

# Insuring Against Climate Catastrophe



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# Executive summary

As a vital component of today's financial system, the insurance industry plays a central role in the continuation of fossil fuel expansion and extraction. Without an insurer or reinsurer underwriting the construction and operation of carbon-intensive projects, they are effectively unfeasible. Issuing the green light to everything from oil and gas projects to coal mines, insurance plays a vital part in facilitating extractive economic activity that fuels climate and environmental breakdown.

First and foremost, the drive to fundamentally shift the operations of the insurance industry is a moral one. The consequences of inaction, or slow-moving action, are deadly, disproportionately harming countries and global regions that have contributed the least to the crisis. By continuing to support current and future extraction and emissions as insurance providers and institutional investors, the insurance industry is not only actively fuelling the existential threat of climate breakdown, but they are also throwing the future of their own industry into danger. Through investment in and coverage of fossil fuel assets, the industry generates compounding financial stability and solvency risks on both the asset and liabilities side.

Pressure is growing for the insurance industry to end its support for those aspects of the fossil fuel industry which are incompatible with meeting a 1.5°C scenario. Campaigners and social movements globally are calling out the hypocrisy of those companies within the industry that are profiting from facilitating climate destruction through their support for coal, fracking, and oil and gas, whilst claiming to be climate leaders. While pressure on the industry has led to important wins, the insurance sector still has a long way to go.

A new scorecard published in November 2021 by the Insure our Future campaign analysed 30 major insurers and reinsurers, revealing among other key findings that SCOR, Allianz and AXA rank at the top of the table on fossil fuel divestment, with Swiss Re, Zurich, AXIS Capital and Generali also scoring well. Only three insurers - France's AXA, Italy's Generali, and Australia's Suncorp - have adopted policies to stop insurance for much or all new oil and gas production projects. Aviva, Allianz, and AXA demonstrated a comparatively strong voting record on shareholder resolutions and procedures to protect human rights, particularly with regards to Indigenous Peoples' right to Free, Prior and Informed Consent (FPIC).

Efforts from the industry to tackle the compounding crises facing its future have thus far largely focussed on enhancing ways to model risks, through, for example, improved data, rather than addressing the inherent risks of a model rooted in private short-term interests of carbon-intensive capital allocation and the dangers it poses to our collective future. A reordering of the insurance sector is urgently needed to ensure it no longer invests in or facilitates activities that are worsening the climate crisis and instead shifts rapidly toward 1.5°C alignment in how it insures and invests. A divestment from and refusal to insure all fossil fuel projects and companies and exclusions on fossil fuel underwriting in line with trajectory for a liveable planet will involve a fundamental shift in the current operations of the insurance industry, necessitating urgent and drastic action.

## **Aligning insurance coverage with a 1.5°C pathway**

Alongside an immediate end to coverage of new coal, oil and gas exploration and production, insurance and reinsurance firms should implement a phase out of existing coal, oil and gas insurance coverage in line with a 1.5°C pathway. The sector should also divest from all fossil fuels including direct assets and those managed for third parties.

## **Mandating climate resilient strategies from insureds**

By providing insurance coverage, corporate bond investments and capital via equity, the industry not only contributes to the climate and environmental crisis but also releases future financing for fossil fuel companies. Before providing coverage or renewals, insurers should necessitate that insureds have a codified, monitored and reported on 1.5°C aligned decarbonisation strategy

## **Integrating sustainability into regulation**

Given the clear and evident failures of a market-led approach to move at the scale and pace required to safeguard our collective futures, the divestment from carbon-intensive projects, assets and fossil fuel sectors should be overseen by regulators, mandating the operations of insurers and reinsurers to conduct future underwriting in line within the limits set by a 1.5°C pathway.

## **Enhancing transparency**

There is a need for public, readily accessible details surrounding insurance and insurance policies to provide a more thorough grasp of who has accountability and when, allow for scrutiny of comprehensive risk assessments – both with regards to climate and environmental impacts and workers' safety - and, crucially, knowledge of who pays, at what point, and why.

## **Repealing and replacing the UK Lobbying Act to challenge corporate power**

Repealing the 2014 Lobbying Act and replacing it with a new Act is vital to rebalance power between corporate, for-profit voices and those championing climate and environmental justice, as well as enhancing transparency and accountability, ensuring that financial groups' climate-relevant lobbying and engagement activities - which often have major associated carbon footprints through the undermining of climate policy - are internally consistent, and expressly consider long-term climate risk.

## **Tackling the climate-related UK insurance poverty premium**

The Flood Re scheme should be extended to other climate-related risks to consumers, such as storm damage, as the rate and severity of storms intensify with climate breakdown. More broadly, however, there is an urgent need to reimagine the UK's approach to areas such as flood resilience to safeguard climate and environmental protections and mitigate harm for consumers. Introducing a comprehensive roadmap for flood prevention, for instance, can enhance land use, create flood defences, including through an enhanced and accelerated national strategy for tree planting, and boost the resilience of housing stock.

## **Action to tackle global climate injustice**

Accountability mechanisms should be enacted, such as the establishment of comprehensive due diligence and verification mechanisms for human rights, such as the right to FPIC, as included in the UN Declaration on the Rights of Indigenous Peoples. Further, considering the compounding, interrelated harms caused by wealthy countries such as the UK through high historic and current emissions and centuries of extraction and exploitation, urgent measures are needed to assist a global transition, such as climate reparations, debt cancellation and restructuring, and action to tackle corrosive conditions attached to aid and loans.

# 1 A ticking time bomb: The need to rewire the economy

Climate and environmental breakdown pose an unprecedented threat to our collective future, yet the current scale and pace of action is paving the way for the grave prospect of an unlivable planet. The 2015 Paris Agreement pledged to limit temperature rises to 2°C Celsius or below. While commonly hailed at the time as a breakthrough moment, Ibrahim Mohamed Solih, President of the Maldives, described the differences between 1.5 and 2°C as degrees warming as a “death sentence” for the islands.<sup>1</sup> Six years on from the landmark agreement and a United Nations (UN) report warned in September that global average temperature will rise 2.7 degrees Celsius by the end of the century, even if countries meet promised emissions cuts.<sup>2</sup>

Inextricably linked to deep inequalities in power and wealth, the drivers of climate and environmental crises are hardwired into the current economic system, and the distributional costs are imbalanced, both within and between countries and global regions. The top 10 per cent of global emitters are responsible for around 48 per cent of global CO<sub>2</sub> emissions, while the bottom 50 per cent are responsible for close to 12 per cent of global carbon emissions in 2019.<sup>3</sup> Given the disproportionate historical responsibility of countries such as the UK – both with regards to high carbon emissions and colonial debts – addressing domestic emissions is of vital importance.<sup>4</sup> Ambitious action today is the best route to securing a safer, more equal, healthier future.

