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The coal break-up

How financial institutions are phasing-out support to European coal utilities

Table of Contents

Executive summary

The publicly available no-coal policies by **financial actors** have grown in number over time: most of the leading European investors, insurers and banks now have policy guidelines either conditioning or restricting their support to the coal sector. No-coal policies have also become increasingly sophisticated: while initially they only covered certain coal projects or coal companies, they now affect virtually all companies active in the coal value chain.

The first coal policies were adopted by **banks** in 2010, and initially focused on reducing support to the building of new coal infrastructure. They later moved on to reduce corporate finance support for coal.

Investors joined ahead of the 2015 UN Paris Climate Summit (COP21) by adopting relative criteria (e.g. based on a company's coal share of revenues or power production) as a basis for excluding highly coal-dependent companies from their activities. They later moved on also to exclude companies on the basis of their coal expansion plans (forward-looking criteria) and the sheer size of their coal activity (absolute criteria).

Insurers started to reduce support to coal in their underwriting business from 2017. While latecomers to the conversation, the number of policies related to coal underwriting has increased rapidly. The scope of policies is also widening from project coverage to corporate level.

Most recently, investors have acknowledged climate science research that supports the need to phase out coal in the European Union and in member countries of the Organisation for Economic Co-operation and Development (OECD) by 2030; by 2040 in China; and by 2050 in the rest of the world.[1] A number of financial institutions have since committed to **phase out all coal from their activities**. Allianz' coal policy states that it will "fully phase out coal-based business models across [its] proprietary investments and Property & Casualty portfolios by 2040", while Dutch bank ING commits to support only power companies that "have reduced their reliance on thermal coal to close to zero by the end of 2025." In December 2018, Storebrand committed to not invest in companies with a coal share of revenues above 5% by 2026.

The Europe Beyond Coal Campaign has identified key **power utilities in Europe that need an urgent transformation**: ČEZ, Engie, Enel/Endesa, EUAS, Fortum/Uniper, PGE and RWE. Together, the companies account for almost half of the EU's operating coal fleet, and some have plans to further expand their coal activities. The companies have already started to feel the impact of financial institutions' coal policies.

All companies that are still planning **new coal plants** (e.g. **ČEZ, EUAS, Fortum/Uniper, PGE and RWE**), as well as, in some cases, new coal mines, have lost a lot of direct support from banks for these projects. Furthermore, as companies with a **high dependence** on coal, they are particularly affected by many investors' and some banks' coal policies. The reputational impact that comes with being excluded from the investment universe and from the financial support of large mainstream investors and banks further contributes to the rising cost of capital.

[1] Based on the report from Climate Analytics (2016): "Implications of the Paris Agreement for Coal Use in the Power Sector. https://climateanalytics.org/media/climateanalytics-coalreport_nov2016_1.pdf

The most recent coal policies developed by financial institutions also screen companies based on their long-term development strategy, with the aim of prompting them to **stop expanding** their coal activities and ultimately **phase out** all existing coal assets. Investors are, moreover, joining forces within the Climate Action 100+ initiative to use their shareholder power to drive the adoption by companies of Paris-aligned CO2 reduction targets. These policies and initiatives affect **all power utilities in Europe – including Engie, Enel/Endesa and Fortum**.

No financial institution has adopted a coal policy that is fully aligned with the Paris Agreement climate targets. Any such policy would have to rely on both exclusion criteria applying to all business lines and assets under management (including assets managed for third parties), and on a public, transparent and time-bound strategy to engage with companies that are not subject to exclusion criteria but have to rapidly close (and not sell) their coal assets. Moreover, such policies would not only require the most stringent relative, absolute and forward-looking expansion exclusion criteria but would also need a commitment to tighten these over time in order to support a progressive and fair coal phase-out in line with climate science (by 2030 in European and OECD countries, and by 2040 in other countries, as indicated by the IEA 'beyond 2°C scenario').

