TIME FOR THE INSURANCE INDUSTRY TO UNFRIEND OIL AND GAS

June 2020

Insure OUR FUTURE

Unfriend COAL

THE OIL AND GAS INDUSTRY AT A CRITICAL JUNCTURE

Burning oil and gas is one of the biggest sources of greenhouse gas emissions. The Intergovernmental Panel on Climate Change (IPCC) has shown that there is no space to expand consumption and that the production of oil and gas needs to be reduced by 87% and 74%, respectively, in the next three decades.[1] Oil majors and oil and gas producing countries have massive expansion plans that are completely incompatible with the panel's pathway to limiting global warming to 1.5°C.

By massively disrupting the energy sector, COVID-19 has created opportunities for an accelerated phase-out of oil and gas. According to the International Energy Agency (IEA), oil demand has been reduced by almost 5% in the first quarter of 2020.[2] Oil demand destruction by the pandemic for the full year has been projected at 8-18%.[3] In comparison, coal demand slumped by 8%, while the IEA predicts that renewables "are set to be the only energy source that will grow in 2020".[4]

1 IPCC, Global Warming of 1.5 ºC, Summary for Policymakers, October 2018

2 IEA, Global Energy Review 2020, April 30, 2020

3 Accenture, The One-Two Punch for Oil Markets, April 1, 2020.

4 Global Energy Review 2020

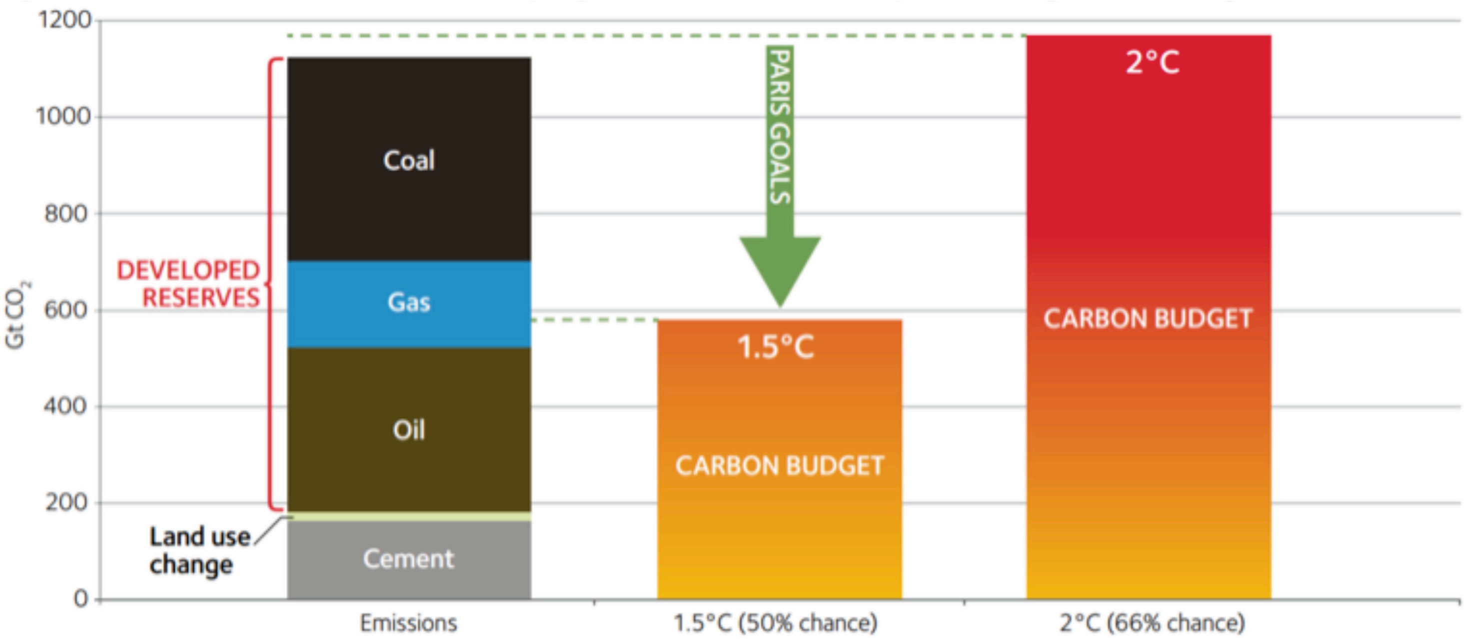
Many representatives of the oil and gas industry predict that demand will rebound quickly once the economic impacts of COVID-19 abate, but several factors suggest that the pandemic will bring about permanent structural changes in the oil and gas sector. Businesses may shift to more localized supply chains. Working from home and teleconferencing may irreversibly reduce oil demand in the aviation and transport sectors. Once oil wells have been shut down, it is in some cases uneconomic to resume production. And governments in Europe and other parts of the world are investing in clean energy technologies such as renewables, energy efficiency, battery storage and hydrogen, which will reduce the demand for oil and gas as part of their economic stimulus programs.