Despite this, the Committee on Climate Change, an independent, statutory body established in 2008 to report to Parliament and advise governments in the UK on emissions targets and progress, found in June that the UK is failing to generate the type of policies necessary to meet its climate targets, with four of the 21 key decarbonisation areas seeing adequate levels of ambition.<sup>5</sup> In addition to unequal global carbon inequality, emissions within the UK are imbalanced. Current emissions levels of the poorest half of the population are close to per-capita 2030 climate targets.<sup>6</sup>

It is increasingly clear that changes to the margins of an economic model driving today’s crises will not suffice. Instead, we need a systemic response to a systemic crisis, reimagining the financial and economic logics to hardwire justice, sustainability, and democracy in the economy. As the UK is the host nation for COP26, there is a unique opportunity to demonstrate leadership on the international stage by showcasing deep, transformative change, and to build a reparative approach.

## 2 Underwriting fossil fuel capital

Underpinning today's urgent and intertwined challenges, from inequalities of wealth and power to the climate and environmental crises, are unequal and extractive forms of ownership designed into the economy. Between 1965 and 2019, just 20 fossil fuel firms were responsible for a third of all energy-related carbon dioxide and methane globally, totalling 480 billion tonnes of carbon dioxide equivalent, and the biggest 60 banks provided \$3.8 trillion of financing for fossil fuel companies since the Paris Agreement.<sup>7</sup>

As a vital component of today's financial system, the insurance industry plays a central role in the continuation of fossil fuel expansion and extraction. Without an insurer or reinsurer underwriting the construction and operation of carbon-intensive projects, they are effectively unfeasible. Issuing the green light to everything from oil and gas projects to coal mines, insurance plays a central part in facilitating extractive economic activity that fuels climate and environmental breakdown.

The picture is more complex than a linear relationship from insurers to fossil fuel projects to climate breakdown. Indeed, not only do insurers profit from and enable new fossil fuel and carbon intensive projects, but they also insure against the increasing climate-linked impacts that are aggravated by the high emitting projects they support, from devastating flooding to prolonged droughts and deadly wildfires. This relationship is further complicated by the fact that many major insurers are large, diversified financial groups offering services from insurance and underwriting to asset management and banking. Together, through allocation of capital and risk, they wield immense power. This power is compounded by their influence over policy and legislation through, for instance, corporate lobbying and trade associations.

With \$30 trillion in assets under management and US\$5 trillion in world premium volume, the insurance industry holds around a third of global economic assets and liabilities on their balance sheets.<sup>8</sup> At a UK level, the insurance market is the fourth largest in the world, as well as being the largest in Europe, with an estimated total premium volume of just under \$220 billion in 2017. In the same year, the UK exported around £18.5 billion of insurance and pension services.<sup>9</sup> As a powerful but quiet risk manager for current and future extractive projects, the insurance sector plays a central role in shaping emission trends.<sup>10</sup>

According to the Insure our Future campaign, the 40 largest US insurers hold over \$450 billion in coal, oil, gas and electric utility stocks and bonds; meaning they hold a bigger proportion of their investments in fossil fuels than average index funds.<sup>11</sup> Further, by offering insurance coverage, corporate bond investments and capital via equity, the industry secondarily unlocks future financing for fossil fuel firms.<sup>12</sup>

Through continued backing of climate-destructive activities and companies, insurers are fuelling long-term climate risk, while simultaneously benefiting financially from underwriting extractive activities in the short term.

First and foremost, the drive to fundamentally shift the operations of the insurance industry is a moral one. The consequences of inaction, or slow-moving action, are deadly.<sup>13</sup> It is estimated that exposure to particulate matter from fossil fuel emissions accounted for 18 per cent of total global deaths in 2018 - just under 1 in 5 deaths.<sup>14</sup> The latest findings by Chatham House uncover that by the 2030s, the number of people on the planet exposed to heat stress exceeding the survivability threshold is likely to surpass 10 million per year.<sup>15</sup> The longer we wait, the more death and destruction will be caused, disproportionately harming those who are least responsible for the crises.

Mark Carney, then-Bank of England governor, noted back in 2016 that insurers have “unique risk-management expertise to help address the protection gap among those who are most exposed to climate risk”.<sup>16</sup> By harnessing the industry’s significant expertise in financial risk modelling, many insurers and reinsurers have been forewarning of the risks associated with climate breakdown for decades. Despite this, the sector continues to provide support, both directly and indirectly, for fossil fuels.<sup>17</sup>

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## 2.1 Losses, risks, and liabilities

At an industry level, the current approach is an illogical one. Insurers enable high polluting projects and firms while insuring against the climate and environmental consequences of their own actions.

The implications for assets, companies and sectors of physical climate trends directly affects profitability, reforming financial assets and portfolios. The for-profit insurance industry model of wagering the coverage costs of future events poses a multitude of problems, but particularly so in an age of accelerating environmental breakdown and instability. Insurers are thus grappling with challenges such as pricing risks from market dynamics and changing risk portfolios, and the confluence of extreme weather events such as deadly flooding and destructive hurricanes.

Direct economic losses and damage from natural disasters in 2020 were estimated at \$268 billion. The costliest storm outside of the North Atlantic basin was the destructive Cyclone Amphan, which seriously impacted areas of Bangladesh and India. The Philippines endured two disastrous landfalls in 2020; one of which saw the strongest landfall in the world ever recorded.<sup>18</sup>

Insured losses derived from natural disasters in 2020 reached \$97 billion - \$28 billion above the 21st century mean value. Last year marked the fifth costliest year for public and private insurance entities on record, and a 26 per cent increase from 2019.<sup>19</sup> Insured losses from climate and weather-related disasters reached \$42 billion in the first six months of 2021 - a 10-year high for insured losses over the first half of the year. Around \$15 billion in insured losses were the result of a polar vortex period alone.<sup>20</sup> In the UK, the cost of repairing homes and businesses damaged in storms Dennis and Ciara alone last year was expected to amount to £360 million.<sup>21</sup>

The European Insurance and Occupational Pensions Authority conducted sensitivity analysis of climate change related transitional risks. Based on its methodology and assumptions,

losses on equity investments in the high-carbon sector can be high, “reaching more than 25% on average for these particular equity holdings”, before accounting for any counterbalancing investments such as renewable energy. Such losses are particularly driven by investments in fossil fuel extraction and traditional internal combustion engines in car production.<sup>22</sup>

By continuing to support current and future extraction and emissions as insurance providers and institutional investors, the insurance industry is not only actively fuelling the existential threat of climate breakdown, but they also throw the future of their own industry into danger. Through investment in and coverage of fossil fuel assets, the industry generates compounding financial stability and solvency risks on both the asset and liabilities side.