However, the trend towards greater ambition is clear. Financial institutions' coal policy thresholds and engagement requests will continue to become more demanding. European coal power companies that fail to stop expanding their coal activity and lack a business plan that transitions them out of coal will face increasing economic, financial and reputational challenges and will lose a growing number of investors, insurers and banks.

The Annex provides the links to the coal policies of many financial institutions.

1. Introduction

The Paris Agreement on climate change has built a strong consensus on the need to 'keep global average temperature to well below 2°C above pre-industrial levels, and pursue efforts to limit temperature increase to 1.5°C'. It also states that financial flows must be 'made consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'.

The implications for coal are clear. Investors have recently acknowledged climate science research that supports the need to phase out coal by 2030 in members countries of the Organisation for Economic Co-operation and Development (OECD) and the European Union; by 2040, in China; and by 2050, in the rest of the world. More recent analysis by the IEA 'beyond 2°C scenario' indicates that non-OECD countries should phase out production from coal power even earlier, by 2040.

The recent Intergovernmental Panel on Climate Change (IPCC) Special Report on 1.5°C warming highlights the importance and urgency of aligning investment portfolios with the goals of Articles 2.1(a) and 4.1 of the Paris Agreement (the 'Paris Goals'). According to the new report, the primary energy from coal must be reduced by 61-78 % globally in 2030 (% relative to 2010) globally in the scenarios with limited or no overshoot

This paper highlights the important role to be played by financial actors (investors, insurers and banks) in supporting this transition, due to the financial services – investments, financing and banking supports and insurance cover – that they provide to the coal industry. Over recent years, financial actors have developed increasingly sophisticated coal policies, to the extent that they are now affecting the ability of European coal utilities to access finance and insurance coverage.

The paper assesses the impact of such policies on ČEZ, Engie, Enel/Endesa, EUAS, Fortum/Uniper, PGE and RWE. The Europe Beyond Coal campaign has identified these power utilities as key because they account for about half of the EU's operating coal fleet, and in some cases have plans to expand their coal activities. While financial sector policies regarding coal mining fall beyond the scope of this briefing, they are certainly impacting some of these utilities, in particular RWE, PGE and ČEZ, as these are also active in the mining sector. If these companies do not move away from coal, they will come under increased scrutiny from financial actors.

2. Background on investors, insurers and banks: three pillars of the coal industry

Project finance

Investment companies, insurance firms and commercial banks play an important role in enabling major coal projects such as coal mines, coal power plants and the associated infrastructure.

Coal projects come with striking price tags and are often financed through a financial package that combines both equity and debt. Both are paid back from the cash flow generated by the project. While investors provide the equity, debt is provided by commercial banks, often operating together as a syndicate. Public finance is also very common in project finance as it lowers the financial risks of a project and may affect the participation of private investors in highly risky markets.

Commercial banks are needed not only to finance the projects through project finance or other kind of dedicated finance; they also play an important role in making projects bankable: through an advisory mandate starting at an early stage, one or two banks are usually responsible for making the project fly and for structuring its financing.

Insurance

In addition to funding, coal projects need insurance. Coal mines, coal-fired power plants and associated facilities (such as railways and coal ports) are capital intensive and face serious physical, technical, legal, political and management risks; as well as the risk that other parties to a contract will not meet their obligations. Few such projects would advance without some kind of insurance cover, as this is required to secure project financing and obtain authorisation.

Insurers thus play a critical role for new coal projects. At the same time, they are key in enabling existing coal projects and coal companies to operate: cover is provided at project or corporate level, through a stand-alone insurance (also called single-site) or through an insurance policy with broad coverage that applies to several risks and/or several types of assets. Not all insurers underwrite the risks related to the coal industry.[2]

Reinsurers (such as Swiss Re, Munich Re, Hannover Re, and Scor) are also important: insurers transfer all or part of the risks they underwrite to these companies through facultative (for a single risk) or treaty (several risks) reinsurance.