Goldman Sachs analysts predict that the pandemic crisis will "likely permanently alter the energy industry" and will make the energy industry "finally achieve the [downward] restructuring it so badly needs".[5] Mark Lewis, the global head of sustainability research at BNP Paribas Asset Management, even argues that "we may have already seen the peak in oil demand".[6]

5 Goldman Sachs, Oil Views: An industry game changer, March 30, 2020

6 Mark Lewis, Why we may have already seen the peak in oil demand, Financial Times, April 16, 2020

Figure ES-1: Carbon dioxide emissions from developed global fossil fuel reserves, compared to Paris goals carbon budgets



Sources: Rystad UCube, International Energy Agency (IEA), World Energy Council, Intergovernmental Panel on Climate Change (IPCC), OCI analysis

THE OIL AND GAS INDUSTRY'S CARBON BUDGET

According to the Global Carbon Project, the combustion of oil and gas accounted for 55.6% of global CO2 emissions in 2018. This does not include emissions from land use changes, for which no recent data exist.[7]

The IPCC scenario which limits global warming to 1.5°C without relying on carbon capture and storage technologies which have not proven feasible foresees significant reductions in oil and gas consumption (compared with 2010 levels) by 2030 and 2050. The Panel's pathway 1 assumes a reduction of oil consumption of 37% by 2030 and 87% by 2050, and of gas consumption of 25% by 2030 and 74% by 2050.[8]

Using data sources from the energy industry and the IPCC, Oil Change International has found that CO2 emissions from oil, gas and coal in already operating fields and mines will push the world far beyond 1.5°C of warming and will exhaust a 2°C carbon budget (see the figure below).[9] This confirms that the planet's carbon budget doesn't have space for any expansion of oil and gas production. Meanwhile governments are planning to increase oil production from currently 100 to 120 million barrels per day (mb/d) by 2040 — three times the level of about 40 mb/d which is compatible with limiting global warming to 1.5°C. Plans to expand gas production overshoot allowable demand about 2.5-fold by 2040.[10]

Oil and gas projects are not only destroying the climate but invariably also have serious impacts on the local environment, public health and indigenous and human rights more broadly. As Nnimmo Bassey, a recipient of the Right Livelihoods Award and environmental advocate in Nigeria, said: "Oil and gas have often been described as the devil's excrement. Some think they are actually worse. In countries around the world, they leave environmental destruction, public health crises, corruption and oppression in their wake.

7 Global Carbon Project, http://www.globalcarbonatlas.org/en/CO2-emissions, accessed on May 7, 2020

8 IPCC, Global Warming of 1.5 °C, Summary for Policymakers, October 2018

9 Oil Change International, Platform, Friends of the Earth Scotland, Sea Change, May 2019

10 Stockholm Environment Institute et al, The Production Gap, 2019 report

INSURANCE, CLIMATE CHANGE AND FOSSIL FUELS

Insurance companies, as society's risk managers, have a responsibility to support global action to avoid unmanageable climate breakdown. Without their insurance cover, few coal mines, oil platforms or gas pipelines can go forward or be operated. So far 19 major insurance companies accounting for 13.6% of global non-life insurance and 47.6% of reinsurance premiums have adopted policies ending or limiting their cover for coal.[11] As a result insurance brokers report that the insurance market for the coal sector is shrinking and that rates are increasing.[12]

While the shift away from fossil fuels started with coal, a few insurers have also begun adopting some restrictions on the oil and gas sector. AXA, AXIS Capital, The Hartford, Generali, Munich Re, Swiss Re and Zurich have limited their cover for tar sands operations. Some of them have also restricted their cover for Arctic drilling and shale oil, and Swiss Re is gradually withdrawing cover for the world's 10% most carbon-intensive oil and gas production by 2023. Yet until now no insurance company has ruled out support for all expansion of oil and gas production.