Operating in compliance with a 1.5°C scenario will involve seismic shifts in the current approach to fossil fuels, particularly by historic and current high emitting countries such as the UK. The IPCC set out a carbon budget of 1,200 Gt for fossil fuels that could be burnt by 2100, yet Bernstein Research calculated that to meet 1.5°C, this figure would be 464GT – significantly below the equivalent of 2,910 Gt of CO<sub>2</sub> held in existing oil, gas, and coal assets.<sup>23</sup> Should governments operate within a 1.5°C temperature rise above pre industrial levels for the rest of the century, around a third of the value of large oil and gas firms would evaporate, according to Lex estimates.<sup>24</sup>

Under this scenario, insurers underwriting fossil fuel firms and assets are likely to experience significant hits to their balance sheets and many will face the possibility of insolvency. This, particularly in instances where unexpected, multiplied, or especially large financial shocks occur, could trigger systemic implications for the industry, sending shockwaves to the broader economic and financial system.

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## 2.2 Unequal causes, unjust consequences

Despite the number of weather, climate or water hazard disasters increasing by a factor of five over the last fifty years, insurance firms continue to provide coverage for climate and environmentally-destructive projects and companies while simultaneously increasing premiums and restricting coverage in areas subjected to the frontline of climate breakdown.<sup>25</sup> Even several voices in the industry recognise that increasing premiums and withdrawing coverage – a traditional response to increased insurance risks – does not work to mitigate the risks associated with climate breakdown.<sup>26</sup>

Not only will hiking costs and choosing to withdraw not tackle the emergency, but it will also disproportionately harm communities on the frontline of the climate crisis.<sup>27</sup> At a UK level, one in five properties are at risk of surface-water, river and coastal flooding, leading to a significant spike in claims as the UK experiences a rise in heavy downpours, even outside of the winter period.<sup>28</sup> The deep and profound uncertainties posed by the climate crisis will exacerbate the insurance “poverty premium”, where low-income households are either barred from accessing insurance or faced disproportionate costs.<sup>29</sup>

At an international level, states and global regions are being hit twice: first by the scale and severity of climate breakdown, disproportionately harming those that are least responsible for it, and second by insurance hiking premiums or withdrawing coverage. Between them,

North America and Europe are responsible for around half of all emissions since the Industrial Revolution, while Sub-Saharan Africa is responsible for just 4 per cent over the same period, according to research by the World Inequality Database.<sup>30</sup>

Last year, over 8000 died because of natural catastrophe events globally. Indian monsoon flooding was the deadliest event, registering at least 1,922 deaths, while elsewhere in South Asia another 1,100 people were killed by monsoon rains.<sup>31</sup> The deadliest tropical cyclone of 2020 was Hurricane Eta, which claimed lives of at least 309 people and generated over US\$6.8 billion in damage across Central America, a majority of which was incurred in Honduras and Guatemala and went uninsured.<sup>32</sup> The total direct economic cost of Asia-Pacific natural disasters was around US\$101 billion and yet only 12 per cent of this was covered by insurance.<sup>33</sup>

Countries and global regions on the frontline of climate breakdown are facing coverage retreat by insurers and offered climate-adaptation measures, like the increasing use of catastrophe risk insurance, providing coverage for some low probability, high-cost disasters. Such measures, however, can exacerbate rather than alleviate harm caused to communities. For example, as human rights lawyer, researcher and writer Harpreet Paul Kaur states, rather than safeguarding against the impacts of climate and environmental breakdown, catastrophe bonds are based on attempting to profit from uncertainties, while the costs are often borne by those least responsible. For instance, in 2017, Hurricane Maria created widespread devastation, yet the Caribbean Catastrophe Risk Insurance Facility paid out less than 1.5 per cent of the total cost of estimated economic losses.<sup>34</sup>

Compounding this is the question of uninsurable slower moving climate and environmental disasters, such as widespread biodiversity loss and slower pace coastal erosion, and as the frequency and severity of catastrophic climate events continues to accelerate, the predictability of these catastrophes will result in them being progressively uninsurable.<sup>35</sup>

Without action at the scale and pace needed to safeguard a liveable future, this trend will continue to exacerbate global and state-level imbalances, injustices, and inequalities, while a future that is uninsurable will produce widespread catastrophe for the future of the industry and knock-on implications for the wider economic and financial system.

### 3 Pressure mounts for change, but the road ahead is long

According to Carbon Tracker, while fossil fuel producing and related firms are experiencing a fall in the value of share offerings, dropping by \$123 billion in the last decade,

alongside dramatic falls of new shares issued in the sector as clean energy companies grew, the rate of change in clean energy infrastructure pales in comparison to what is required to meet 1.5°C.<sup>36</sup> And behind every polluting project is a company profiting from providing the insurance cover which facilitates the risks to be taken.

Yet pressure is growing for the insurance industry to end its support for those aspects of the fossil fuel industry which are incompatible with meeting a 1.5°C scenario. Campaigners and social movements globally are calling out the hypocrisy of those companies within the industry who are profiting from facilitating climate destruction through their support for coal, tar sands, fracking, and oil and gas, whilst claiming to be climate leaders.<sup>37</sup>

Following a 2019 campaign by Rainforest Action Network targeting Liberty Mutual - a US-based global insurer - calling out its role in climate destruction and human rights violations, in October last year, hundreds of activists around the world demanded that Liberty Mutual, alongside other major financial institutions such as BlackRock, halt all support for tar sands infrastructure.<sup>38</sup> The campaign called on insurers to stop the “money pipeline”, noting that pipelines such as Trans Mountain, threaten to pose a threat to the safety and livelihood of communities, and are constructed on Indigenous lands with consent<sup>39</sup>

A group of over 40 Indigenous women leaders sent a letter to 70 banks, insurers and asset managers, calling for companies to accelerate a just transition for Indigenous nations, communities, and workers that depend on the industry for their livelihoods by “publicly ruling out involvement in these tar sands projects and redirecting your insurance underwriting to communities and renewable, clean energy”, rather than exploiting the tar sands sector for its “last drops of profit in the face of climate crisis and disregard the health and safety of communities along pipeline routes.”<sup>40</sup>

While there have been important victories for climate, land, and economic justice movements and campaigns, the insurance industry still has a long way to go to build a reparative approach. Insure our Future, a global coalition of NGOs and social movements including Rainforest Action Network, the Sierra Club, Client Earth, SumOfUs, Indigenous Environmental Network and Japan Centre for a Sustainable Environment and Society, pressuring insurance companies to transition away from fossil fuels, undertook research to analyse the climate and environmental commitments of major insurers.<sup>41</sup>

The findings uncover that while some are making headway by actively decarbonising their portfolio investments, others delay. The research focuses on 30 leading insurers, scoring policies on coal, oil and gas insurance, alongside other areas of climate leadership.

