

Going Beyond Insurers' Voluntary Initiatives

Why policymakers must embed sustainability principles in mandatory insurance regulation Solvency II

Risk management is at the heart of insurers' business. Yet we find that insurers are still not adequately considering – and are in fact actively compounding – the greatest risk humanity faces today: climate change and its irreversible consequences. This briefing compares insurers' words with their actions. It shows that even members of voluntary initiatives, such as the Net Zero Insurance Alliance, are not decarbonising their investment and underwriting practices at the pace required according to the IEA and climate scientists. **With insurance regulation Solvency II up for review in both the UK and the EU, policymakers have a unique opportunity to inscribe the necessary sustainability requirements into law.**

This briefing highlights the limits of voluntary commitments and sets out what Solvency II legislation should require of insurers to avoid further ecological breakdown, and the financial ramifications of this, such as stranded assets. We recommend policymakers introduce:

1. **Higher capital requirements accounting for high-risk assets such as fossil fuels**
2. **Mandatory net zero transition plans and frequent regulatory scrutiny thereof**
3. **Streamlined 'double materiality' approach for insurers to assess their impact on climate**
4. **Rigorous stewardship policies for investment and underwriting**
5. **Stricter reporting rules as per the obligations of TCFD and TNFD**

In this way governments can safeguard society at large and insurers from risks that are far too serious to be left to the goodwill of a minority of actors within the insurance industry.

Insurers have a key role to play in reaching net-zero...

Businesses such as oil and gas (O&G) companies need insurance to carry out their activities.

This means the insurance sector has a direct say in what kind of projects can go ahead. Similarly, in choosing how they invest, insurers can decide to fund and profit from some of the most polluting activities – or they can [steward companies](#) away from unsustainable activities or divest from them altogether.

...but they aren't getting there voluntarily

Despite this striking potential for action, we find that too few insurers have robust fossil fuel exit policies, and even members of the voluntary initiative Net Zero Insurance Alliance (NZIA) fall short of responsible investment and underwriting standards. Of the NZIA's 25 members, just five – **Allianz** (Germany), **AXA** (France), **Hannover RE** (Germany), **Swiss RE** (Switzerland) and **Zurich** (Switzerland) – have underwriting policies across all four fossil fuel (sub) sectors: coal, O&G, tar sands, and Arctic sources. And this isn't just troubling from a climate perspective, but from a financial perspective too. The value of insurers' assets [could fall eight per cent](#) in the most benign global warming scenario, but 15 per cent under the most extreme scenario.

The Net Zero Insurance Alliance is far from net-zero aligned

The NZIA, formed in 2021, is a voluntary group of 25 leading insurers representing more than 11 per cent of the world's premium volume – money spent on insurance policies. NZIA members have committed to transition their (re)insurance underwriting portfolios to net-zero greenhouse gas (GHG) emissions and are ['aiming' to transition](#) their investment portfolio to net-zero GHG emissions by 2050. **Yet many UK and EU members of the NZIA – even those at the forefront of responsible investment and underwriting – still underwrite and invest in risky fossil fuel projects.**

European insurers continue to invest in fossil fuel-related assets, profiting from and fuelling climate destruction. For instance, major European insurers **AXA** (France), **Allianz** (Germany) and **Aviva** (UK) – some of the first NZIA members – were [among the top five insurance company investors](#) in North Sea fossil fuels between 2019 and 2021, having invested a combined total of US \$4.7 billion in O&G companies in the region.

Thanks to the [Oil and Gas Policy Tracker](#)¹, which sheds light on the realities of companies' O&G exclusion policies, we can see that NZIA members' policies are riddled with loopholes. Despite grand claims about greening their portfolios, many still finance and insure harmful projects.

¹ The Oil and Gas Policy Tracker, launched by French NGO Reclaim Finance along with more than 15 other NGOs, is an online tool that assesses in detail the oil and gas exclusion policies (or lack thereof) of the 150 biggest financial institutions worldwide.



Case Study East African Crude Oil Pipeline



Whilst several leading insurers have now declined coverage for the East African Crude Oil Pipeline (EACOP) project – which involves building the longest heated oil pipeline in the world – out of environmental and social concerns, other have yet to do so. NZIA member **Lloyd's** (UK) has so far failed to respond to [a letter](#) sent by nearly 100 civil society organisations asking that they tell their members not to provide (re)insurance coverage for the EACOP project.