[2] Not all major insurers underwrite coal. In Europe, this concerns only Allianz, AXA, Generali and Mapfre, which are multi-line insurers, as well as Zurich, which is specialised in property and casualty insurance. Aviva does not underwrite coal. Other smaller insurers can play a significant role in underwriting coal in Europe: this is the case of TuIR Warta, a subsidiary of Talanx, as well as of Polish insurer PZU, Austrian insurer UNIQA and two subsidiaries of Vienna Insurance Group - Interrisk and Gothaer Poland. Another important player is Lloyd's of London, which is not an insurance company but a corporate body governed by Acts of Parliament and which operates as a marketplace within which multiple financial backers, grouped in syndicates, come together to pool and spread risk.

Corporate finance

Project finance accounts for a very small share of total financing to the coal sector. The bulk of finance is provided through corporate finance, when banks indirectly help companies to build and operate new and existing coal projects, either by providing corporate loans or by acting as their agent on the financial markets, helping them to issue shares and bonds.

Companies issue shares and bonds in order to raise capital. Both have different implications.

- Shares represent an ownership interest in a corporation: shareholders are paid in dividends, the amount of which depends (among other things) on the corporation's profits.
- Bonds are a form of long-term debt: while bondholders have no ownership in the company, the bonds they hold are paid back by issuers with fixed interest after an agreed period.

Institutional investors (pension funds, insurance companies, foundations, investment managers, investment banks, etc.) buy large quantities of shares or bonds with the aim of achieving a return on investment. The activities of institutional investors can be diverse and complex:

- Pension funds, insurers and foundations are considered to be asset owners: they are responsible for safeguarding pensions and other assets of individuals, and have a fiduciary duty to act in the best interest of their beneficiaries.
- Investment managers manage funds for third parties. Pension funds and foundations, for instance, mostly outsource the daily management of funds to investment managers through investment mandates.
- While some insurers rely on external investment managers, major ones also manage (part of) their own funds internally. In addition, they manage funds for third parties. Hence, insurers can be considered to be both asset owners and investment managers.
- Banks also combine different activities. While financing is usually their main business, they are often also considered to be investment managers (managing funds on behalf of third parties, e.g. retail clients) and even asset owners (e.g. providing pension provision and insurance products to their employees).

3. The coal policies of financial institutions: evolution and impact on coal utilities

Investors

The development of relative thresholds to identify an unacceptable exposure of companies to coal

The first coal divestment commitments (2013), such as that made by Storebrand[3], covered only the coal-mining sector and were based on the general understanding of stranded asset risk and sustainability concerns. The "Carbon Underground 200", which ranks the 100 largest global coal reserve holders based on the potential carbon emissions content of their reported reserves, was commonly the reference tool for these policies.

The approach changed in a surge of coal-related commitments ahead of the UN Climate Summit in Paris (UNFCCC COP21), when **investors started to exclude companies** based on the percentage of their exposure to the coal sector.

- Starting from 2014, investors (e.g. AP2 and KLP) started excluding mining companies based on the share of their revenues generated from coal mining (2014).
- In 2015, investors also started to exclude power producers in order to capture downstream activities related to coal.
- Most recently, the same exclusion thresholds were implemented by using the share of coal in companies' power production rather than revenues. This is a more relevant indicator for assessing power producers' dependence on coal.

These **relative exposure criteria** enabled investors to identify companies with an unacceptable degree of dependence on coal:

- Initially, most investors applied a high exclusion threshold, commonly fixed at 50%. Today, the line for excluding companies is generally drawn at 30% revenues and/or power production from coal – for example by Allianz, AXA, Generali, Ilmarinen, Mapfre, Munich Re, Norwegian Government Pension Fund Global (through Norges Bank), Swiss Re, etc. Early movers (e.g., Natixis, Zurich) are being pushed to review their policies in order to lower their criteria from 50% to 30%.
- Some investors have gone further. Hannover Re and Storebrand have a 25% threshold, and CNP Assurances and Caisse des Dépôts have a 10% threshold, based on revenues for both mining and power companies.