The findings, published in November 2021 and launched at COP26, show that SCOR, Allianz and AXA rank at the top of the table on fossil fuel divestment, with Swiss Re, Zurich, AXIS Capital and Generali also scoring well. Generali is the only insurer in Europe to have committed to ending cover for new oil and gas production entirely, although 13 insurers have

now restricted cover for tar sands. Aviva, Allianz, and AXA demonstrated a strong voting record on shareholder resolutions and procedures to protect human rights, particularly with regards to Indigenous Peoples' right to Free, Prior and Informed Consent (FPIC).

The scorecard further reveals a disparity in policies between coal and oil and gas, with 22 of the 30 firms assessed adopting at least limited restrictions on underwriting coal, while only 13 adopted restrictions on oil and gas. Several insurers in North America, Europe and Asia remain committed to underwriting oil and gas expansion without restrictions. Astonishingly, this includes founders of the Net-Zero Insurance Alliance who have committed to align underwriting portfolios with 1.5°C - Allianz, Munich Re and Zurich. Between them, they provided more than 20 per cent of all oil and gas insurance.<sup>42</sup>

Further, ShareAction, a charity working on sustainable investing, ranked 70 of the world's largest insurers' approaches to responsible investment and underwriting, and found that while European insurers outperform counterparts in the US and Asia, within Europe, out of the 14 insurers ranked, over half were rated C or below.<sup>43</sup>

## 4 Lloyd's of London

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While the influence of the combined UK insurance sector on climate breakdown is significant, the scale, wealth, power, and international reach of one insurer - Lloyd's - makes it of particular importance as a vehicle to shape emissions trends. The Lloyd's of London market was alone responsible for an estimated 40 per cent of the total global energy insurance premium in 2018.<sup>44</sup>

Lloyd's – sometimes referred to as The Society of Lloyd's, Lloyd's Council, Lloyd's Corporation, Lloyd's market, or Lloyd's of London – is “the world's leading insurance and reinsurance marketplace” and is situated in the City of London.<sup>45</sup>

Lloyd's originated over three centuries ago. The first mention of it dates to 1688, where Edward Lloyd's coffee house in Tower Street, London, was referenced.<sup>46</sup> Lloyd's describes this as an “early sign of insurance”.<sup>47</sup> By the 1730s, Lloyd's began to dominate shipping insurance on an international scale, including through the transatlantic slave trade, and by 1750, underwriting first appeared in documents.

Today, this marketplace has over 50 insurance companies, over 200 Lloyd's brokers, and a global network of over 4,000 local cover holders working in the Lloyd's market.

## 4.1

## Acts of Parliament

A unique set of rights and privileges have been awarded to Lloyd's of London through four Acts of Parliament, the first of which dates back 150 years ago.

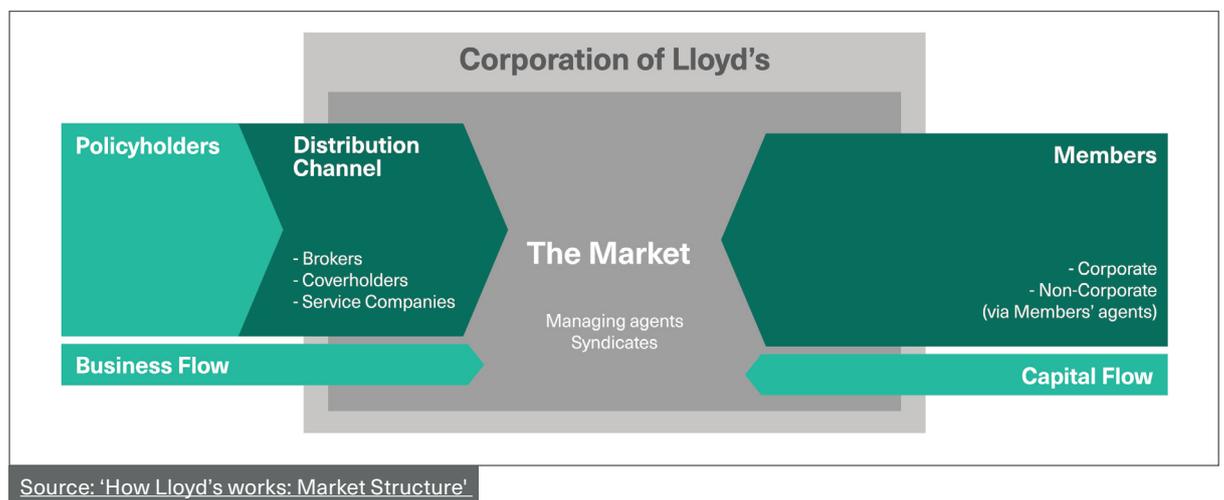
In 1871, the first Lloyd's Act was passed in Parliament, integrating the Society of Lloyd's as a statutory corporation: "An Act for incorporating the members of the Establishment or Society formerly held at Lloyd's Coffee House in the Royal Exchange in the City - of London, for the effecting of Marine Insurance, and generally known as Lloyd's; and for other purposes."<sup>48</sup>

This was succeeded by the 1911 Lloyd's Act, establishing the Society's objectives, and recognising "the society as a society whose members carry on to a large extent other business than marine business and a subsequent Act was established in 1951 to further extend the powers of Lloyd's.<sup>49</sup> 1982 saw the final Lloyd's Act passed by Parliament, in which a Council of Lloyd's was established and its powers and functions defined (outlined below).<sup>50</sup>

## 4.2

## Key players in Lloyd's of London

Unlike other firms in the industry, Lloyd's is a corporate body governed by Acts of Parliament, not an insurance company. Its business model centres around subscription, where members join to create syndicates to insure risk. The key players involved in the market structure of Lloyd's are outlined below.<sup>51</sup>



Policyholders request insurance cover, and brokers place the risks. Cardholders are companies approved by a Managing Agent to enter insurance contracts and/or issue insurance documentation, on behalf of the members of a syndicate. A service company – meaning an approved coverholder that Lloyd's has classified as a "service company" because it is a wholly-owned subsidiary of either a managing agent or its holding company – places the risks.<sup>52</sup>

Syndicates have underwriters who decide on behalf of its members which risks a syndicate will underwrite and on what positions, while Managing Agents - companies set up to manage one or more syndicates - direct the syndicates by handling "the

day-to-day running of a syndicate's infrastructure and operations."<sup>53</sup>

Members of Lloyd's provide the capital to support syndicates' underwriting, and the Corporation of Lloyd's oversees and supports the market and promotes Lloyd's, for instance, by determining the capital that members must provide to support their proposed underwriting, and financial and regulatory reporting for the Lloyd's market.