Oil and gas insurance is a highly concentrated business, in which action by a few players can have significant impacts. Several major oil and gas insurers have made strong commitments to climate action and have ended or limited their exposure to coal. The current disruption of the energy sector offers a unique opportunity for insurance companies to adopt policies to exit the oil and gas sectors and accelerate the transition to a low-carbon economy.

> Insurance companies have a responsibility to support global action to avoid climate breakdown. Without their cover few coal mines, oil platforms or gas pipelines can go forward or be operated.

THE OIL AND GAS INSURANCE MARKET

Oil and gas companies need to insure their businesses and physical properties against explosions, fire, storms, flood, theft, accidents, business interruption, liabilities and other risks. How big is this market and which insurers are providing the services that are essential for the operation and expansion of the oil and gas industry?

Premium data regarding specific insurance sectors, and even more so regarding specific insurance companies, is notoriously difficult to get. This briefing paper is based on two reports published independently by two consulting agencies, Finaccord and HTF Market Intelligence, and on follow-up research conducted by the agencies for the Unfriend Coal campaign. Both agencies conducted their research based on publicly available information and conversations with industry insiders.

HTF Market Intelligence estimates the size of the oil and gas property and casualty insurance market at $17.3 billion in 2018.[13] This amounts to 0.73% of total global non-life insurance premiums in 2018 and is almost three times the size of the insurance market

11 Peter Bosshard, What will 2020 bring for coal insurance, January 2020

12 Willis Towers Watson found in January 2019 that "insurers' retreat from underwriting coal business has left coal-fired generators with a significant reduction in available capacity". See Willis Towers Watson, Ready and waiting? Power and Renewable Energy Market Review 2019

13 HTF Market Intelligence Consulting Private Limited, Global Property Insurance in the Oil and Gas Sector Market 2018 and HTF Market Intelligence Consulting Private Limited, Global Casualty Insurance for Oil and Gas Sector Market. For comparison, Finaccord in 2015 estimated the likely oil and gas insurance market size to be $14.1-15.7 billion in 2018. (Finaccord, Global Energy and Power Insurance: A Worldwide Review, September 2015)

for coal, as estimated by the Unfriend Coal campaign based on data from Finaccord.

The biggest regional oil and gas insurance markets in 2018 were North America (approx. 43% of global premiums according to HTF Market Intelligence), Europe (25%), Asia and the Pacific (20%), and the Middle East and Africa (7%).[14] The biggest national markets in 2014 were the United States (by a wide margin), Canada and China.[15]

The oil and gas sector is divided into upstream (exploration and production), midstream (transportation, separation and storage) and downstream (processing) operations. In 2018, upstream operations accounted for approx. 45%, midstream for 13% and downstream operations for 42% of total insurance premiums in the oil and gas market.[16]

While the upstream market was profitable for much of the past decade, insurance broker Willis Towers Watson describes insurance for downstream sector as a "traumatized and challenging market" with an "atrocious loss record" due to low premiums and massive losses. The broker reports that in recent years, insurance companies have become more cautious in offering cover in the oil and gas sector, prioritizing profitability over premium volumes.[17]

14 Global Property Insurance in the Oil and Gas Sector Market 2018

15 Global Energy and Power Insurance: A Worldwide Review

16 Global Property Insurance in the Oil and Gas Sector Market 2018 and Global Casualty Insurance for Oil and Gas Sector Market. Finaccord estimated the upstream sector, which varies greatly with oil prices and exploration, to be 50%, the midstream sector to be 15% and the downstream sector to be 34% of the total market respectively in 2014 (Global Energy and Power Insurance: A Worldwide Review).

