy on fossil fuel would be required than just a coal policy.
- The indicator on restricting specific projects has been removed as it appeared to be repetitive while evaluating coal policy.
- An indicator for applicable only to reinsurance companies has been added to the underwriting and investment criterion.
- A new indicator on disclosing KPIs around fossil fuel underwriting activities has been added.
- An indicator on assets managed on behalf of clients and passive and active asset management has been added to evaluate the scope of the investment policy.
- The three criteria, "Transparency", "Clean energy investments" and "Other Climate Leadership' from last year were merged together under one criterion as "Other Climate Leadership".

- An indicator around insurance companies' own GHG emissions has been removed as measuring and setting targets for own operations has become an industry norm and can't be considered ambitious anymore.
- An indicator on Paris Agreement alignment has been added to evaluate if the insurance companies are aligning their investments and divestments in line with the Paris Agreement.
- An indicator on Board's commitments to climate change related risk recognition is added.

In addition to these structural changes, the scoring system has been moved from a flat three-point rating scale to a dynamic rating scale. This adaptation would enable capture and score the finer nuances of the policies and practices and would enable the desired weight of each criteria and indicator to the overall score of the insurers.

profundo
RESEARCH & ADVICE

Radarweg 505
1043 NZ Amsterdam
The Netherlands
+31-20-8208320
profundo@profundo.nl
www.profundo.nl