Additionally, Lloyd's members associations play a powerful role in shaping the marketplace:

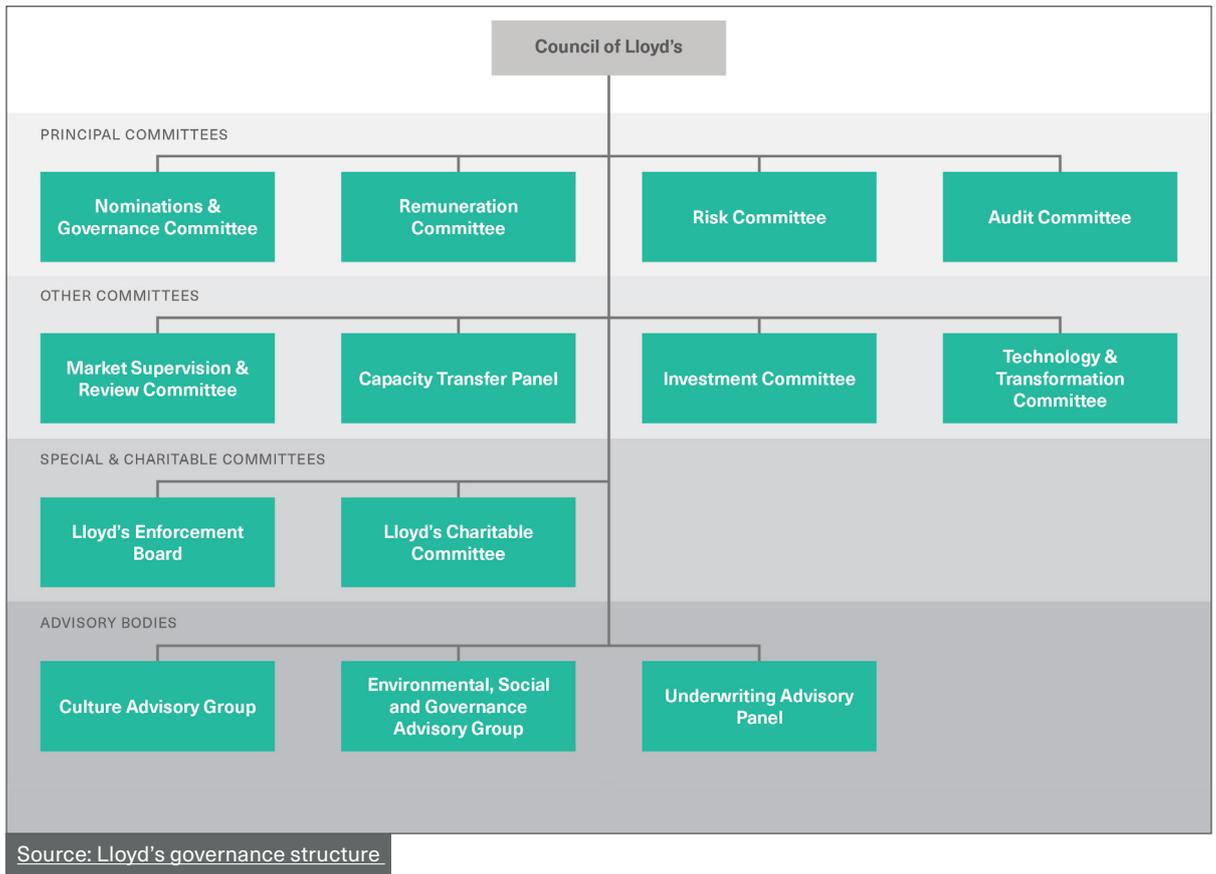
- The Lloyd's Market Association (LMA): It represents members' interests to organisations including governments, regulators, and the Corporation of Lloyd's.<sup>54</sup>
- The Association of Lloyd's Members: ALM represents private capital at Lloyd's.<sup>55</sup>
- The High Premium Group: Established in 1994, the group aims to protect and advance the interests of high-value providers of private capital continuing to underwrite in the Lloyd's insurance market.<sup>56</sup>
- London and International Insurance Brokers Association (LIIBA): LIIBA represents the interests of Lloyd's insurance and reinsurance brokers operating in the London and international markets, including representing members' interests to government, the Financial Conduct Authority, the EU and international bodies "to establish a proportionate regulatory framework" and liaising with the Central Services, LMA, International Underwriting Association of London, and Lloyd's to promote and protect brokers' interests.<sup>57</sup>

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## 4.3

## Governance

The Lloyd's Act 1982 defines the governance structure for the operation of Lloyd's. Under the Act, the Council of Lloyd's is responsible for the management and supervision of the market. The governance and oversight framework for the Lloyd's market "is designed to ensure that both the Corporation and managing agents in the Lloyd's market have robust and comprehensive systems of governance, risk management and internal control", and that "the Corporation and the market actively manage risks to the Central Fund, Lloyd's licences, ratings and brand and to ensure good outcomes for policyholders."<sup>58</sup>



# 4.4

## Regulation

Under the Financial Services and Markets Act 2000, Lloyd's is regulated by the UK Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).<sup>59</sup> Lloyd's managing agents are dual regulated by both the FCA and the PRA, while Members' agents and Lloyd's brokers are regulated by the FCA.<sup>60</sup>

# 5 The unique role of Lloyd's of London in the climate crisis

While the coffee house origin story remains the commonly told focal point of the early years and growth of Lloyd's, British ships often carried enslaved people, many of which were insured by Lloyd's.<sup>61</sup> As historian Rebecca Hall notes: “[t]hey were insuring against the insurrection of cargo – I think that completely sums it up. How can cargo insurrect?”<sup>62</sup> Last year, following the widespread uprisings and protests in the wake of the murder of George Floyd and the subsequent rise of the Black Lives Matter movement, Lloyd's of London issued an apology for benefiting from the transatlantic slave trade and offered measures such as charitable donations. Yet at a time when racial justice movements are calling for a wider structural reparative approach, many question whether apologies and comparatively small charitable donations are sufficient reparation.<sup>63</sup>

As academic and climate expert Leon Sealy-Huggins notes, climate breakdown should be understood as “a consequence of global systems of exploitation and exchange with their origins in the violent and extractive colonial processes that made the modern world”.<sup>64</sup> Today, Lloyd's of London, which grew in no small part out of insuring the slave trade, continues to support and profit from climate and environmental destruction.