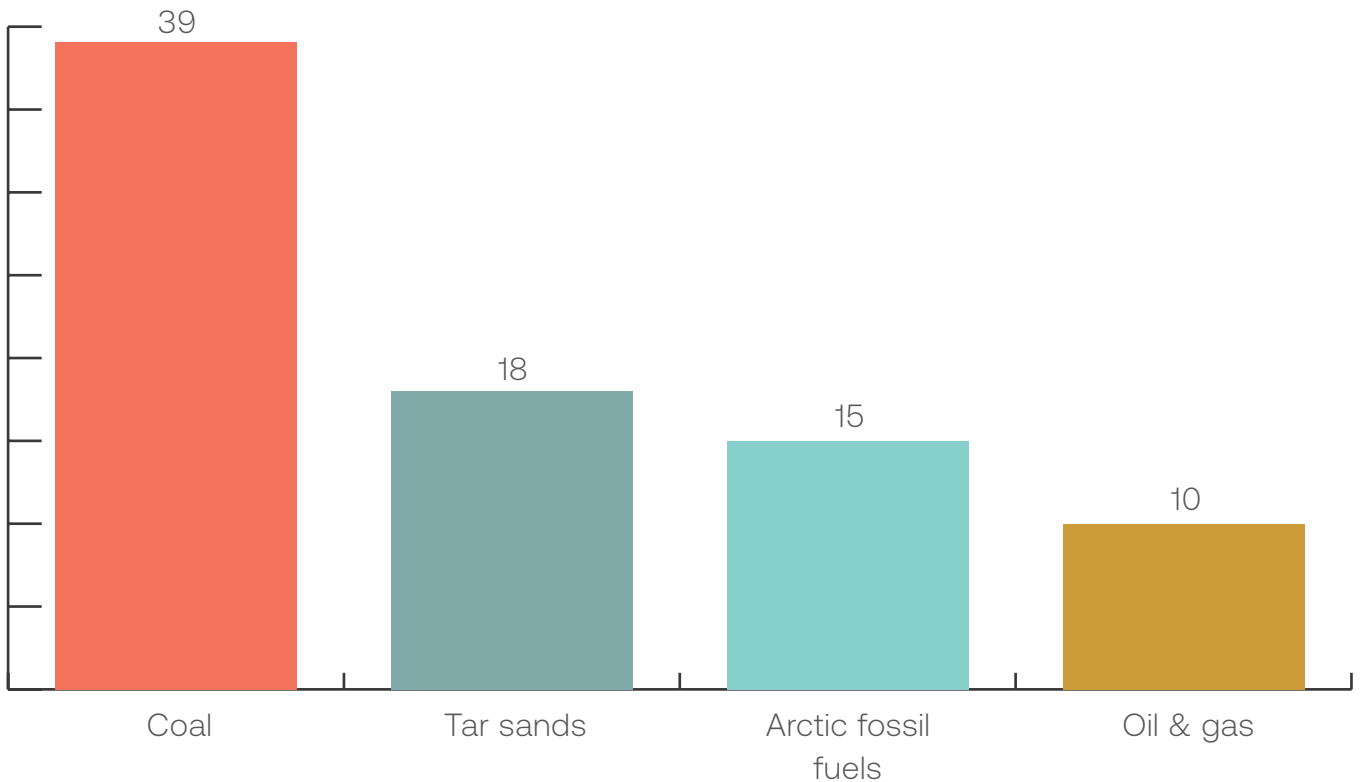
Munich Re (Germany), the world's largest reinsurer, only just [committed](#) not to underwrite the pipeline in response to mounting pressure, but the company still lacks a world-leading O&G policy (see below).

