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Insurers can facilitate the transition to a low-carbon future

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It is time to apply our ESG review mechanisms to the sector primarily responsible for carbon emissions – coal. Our proactive risk-based tactic would blend quantitative measures with dialogue-based engagement. These steps reflect a responsible approach to advancing our role in society, contributing to the broader efforts to achieve a 2 degree future and shaping a more resilient tomorrow.

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One way in which this reduction can be achieved is by finding new alternatives to thermal coal burned to generate electricity, which today accounts for roughly a third of global CO₂ emissions¹. Despite its harmful impact on climate, however, coal is likely to remain part of the global energy mix for decades to come. The U.S. Energy Information Administration estimates that coal's share of total global energy production will decline from 27% in 2015 to 22% by 2040, as it is slowly replaced by renewables, cleaner fossil fuels such as natural gas and nuclear.²

Insurers can play a role in facilitating this generational transition towards cleaner energy by increasingly reflecting the climate-related risks inherent in thermal coal in their underwriting and investment policies.

Zurich Insurance has included environmental, social and governance (ESG) considerations in our core business practices since 2012. The company also set and ultimately exceeded aggressive carbon reduction targets, established a responsible investment function, committed more than USD 2 billion to green bonds, and assembled a UN-recognized flood program focused on enhancing community-level flood resilience.

The insurer is now seeking to apply these ESG review mechanisms to the sector most directly responsible for carbon emissions: coal. It aims to optimize its role as a risk expert to facilitate – if not accelerate – the generational shift to a low-carbon economy by developing risk management solutions for the new technologies and approaches needed to achieve this unprecedented transition. In addition, Zurich plans to engage its customers and brokers in discussions around the mechanisms

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facilitate the difficult steps society will need to take to achieve a 2 degree future.

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We acknowledge that our position may evolve and we look forward to the market discussions this new policy will prompt, hoping to play our role in helping society face this most complex set of risks.”

How it works

Zurich intends to stop providing insurance or risk management services for new thermal coal mines or for potential new clients that derive more than half their revenue from mining thermal coal, and also for utility companies that generate more than half of their energy from coal. This decision will not apply to workers compensation or other employee protections.

It will assume strong ESG risk management if a new or existing client, or an investee company, derives less than 30 percent of its revenues from mining thermal coal or, for utility companies, generates less than 30 percent of energy from coal. In such circumstances the insurer would underwrite its risks, or invest in it, using standard processes and procedures.

The company will also apply enhanced risk screening for new or existing clients, and enhanced risk integration for investee companies, that derive 30 percent to 50 percent of their revenues from mining thermal coal, or utility companies that generate 30 percent to 50 percent of their energy from coal. The hope is that this additional level of dialogue will identify risk-relevant means of accelerating the transition, like new technologies or emerging best practices.

Lastly, Zurich will engage those clients that derive more than half of their revenues

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companies that generate more than half of their energy from coal. It will not invest in new debt issued by such companies and will run off existing holdings.



Together, we believe, these steps reflect a responsible approach to advancing our role in society, and in contributing to the broader efforts to achieve a 2 degree future.

1 European Commission Joint Research Centre, Trends in Global CO2 Emissions Report 2016 -

http://edgar.jrc.ec.europa.eu/news_docs/jrc-2016-trends-in-global-co2-emissions-2016-report-103425.pdf

2 U.S. Energy Information Administration International Energy Outlook 2017 <https://www.eia.gov/outlooks/ieo/>

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