Following sustained pressure from campaigns such as Insure our Future campaign, in December 2020, Lloyd's published its first ESG report, in which from 1 January 2022, Lloyd's managing agents will be asked to “no longer provide new insurance coverages or investments in” thermal coal-fired power plants, thermal coal mines, oil sands, or new Arctic energy exploration activities.<sup>65</sup> By Q4 2022, five per cent of Lloyd's Central Fund will be allocated to impact investments. It is not until 2030 that all existing insurance coverage provided by Lloyd's managing agents for thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities will be phased out.<sup>66</sup>

While the publication represents progress for Lloyd's, the market continues to provide insurance cover for carbon-intensive coal and tar sands projects which other leading insurers have dropped due to their climate impact and continues to insure the oil and gas sectors including exploration and development of new sources of oil and gas without restriction and without any account of its climate impact. As a leading insurance and reinsurance marketplace, Lloyd's continues to facilitate destructive projects and support carbon-intensive assets and industries.<sup>67</sup> Lloyd's has more recently been promoting itself as a climate leader citing in particular its role as coordinator of an insurance task force linked to Prince Charles sustainable markets initiative.<sup>68</sup>

In October 2021, alongside joining the Net Zero Insurance Alliance ahead of COP 26, Lloyd's issued an updated ESG guidelines, noting that following thorough testing and a market pilot with a selected number of managing agents in 2022, “Lloyd's expects to implement a

'Sustainability Transparency and Reporting' regime from 2023 onwards to get the first market-wide aggregate baseline view of the carbon contribution of underwriting portfolios to track and report against."<sup>69</sup> However, some have noted that while the 2020 ESG report stated that from 1 January 2022, managing agents would be asked "to no longer provide new insurance coverages", for thermal coal-fired power plants, thermal coal mines, oil sands, or new Arctic energy exploration activities, the 2021 report appears to roll back on this, noting that it is up to "each individual managing agent to decide their own ESG targets and policy, including their approach to sustainable underwriting."<sup>70</sup>

Lloyd's has become a focal point for climate activists and movements demanding an end to the "money pipeline", with this year alone witnessing a series of protests and campaigns, alongside memorials to commemorate lives lost to climate breakdown.<sup>71</sup>

In April, Extinction Rebellion dumped fake coal outside Lloyd's headquarters, and by May, protesters led by Coal Action network gathered outside of Lloyd's of London in opposition to coal mining insurance with "demands to stop putting profit over a liveable planet."<sup>72</sup> In June, campaign groups, Mothers Rise Up and Parents for Future organised a Father's Day protest at Lloyd's under the heading "Insure our kids' future."<sup>73</sup> In the same month, climate activist group Insurance Rebellion set off a stink bomb at Lloyd's headquarters to "represent the sulphur-rich coal mine."<sup>74</sup> In October, ahead of the UK hosting COP26 and as part of the Defund Clime Chaos campaign, Coal Action Network with others such as 350 Pacific, a youth-led grassroots movement working towards climate justice for the Pacific Islands, set up a climate justice memorial outside Lloyd's of London headquarters to commemorate communities on the front lines of climate breakdown.<sup>75</sup>

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## 5.1

## Making the Trans Mountain Pipeline uninsurable

The Trans Mountain pipeline stretches over 700 miles, from Edmonton to Vancouver, just above the US Pacific north-west. The stated aim behind its expansion is to grow oil exports.<sup>76</sup> If constructed, the Trans Mountain Expansion Project would transport an additional 590,000 barrels of tar sands oil per day from Alberta to British Columbia.

Its development has triggered significant global backlash and anger from climate justice groups as well as sustained resistance from Indigenous peoples, with Charlene Aleck, spokesperson for Tsleil-Waututh Nation's Sacred Trust Initiative, urging insurers "to understand that the violation of Indigenous rights is a material risk, just like climate change."<sup>77</sup> Amid this unremitting pressure, and alongside the fundamental risks of a project of this type and scale, the pipeline and its expansion has seen a series of insurers and reinsurers committing to not underwrite it.

To date 15 insurers, including Lloyd's syndicate member Cincinnati Global, have stopped insuring or committed not to insure the pipeline. In April, the Canada Energy Regulator granted a request by the Trans Mountain pipeline operator to hide the identity of its insurers in its

regulatory files, but insurers listed in recent public certificates who may be covering the pipeline include various Lloyd's of London syndicates, Liberty Mutual and AIG.<sup>78</sup>

## 5.2

### Blocking the Cumbria coal mine

West Cumbria Mining plans to extract 2.7m tonnes of coal annually, under the proposals to construct a coal mine in West Cumbria.<sup>79</sup> In October 2020, the county council approved plans for the coal mine, which would operate until 2049, but the decision was suspended in February and the findings of a four-week long planning inquiry are due to be brought to Parliament.<sup>80</sup>

Climate and environmental campaigns argue that the coalmine will destabilise efforts to decarbonise the economy and embarrass the UK's stated position as an international climate leader and host nation for COP26. As Rebecca Willis, a professor at Lancaster University, said: "West Cumbria Mining claims the planning inspector should ignore the carbon emissions that come from burning the coal from the mine. But the climate won't ignore these emissions."<sup>81</sup> Despite this, Lloyd's of London has refused to rule out its involvement in the coal mine, according to Coal Action Network.<sup>82</sup>

# 6 Recommendations

A reordering of the insurance sector is urgently needed to ensure it no longer invests in or facilitates activities that are worsening the climate crisis and instead shifts rapidly toward 1.5°C alignment in how it insures and invests. A divestment from and refusal to insure all fossil fuel projects and companies as well as exclusions on fossil fuel underwriting in line with a trajectory for a liveable planet will involve a fundamental shift in the current operations of the insurance industry.

## A rapid decarbonising of the industry

- **Aligning insurance coverage with a 1.5°C pathway**

Efforts to tackle the compounding crises facing the insurance industry have largely focussed on enhancing ways to model risks, though, for example, improved data, rather than exploring the inherent risks of a model rooted in private short-term interests of carbon-intensive capital allocation and the dangers it poses to our collective future.<sup>83</sup>

The International Energy Agency's (IEA) roadmap for the energy sector states that there is no need for investment in new fossil fuel supply. In its roadmap, beyond projects committed

as of 2021, there are no new oil and gas fields approved for development and no new coal mines or mine extensions are required. The head of the IEA recently called on the UK Government not to issue a new license for the Cambo oil field.<sup>84</sup>

As pressure mounts, alongside an immediate end to coverage of new coal, oil and gas exploration and production, insurance and reinsurance firms should implement a phase-out of existing coal, oil and gas insurance cover in line with a 1.5 °C pathway. The sector should also divest from all fossil fuels including direct assets and those managed for third parties.

The decarbonisation strategy should be adopted as part of an entity's articles of association or other constitutive documents and should extend to stewardship activities, the membership of trade associations and public positions as a shareholder and corporate citizen.<sup>85</sup> As experts in risk management and risk modelling, the insurance industry is well placed to understand the impacts of its decisions and should align its activities with a sustainable pathway, replacing the effective subsidisation of climate risk-driving projects with direct alternative subsidisation for greener projects.