THE MAIN OIL AND GAS INSURERS

Four types of insurance companies offer cover in the oil and gas sector:

- Large international multiline insurers and reinsurers such as AIG, Allianz, AXA XL, Chubb, Liberty Mutual, Munich Re and Zurich together control the biggest part of the oil and gas insurance market.
- Numerous smaller, specialized property & casualty insurers such as Fairfax, Starr and W.R. Berkley insure oil and gas projects either directly or through the Lloyd's market. Willis Towers Watson predicts that as large insurers are under pressure to "demonstrate their sustainability credentials", specialty insurers will play a more active role in fossil fuel insurance.[18]
- Chinese insurers such as the People's Insurance Company of China (PICC), China Pacific Insurance Co. (CPIC) and Ping An primarily cover projects with Chinese involvement, but have also started insuring some non-Chinese projects.
- Numerous oil and gas companies have created their own captive or mutual insurance companies to cover certain risks. Examples of large industry mutuals include OIL and AEGIS.

Based on publicly available information and interviews with insurance insiders, Finaccord identified the following insurers as the 15 biggest providers of cover to the oil and gas industry:

- Tier 1: AIG, Travelers and Zurich;
- If the insurers of the Lloyd's market were considered as one carrier, Lloyd's would rank in the top tier as well.

17 Willis Towers Watson, Adjusting to change, Energy Market Review 2019, March 2019 and ESG: transforming energy's risk landscape, Energy Market Review 2020, April 2020

18 Adjusting to change, Energy Market Review 2019

> The oil and gas insurance sector is so highly concentrated that even a few leading insurers taking action will have strong impacts on the fossil fuel industry.

- Tier 2: Allianz, Chubb, Liberty Mutual, Mapfre and W.R. Berkley;
- Tier 3: AXA, Fairfax (Brit), Munich Re, PICC, Starr, Tokio Marine and The Hartford. [19]

Based on their own research, HTF Market Intelligence also considers Allianz and Berkshire Hathaway to be top-tier oil and gas insurers. They consider AXA, Munich Re, Tokio Marine and The Hartford to be tier 2 rather than tier 3 insurers, and include Intact, Endurance (Sompo) and Great American Insurance Group among the tier 3 insurers.[20]

Several features of this list are striking: First, like many specialty insurance markets the market for oil and gas insurance is highly concentrated. According to HTF Market Intelligence the top-6 competitors control half the market among them, and the top-10 control more than 70%.[21]

Secondly, a number of major property and casualty insurers in the power sector, including for example FM Global, Generali, Hannover Re, Ping An, QBE and SCOR, are missing from among the biggest oil and gas insurers. While until recently the coal insurance market was dominated by Chinese, European and U.S. insurers, the oil and gas insurance market is dominated by North American and a few European players. This reflects the large size of the oil and gas industry in the United States and in Canada.

Finally, the top-15 oil and gas insurers include eight companies that have adopted policies to limit their support for coal (even if some of these policies contain large gaps). Collectively, according to HTF Market Intelligence, the eight carriers make up almost 45% of the oil and gas market. With Allianz, AXA, Munich Re and Zurich the list also includes four insurers that are members of the Net Zero Asset Owners Alliance, with a combined market share of almost a quarter.

19 Finaccord, Leading insurers of oil and gas production, paper produced for the Unfriend Coal campaign, June 2020.

20 Global Property Insurance in the Oil and Gas Sector Market 2018 and Global Casualty Insurance for Oil and Gas Sector Market.

21 Ibidem

NEW PROJECTS AND ONGOING OPERATIONS

Recent years have seen a slump in new oil and gas projects. For example, only 72 major offshore oil and gas projects were approved around the world in 2018. Of the total oil and gas property and casualty insurance premiums, according to HTF Market Intelligence, existing operations accounted for 90% and new projects for only 10% of premiums in 2018. In absolute terms, premiums from new projects decreased from about $1,900 million in 2015 to about $1,700 million (or less than 0.1% of all non-life insurance premiums) in 2018.[22]

According to HTF Market Intelligence, the leading providers of property and casualty insurers for new oil and gas projects have in the past been Allianz, AIG, Liberty Mutual, Travelers, Chubb, AXA XL, Tokio Marine, Zurich, The Hartford and Swiss Re.[23] Interestingly seven of these ten insurers have taken at least some steps to end or limit their insurance cover for coal and four are members of the Net Zero Asset Owners Alliance.