Few insurance companies restrict their underwriting of fossil fuels²

The table below, summarising [data](#) from global campaigning group [Insure Our Future](#), shows that insurers are not developing fossil fuel restriction policies at the pace required to secure a climate-safe world. The International Energy Agency (IEA) [recently outlined](#) in explicit detail what is required for a climate-safe world. Namely, there is no room for new oil and gas fields in its pathway for the global energy sector to achieve net zero CO₂ emissions by 2050. Yet despite this, only 18 of the world's insurers have committed to end or restrict underwriting tar sands projects, 15 have committed to end or restrict underwriting for Arctic fossil fuel development, and just 10 have committed to end or restrict underwriting for O&G development. It is only on coal where the numbers look better, with 39 insurers having committed to end or restrict insurance services. The overarching reality of the insurance industry's position on climate is grim.

² Information correct at the time of writing (May 2022), based on [Insure Our Future data](#).

Number of companies with underwriting policies by fossil fuel sub-sector



The Ferret, an investigative journalism platform, [recently asked](#) 46 international insurers if they would consider underwriting the UK's proposed Jackdaw gas field, or the proposed Cambo and Rosebank oil fields. Despite the controversial nature of the projects³, only two firms said they would not cover them on climate grounds – **Aviva** (UK) and **Generali** (Italy).

Even coal – the dirtiest of fossil fuels – is still routinely insured

As outlined above, [39 insurance companies](#) have so far adopted policies ending or restricting their support for new coal power projects. But coal insurance is not yet a thing of the past. Many European insurers continue to routinely cover existing coal customers. Astoundingly, **Allianz** (Germany), **Munich Re** (Germany) and **Swiss Re** (Switzerland), who are part of that grouping of 39 companies, have been found to still [regularly renew contracts with coal companies](#) in Turkey.

³ [Shell's Jackdaw gas field](#) was blocked in October 2021 on environmental grounds, but the energy crisis has been used as justification for its recent approval. This decision is in direct opposition to the latest climate science and the IEA's guidance, and [ignores concerns](#) that new UK gas fields will do little to stabilise energy prices (since most gas will be exported on global markets).

Of the insurers with some form of coal restrictions in place, only half exclude companies which derive a significant share of their revenues or power output from coal (usually with a 30 per cent threshold), and only 14 insurers have committed to an actual phase-out of coal⁴. **Lloyd's** (UK) has stated that it is “not mandating” its insurers to comply with the coal policy it adopted in December 2020. So, whilst current coal exit policies – often the outcome of lengthy public pressure campaigns – are better than nothing, **rigorous regulation is needed to align the entire insurance sector with a pathway to 1.5°C.**

Insure Our Future and ShareAction find NZIA members are not sustainability leaders

The table below compares data on six NZIA members ranked in both the Insure Our Future 2021 [scorecard](#) and ShareAction’s 2021 [‘Insuring Disaster’ report](#). Whilst there are some discrepancies due to the differing methodologies used by the two organisations, both agree that even prominent members of the NZIA – who could be classified as leaders *relative to their competitors* – still have a long way to go if we want to safeguard a climate-safe future. **Munich Re** (Germany), one of the founding members of the NZIA, scored an appalling 1.8/10 and 1.6/10 on Fossil Fuel Insurance and Investment respectively according to Insure Our Future. **Aviva** (UK), a prominent NZIA member whose investors report [‘strong progress’ against its net zero ambitions](#), scored a pitiful 0.1/10 for the sustainability of its fossil fuel investment, according to Insure Our Future. According to both Insure Our Future and ShareAction, no NZIA member scored above a 6.3/10.

Insurer (NZIA members)	Insure Our Future ratings		ShareAction ratings		
	Fossil fuel insurance (0-10)	Fossil fuel investment (0-10)	Climate change insurance (0-10)	Climate change investment (0-10)	Overall score and rating (0-10)
Allianz (Germany)	4.7*	4.4	3.75-5	5-6.25	4.48
Aviva (UK)	1.8	0.1	5-6.25	5-6.25	4.33
AXA (France)	4.6	5.4*	5-6.25	5-6.25*	4.75*
Generali (Italy)	2.6	2.9	5-6.25*	5-6.25	2.95

⁴ Insure Our Future, Solutions For Our Climate (SFOC), [‘Exposed: The Coal Insurers of Last Resort’](#), June 2022

Munich Re (Germany)	1.8	1.6	3.75-5	3.75-5	2.31
Swiss Re (Switzerland)	3.6	3.5	2.5-3.75	2.5-3.75	2.35

*best score in the category

Nearly a year on, some members have updated their policies to become more ambitious. But not at the pace required

The examples detailing NZIA members **Allianz** (Germany) and **Munich Re** (Germany) below are telling. They show that even those heralded to be climate leaders within the insurance sector are making progress that is too slow, with loopholes undermining the real impact of even the most comprehensive climate policies to date.