#### - **Mandating climate resilient strategies from insureds**

By providing insurance coverage, corporate bond investments and capital via equity, the industry not only contributes to the climate and environmental crisis but also releases future financing for fossil fuel companies. Before providing coverage or renewals, insurers should necessitate that insureds have a codified, monitored and reported on 1.5°C aligned decarbonisation strategy.<sup>86</sup>

This should sit alongside broader reforms to the classification of what constitutes green finance. For instance, in June the UK Government recently announced a new independent expert group – the Green Technical Advisory Group – to advise on standards for green investing, to help shape the UK Green Taxonomy as part of efforts to accelerate the transition and support investment in sustainable projects.<sup>87</sup> Lessons should be learned as part of this from the European Union's green taxonomy, where lobbying from industry, some states, and trade associations led to divergences in expectations and assessment rigour, and which excludes the categorisation of 'harmful' activities, leaving uncertainty around what does and does not constitute as activities that hinder the advancement of a decarbonised economy. It is imperative that the UK's green taxonomy includes categories for unsustainable, harmful activities.<sup>88</sup>

Central to the development of a UK green taxonomy is the need to include a diverse range of stakeholders and voices, such as climate justice organisations, to ensure the balance of power does not sit with the lobbying power of carbon-intensive sectors. As a letter coordinated by Positive Money notes: "There must be transparency and public consultation to ensure that a wide range of expertise and perspectives from across civil society and academia feed into the UK's Green Technical Advisory Group."<sup>89</sup>

#### - **Integrating sustainability into regulation**

Given the clear and evident failures of a market-led approach to move at the scale and pace required to safeguard our collective futures, the divestment from carbon-intensive projects, assets and fossil fuel sectors should be overseen by regulators, mandating the operations of insurers and reinsurers to conduct future underwriting in line with the limits set by a 1.5°C pathway.

In 2013, the UK Government implemented reforms to the way the insurance sector is regulated. The “twin peaks” of regulation now encompass the PRA, which is part of the Bank of England and aims to promote the safety and soundness of insurers and the protection of policyholders, and the FCA, which regulates how these firms behave, as well as more broadly the integrity of the UK’s financial markets.<sup>90</sup>

One of the current strategic objectives of the FCA is to protect financial markets, by protecting and enhancing the integrity of the UK financial system. While the PRA has general objectives to promote the safety and soundness of the firms they regulate and an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected through developing a set of standards and policies, and through supervision.<sup>91</sup>

These objectives are near-impossible in an age of accelerating climate and environmental breakdown threatening widespread financial shocks and market instability. The continued support of the insurance sector as insurance providers and institutional investors for extractive and unjust projects and companies fuels climate breakdown and also poses a threat to the future of the industry, an increasing prospect of insolvency and the potential for systemic negative effects on the wider economic and financial system.

Both with regard to the FCA’s objective of protecting the integrity of the financial system and the PRA’s focus “on the issues and firms that pose the greatest risk to the stability of the UK financial system and policyholders”, climate resilience should be of paramount importance to the current focus and objectives of the twin regulators. It should be noted that the FCA and the PRA have made progress in recent years to further integrate climate risk into financial regulation, but generally approaches have often focussed on the implications of these risks for finance, as opposed to orienting financial regulation around its implications on climate and environmental breakdown, harm mitigation strategies, and providing a pathway to steward the industry towards genuinely sustainable outcomes.

Considering the IPCC’s recent warning, in which the UN Secretary-General António Guterres warned we face “code red for humanity”, mandatory governance and disclosure of climate-related risk by insurance and reinsurance firms is imperative. Ensuring regulators require that all insurers produce strategies for decarbonisation that are aligned with a 1.5°C pathway and that these strategies are monitored closely and regularly reported on to regulators, is a matter of urgency. It is imperative that regulators are sufficiently empowered to hold insurers accountable for failures to put in place a rapid and just pathway for decarbonisation or to meet the standards required for regular updates and reporting.<sup>92</sup> Reporting should include but may not be limited to strategies, key targets, central assumptions and methodologies, as well as impacts.<sup>93</sup>

While significant opportunities exist in insurance for scaling green industries and infrastructures, a high risk remains for existing fossil fuel assets becoming at least partially stranded. One option, posited by Finance Watch and supported by prominent academics such as Adam Tooze, Ann Pettifor and Stephany Griffith-Jones, notes that as intensifying frequent and severe climate disasters could result in insurance companies facing significant financial losses, banks and insurers should have one-for-one capital requirements implemented for the financing of new fossil fuels as a form of financial regulation, meaning 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.” Such a regulatory standard would ensure that banks and insurance

companies are “gambling with their own money, and not the public’s money.”<sup>94</sup>

- **Enhancing transparency**

While the focal point of transparency-related concerns and measures in insurance often centres on the need for improving data or access to information around climate-related risks, this alone will not drive the change needed in the timeframe we have to address the climate crisis, and the need for transparency extends far beyond that of disclosure of climate-related portfolio risks. As Ameli et al argue: “We argue that whilst transparency can help, on its own, it is a very long way from an adequate response to the challenges of “aligning climate finance”.”<sup>95</sup>

A critical aspect of transparency, however, is that of the need for transparency surrounding the details of insurance projects. The example provided earlier of the decision by the Canada Energy Regulator to hide the identity of the Trans Mountain pipeline operator insurers sets a worrying precedent. Mandated transparency is needed, and in the public interest, to better understand key elements of carbon-intensive projects.

As the decision on whether to award a new license for the Cambo oil field grows closer, for instance, the need for readily accessible, public access to the details surrounding the insurance grows to understand details of the insurance policy, providing a more thorough understanding of who has accountability and when, comprehensive risk assessments – both with regards to climate and environmental impacts and workers’ safety – and, crucially, who pays, at what point, and why. In cases of strong public interest, such as the breach of a 1.5 °C-aligned pathway by fossil fuel companies such as Siccar Point Energy and Shell in the case of Cambo, amendments should be made to Trade Secrets to provide the public with key details of the role of insurers and reinsurers in major future fossil fuel projects.

- **Repealing and replacing the UK Lobbying Act to challenge corporate power**

While some efforts have been made by the industry to initiate climate action, such as the creation of ClimateWise, a voluntary insurance industry leadership group on climate change risk, created to identify how the industry can support the transition to a low-carbon, climate-resilient future, these efforts are strongly outweighed by the continuation of carbon-intensive underwriting.<sup>96</sup>

The role of fossil fuel lobbying by firms and major financial groups in maintaining the current unsustainable trajectory hinders progress to secure a liveable planet. Research published this year by InfluenceMap shows the oil and gas sector has dominated climate-related policy battles throughout the pandemic, with the industry seeking deregulation, overriding pro-climate voices.<sup>97</sup> ExxonMobil, Chevron, Shell, BP and Total together spent hundreds of millions of dollars annually on sophisticated messaging strategies to capture the public narrative on climate, which is controlling, delaying, or blocking climate regulations policy.<sup>98</sup>

In an age of climate breakdown, a new framework should be created. In 2014, a Lobbying Act was passed by the UK Parliament under the coalition government, which was branded the “gagging bill” over concerns about freedom of speech, and which was heavily criticised by trade unions, charities, and climate and environmental groups and movements.<sup>99</sup> In 2017, opposition parties claimed a debate on environmental issues had been stifled in the run-up to the general election leaving voters in the dark, citing the Lobbying Act as the source of the problem.<sup>100</sup>

Repealing the 2014 Lobbying Act and replacing it with a new Act is vital to rebalance power between corporate, for-profit voices and those championing climate and environmental justice, as well as enhancing transparency and accountability, ensuring that financial groups' climate-relevant lobbying and engagement activities - which often have major associated carbon footprints through the undermining of climate policy - are internally consistent, and expressly consider long-term climate risk. The new Act should further include measures to ensure enhanced transparency around Freedom of Information rules, the introduction of a more far-reaching lobbying register and, with some exemptions, a ban of MPs taking on additional jobs.