22 Ibidem

23 Ibidem

CONCLUSION

The insurance industry is well placed to accelerate the transition from oil and gas to renewable energy sources. The oil and gas insurance sector is highly concentrated, with the top-10 carriers controlling more than 70% of the market. In recent years rates have been increasing and most insurers have become more cautious offering cover in the sector. In this context even a few leading insurers taking action will send a strong signal to the oil and gas industry.

Major insurers that have ended or limited their support for coal – in particular Allianz, AXA, Chubb, The Hartford, Munich Re, Zurich and to an extent Swiss Re – play an important role in oil and gas insurance. Among the coal laggards, AIG and possibly Berkshire Hathaway are important actors in oil and gas insurance as well – as is Travelers, a company which doesn't seem to have a major footprint in coal insurance.

Property and casualty insurance premiums from the oil and gas industry only make up 0.7% of all non-life insurance premiums. Not surprisingly, the revenue share is higher for the leading oil and gas insurers and according to HTF Market Intelligence typically accounts for 2-3% of their non-life premium income. Most of this revenue is from insuring existing operations, with new oil and gas projects accounting for less than 0.1% of all non-life insurance premiums – a negligible amount which pales in comparison with the cost of climate disasters covered by the insurance industry.

The IPCC has demonstrated that if average global temperature increases are to be limited to 1.5°C without relying on unproven carbon capture and storage technologies, oil consumption needs to decrease by 37% by 2030 and 87% by 2050. Gas consumption needs to decrease by 25% by 2030 and 74% by 2050.

The insurance industry has a strong understanding of the disastrous consequences of an unmanageable climate breakdown. At a time when powerful governments are bailing out politically well-connected oil and gas companies, the insurance industry needs to stand up as a voice of reason and bring scientific evidence into the decision-making process about high-carbon projects and operations.

Many insurance companies have ended or limited their cover of coal projects and companies. This process is positive and needs to continue. Yet while burning coal is the single biggest source of CO_2 emissions, shifting away from coal alone will not bring about the required low-carbon transition.

Going forward insurance companies need to make all their services to the fossil fuel industry consistent with a 1.5°C pathway. Specifically they need to:

- immediately end all insurance cover for coal projects and companies;[24]
- immediately cease insuring new oil or gas expansion projects;
- commit to phasing out support for oil and gas companies in line with a 1.5°C scenario;
- immediately divest from coal, oil, and gas companies.[25]

Insurance companies also need to bring their stewardship activities, membership in trade associations and positions as shareholders and corporate citizens more broadly in line with a 1.5°C pathway. This must include forceful advocacy for a green recovery from COVID-19.

As the Unfriend Coal extends the scope of its work to include oil and gas, it is changing its name to Insure Our Future. The campaign will assess and score insurance companies' position on these issues in its 2020 scorecard report on fossil fuels, insurance and climate change.

---

24 Coal companies are defined as those that that:
- generate more than 20% of their revenue from producing coal, or produce more than 10 million tons of coal per year;
- generate more than 20% of their electricity from burning coal, or operate at least 5 GW of coal-fired power stations;
- are planning new coal mining, power, or other infrastructure projects.

This exclusion should not include workers compensation and existing mine reclamation surety bonds.

25 Where applicable divestment should include your company's own assets and assets managed for third parties.

TIME FOR THE INSURANCE INDUSTRY TO UNFRIEND OIL AND GAS

Burning oil and gas accounts for more than 50% of global CO_2 emissions. Over the next two decades oil companies and oil and gas producing countries plan to expand production to a level three times higher than what we can afford to limit global warming to 1.5°C.

Insurance companies are a critical pillar of support for the fossil fuel industry. Without their cover, most new oil platforms or pipelines could not be built, and many existing operations would have to be phased out.

Insurance companies are supposed to protect us from catastrophic risks. They need to stop insuring fossil fuel projects that will bring about unmanageable climate breakdown.

This briefing paper identifies the biggest insurers of the oil and gas industry and what they need to do to align their businesses with the climate goals of the Paris Agreement.

IMPRINT

Time for the Insurance Industry to Unfriend Oil and Gas

Author: Peter Bosshard

Images: USCG photo by PA3 Robert M. Reed, WClarke, Creative Commons, Varodrig, Creative Commons, Larry D Moore, Creative Commons

Design: Design Action

Publisher: Unfriend Coal and Insure Our Future campaigns, insureourfuture.co

June 2020

Insure OUR FUTURE

Unfriend COAL