Case Study Allianz

In April 2022 **Allianz** (Germany) adopted a new and more ambitious O&G policy covering conventional and unconventional O&G. Allianz will no longer provide direct insurance coverage for new oil and gas fields. The insurer will also refuse to insure new midstream (pipelines) and downstream (oil power plants) oil projects. However, major loopholes remain. First, Allianz’s policy “falls short on gas” [according to German NGO Urgewald](#). It does not rule out gas infrastructure like liquified natural gas terminals, gas plants and fracked gas, “all of which are devastating to the climate”.

Second and most worryingly, **Allianz will still allow the development of new gas fields “in special cases” for “energy security emergency reasons”**. This is a slippery slope. The current energy crisis is being used to justify new O&G production, despite the IEA reaffirming that even in the current climate with increasing energy prices compounded by Russia’s war in Ukraine, [there is no viable argument for new O&G](#).

In addition, Allianz doesn’t have any exclusion policy explicitly targeting companies which are themselves planning and developing new O&G projects. Its policy targeting the company level, which will only apply from 2025 onwards, simply

consists of a partial exclusion of O&G companies based on their relative exposure. Allianz should go beyond this and firmly rule out coverage for companies with expansion plans. **Finally, to be truly net-zero aligned, Allianz must adopt a phase-out strategy from all O&G insurance, with an intermediate step for unconventional oil and gas-related insurance by 2030.**



Case Study Munich Re

Munich Re (Germany), which promises its shareholders “higher earnings per share, which are set to increase annually by ≥ 5 per cent on average by 2025”, doesn’t show the same level of ambition regarding climate action – only seeking to reduce insured greenhouse gas emissions by five per cent *not annually*, but between 2020 and 2025⁵.

Its updated policy in 2022 focuses on a partial exclusion of unconventional oil and gas. There is no commitment on fracking or ultra-deep water, and the exclusion of midstream projects only explicitly applies to tar sands⁶. Regarding expansion, “like most insurers to this day, Munich Re doesn’t have any exclusion policy explicitly targeting companies planning and developing new oil and gas projects”.

Ahead of the April 2022 AGM of **Munich Re**, community campaign group SumOfUs accused Munich Re of “fueling climate change and an ever-increasing cycle of human misery” and circulated a petition signed by over 34,000 people calling on the reinsurer to rule out insuring the East African Crude Oil Pipeline (EACOP) project – which it eventually did – and to publish a comprehensive oil and gas policy that excludes insuring or investing in any new oil and gas projects globally – which it still hasn’t done.

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- 5 In addition to this underwriting reduction target, Munich Re plans to reduce the “net greenhouse gas emissions in its investment portfolio first by 25–29% between now and 2025” before aiming for net-zero emissions by 2050.
- 6 Munich Re’s stance on Arctic drilling uses wording that leaves room for interpretation, stating that they “will not accept stand-alone covers for Arctic oil and gas drilling activities including directly related infrastructure measures”

Although the underwriting and investment policies that voluntary initiatives encourage are small steps in the right direction, they shouldn't distract us from the fact that **concrete improvements are sluggish and hide ongoing large-scale pollution and damages that severely undermine efforts to transition to a low-carbon world.**

It's time for policymakers to step in.

Solvency II is an opportunity to design mandatory sustainability policies

The evidence is clear. By the standards of the IEA and latest [IPCC report](#), non-binding commitments and voluntary initiatives such as the NZIA are far from sufficient. They lack accountability mechanisms, leaving ample room for greenwashing practices that mean insurers can continue fuelling disastrous temperature pathways which overshoot net-zero.

Policymakers must step in to tackle irresponsible behaviour by the insurance industry.