- **Tackling the climate-related UK insurance poverty premium**

Low-income households often suffer from a lack of insurance, meaning should something unexpected occur, they often face the possibility of dipping into savings or accruing debt to cover the costs. In instances where low-income households do have insurance, they are often seen as higher risk, are forced to pay more, and are more likely to pay a "loyalty penalty", according to 2019 research by the Barrow Cadbury Trust.<sup>101</sup>

The Flood Re scheme was initiated in 2016 and is a joint initiative between the UK insurance industry and the UK Government. Flood Re is a reinsurance company and the scheme is a not-for-profit fund that is owned and managed by the insurance industry, allowing insurers to pass the flood risk element of the policy to Flood Re for a fixed, below-market premium, while collecting an annual levy from insurers offering home insurance in the UK to subsidise premiums and improve flood-related coverage.<sup>102</sup> Such an initiative should be extended to other climate-related risks to consumers, such as storm damage, as the rate and severity of storms intensifies with climate breakdown.

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Furthermore, to prevent the burden of climate-related changes from falling on low-income people and households, and tackle the issue of withdrawing insurance, this could be paired with a mandate that insurers provide coverage to higher climate risk customers while setting a means-tested 'price cap' similar to those placed on utilities to limit the premiums they can charge. This could protect consumers while motivating insurers to attend to mitigating climate-related risks.

More broadly, however, there is an urgent need to reimagine the UK's approach to areas such as flood resilience to safeguard climate and environmental protections and mitigate harm for consumers. Introducing a comprehensive roadmap for flood prevention, for instance, can enhance land use, create flood defences, including through an enhanced and accelerated national strategy for tree planting, and boosting the resilience of housing stock.<sup>103</sup> Measures to tackle other areas of climate-related harm such as air pollution, a key driver of ill health and thus a contributing factor to increased costs for life insurance, should be a pillar of the wider strategy for decarbonisation.

This action should sit as part of a broader green industrial strategy. Relying on the interests and timescale of a market-led transition will fail to match the speed and pace required to meet ambitious climate targets and run the risk of fossil fuel workers and communities bearing the cost of the transition. While it is imperative that an ambitious transition is led by trade unions, clean industry voices and fossil fuel communities, co-producing the design of a rapid and just transition for workers and communities, the insurance sector can play an important role in this by redirecting their efforts towards infrastructures and industries of the

future.

- **Action to tackle global climate injustice**

Many low- and middle-income countries face the prospect of insurance being withdrawn or face premiums to insure against climate-related devastation that was overwhelmingly caused by rich nations, reinforcing wider economic and environmental injustices. It is increasingly clear measures such as catastrophe insurance are ineffective and unjust.

Alongside action from the insurance industry to rapidly decarbonise portfolios, mitigating the scale of damage caused, accountability mechanisms should be enacted, such as the establishment of comprehensive due diligence and verification mechanisms for human rights, such as the right to Free, Prior and Informed Consent (FPIC) as included in the UN Declaration on the Rights of Indigenous Peoples.

Reforms to insurance, however, are by no means a silver bullet. While a detailed analysis of other measures sits outside the scope of this report, the UK Government should support a series of actions to begin to address its role in historic and current climate and economic injustices.

Considering the compounding, interrelated harms caused by wealthy countries such as the UK through high historic and current emissions and centuries of extraction and exploitation, urgent measures are needed to assist a global transition. Yet the UK admitted in October that the annual pledge of US\$100 billion climate finance target will not be met until 2023.<sup>104</sup> Further, as Harpreet Kaur Paul notes, rich countries' 2009 ambition of transferring \$100 billion of climate financing (per year by 2020) to countries least responsible for the crisis paled in comparison to what a fair share would require." For the UK, this would amount to a contribution of £1 trillion by 2030.<sup>105</sup>

Climate reparations can and should provide a programme for loss and damages to marginalised and former colonised states, including as a means of generating funds for those subjected to an unjust economic system and an unequal climate and environmental crises. As climate expert, lecturer and political economist Keston K Perry states: "Dedicating specific financial and institutional resources to loss and damage through climate reparations is not only a just recognition of the long shadow of colonialism, but a necessity to ensure the survival of the Global South."<sup>106</sup>

Further, as noted by the African Women's Development and Communication Network, debt cancellation and moratoriums following Covid-19 should be a priority, alongside the need for a rollback of harmful strings attached to conditionalities to aid and loans, such as privatisation and deregulation.<sup>107</sup>

# 7 Conclusion

As the climate and environmental crises intensify, it is increasingly clear that tweaks to the margins of an economic model driving collapse will not safeguard a liveable future. In place of this, we need to reimagine the financial and economic logics.

Insurance continues to play a role in facilitating extractive economic activity that fuels climate and environmental breakdown, placing lives and livelihoods at risk, disproportionately impacting those that have contributed the least to the current crises. Additionally, through continued support for carbon-intensive projects and companies as insurance providers and institutional investors, the insurance industry is casting its own future into jeopardy.

Rather than channelling the focus towards enhancing ways to model risks, the scale of ambition requires an urgent and fundamental re-evaluation of the insurance industry. To do so, the industry needs to rapidly shift it from short-term interests of carbon-intensive capital allocation, and towards a sustainable future through aligning insurance coverage with 1.5-degree pathway, mandating climate resilient strategies from insureds, comprehensively integrating sustainability into regulation, significantly enhancing transparency, the replacement of the UK Lobbying Act, and tackling the climate-related UK insurance poverty premium alongside global action to tackle climate injustice.

The consequences of inaction or slow-moving action are catastrophic, and the timescale we have to act is rapidly diminishing. As a crucial component of a wider financial system driving climate chaos, there is an urgent need to reimagine the insurance industry, from an engine of wealth and carbon extraction and exploitation to an important means of helping scale clean industries and infrastructures as part of a broader economic transformation to lay the foundations for a sustainable, just and democratic economy fit for the future.

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