Policymakers and regulators have a powerful role to play because they can set out legally binding requirements that will ensure all insurers abide by common principles and standards. Instead of relying on the time-bound goodwill of individual CEOs, policymakers must create a lasting level-playing field among all insurers, which will ensure that the whole sector plays its necessary and transformative role in the transition to a climate-safe world.

Our recommendations to policymakers:

1. Increase capital requirements for assets that carry particularly high physical and transition risks, to safeguard against rising risks and incentivise investments aligned with a low-carbon transition

Following a basic risk management logic, the Basel Committee on Banking Supervision (the global standard setter for the regulation of banks) has recommended that the [one-for-one capital requirements](#) be applied to certain cryptocurrencies' exposures. Applied to climate change exposure, such a rule would mean that for each euro/dollar that finances fossil fuels, banks and insurers should have a euro/dollar of their own funds held liable for potential losses.

This targeted and proportionate measure will thus only affect insurers that choose to invest in highly risky assets, such as fossil fuel-related assets. It is a [financial stability measure](#) that will allow insurers to have enough capital to absorb losses arising from the materialisation of climate change risks; this will therefore reduce the likelihood that taxpayers have to bail out

insurers. At the same time, it will steer investments away from fossil fuels, as higher capital charges will effectively remove the artificial subsidy in the form of unwarranted low capital charges currently applied to fossil fuel assets.

As the European Economic and Social Committee [recently stated](#), “sustainability goals must not be jeopardised by insufficient capital requirements that artificially turn highly polluting activities into profitable investments”, and thus “where capital requirements are too low (for example, risks relating to climate change), they need to be increased to ensure the stability of the sector.”

2. Mandate publication – and frequent regulatory scrutiny – of net zero transition plans

As this briefing has highlighted, voluntary initiatives alone cannot guarantee that all insurers are on the right path when it comes to combating climate change. It is high time that policymakers make it mandatory for insurers to publish detailed net-zero transition plans, making their underwriting and investment business models and strategies compatible with the limiting of global warming to 1.5°C with no or limited overshoot.

In addition, policymakers must regularly publicly scrutinise these plans. In the UK for the first time, we’re seeing the Environmental Audit Committee question representatives from the Glasgow Financial Alliance for Net Zero on their progress to net zero – an important step in private sector accountability. Insurers should be brought before Select Committees in the UK, or monitored by EU members’ national competent authorities or national parliaments annually to explain why their transition plans are adequate and to evidence the progress they’ve made, since this is in the public interest.

3. Streamline the ‘double materiality’ approach in legislation for the insurance industry

It is increasingly regarded as good practice for insurers to consider how environmental factors constitute financial risks. But holding global warming to well under 1.5 degrees will require insurers to also assess how their own business operations and investments are impacting people and the planet.

Insurers’ risk management systems and reporting practices should therefore take a double materiality approach, i.e. consider also the wider social and environmental impacts of their underwriting and investment activities. That way, insurers will be able to take adequate steps to mitigate any negative impacts, and external stakeholders will better be able to hold insurers accountable.

4. Require rigorous stewardship policies for investments and underwriting

[Evidence shows](#) that one of the most impactful tools available to investors is engagement

with investee companies, and that shareholder engagement requests tend to have good success rates. Yet as [ShareAction's research shows](#), only a small minority of insurers have robust stewardship strategies to ensure engagement with investee companies and policyholders. General transparency on stewardship activities is also poor.

Insurers should be required to have an ambitious written stewardship policy (inclusive of an escalation strategy), to take reasonable steps towards its successful implementation and to regularly report on the outcomes of that stewardship policy.

5. Mandate the insurance industry to align their reporting with the financial disclosure obligations of the Taskforce on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Nature disclosures (TNFD)

TCFD and TNFD require businesses to outline the financial risks and opportunities provided by a warming climate and nature loss respectively. They mandate reporting around four key pillars: governance, strategy, risk management and metrics.

Aligning insurers' reporting with these guidelines will allow for a better assessment of sustainability risks. This can result in better risk management and more informed strategic planning by financial stakeholders, as they seek to mitigate the financial impact of climate-related and nature-related risks and maximise opportunities to safeguard the planet and their balance sheet.

See our [full set of recommendations for EU policymakers](#) regarding the review of the Solvency II Directive, and watch out for UK-specific recommendations.

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