[3] https://www.storebrand.no/site/stb.nsf/Pages/newsdesk.html#/news/storebrand-reduces-carbon-exposure-in-investments-19-companies-excluded-62954

- Certain major European investors have yet to publicly adopt what has become the common denominator of any basic divestment policy. Other investors (e.g. Aviva) use the 30% threshold to identify companies for engagement rather than for divestment.

The **relative thresholds** adopted by investors affect power utilities with headquarters in Europe:

- 52 of the 67 coal power generating companies, including ČEZ, PGE and RWE, have a coal share of power production above 30% - the most commonly used threshold.
- Less ambitious thresholds are still in place, however. While a 50% threshold based on the coal share of power production would cover RWE, ČEZ and PGE; it would not affect RWE in case it is based on the coal share of revenues. Moreover, in periods where energy prices are low, the relative coal share of revenue might fall, even though the quantity of energy produced from coal, and the associated CO2 emissions and health impacts, have stayed exactly the same.

The expansion of the coal exposure definition: absolute criteria and coal expansion

Since the end of 2017 and throughout 2018, a complete paradigm shift in the way divestment is understood and applied has occurred. Investors have understood that the above-mentioned relative exclusion threshold does not sufficiently capture future risks or current absolute climate impact. Hence, two new sets of criteria have been incorporated into coal policies.

First, investors have started to exclude companies whose **coal expansion/construction plans exceed a certain power capacity threshold**: such forward-looking thresholds for newly planned coal capacity currently range from 0.5 to 3 gigawatts. The French Insurance Federation, for example, was the first to state in December 2017 that its members (covering 99% of the French insurance market) wanted to stop investing in companies that would not cancel their plans to develop new coal-fired power plants. Soon implemented by AXA as well, these expansion criteria have also been subsequently adopted by Generali, SCOR, Allianz and many French insurers.

Second, **an absolute criterion** was also adopted by some investors in order to cover diversified companies that do not meet the relative exclusion threshold but where the sheer size of their coal operations puts them among the top coal plant operators and top coal producers.

- The criteria exclude coal mining firms whose annual coal consumption exceeds a certain threshold and/or power producers whose total installed coal power capacity is considered too high in terms of impact or with regards to the need to phase out coal by science-based deadlines. While the relative criteria mainly reflects the management of climate-related financial risks, an absolute criterion allows investors to manage the current and real climate and health impacts of their investments as well as their capacity to transition out of coal in time to meet the Paris Agreement targets.
- For example, the 20 mil. tons threshold adopted by AXA and Generali allows them to exclude some of the world's biggest coal producers (Glencore, BHP Billiton), which are too diversified to be affected by a 30% threshold. No investor has adopted the equivalent criteria of 10 gigawatts for coal power companies. However, Allianz will no longer invest in companies that have to retire more than 50% of their generation capacity in the next 10 years to meet the 2°C ceiling.

- The AXA and Generali policies cover PGE, ČEZ and RWE. Allianz's criteria also affect other key target utilities (Fortum/Uniper, Enel/Endesa and Engie): their coal capacity is fully or mostly located in the EU and other OECD countries, where coal needs to be phased out by 2030 at the latest.

The gap between current coal policies and Paris Agreement goals

The relative, absolute and forward-looking expansion exclusion criteria employed by investors are affecting almost all power utilities with significant coal assets and/or plans to build new coal plants. There remain loopholes, however:

- Many European investors are only selling the shares they hold in companies meeting the exclusion threshold and are holding the bonds to maturity. Moreover, most investors which have adopted a divestment policy fail to apply their policies to the assets they manage for third parties, despite the fact that doing so would be in line with their fiduciary duties to protect their clients' assets from climate-related financial risks.
- As a consequence, investors are still holding bonds for their own account and can still buy new shares and bonds on behalf of clients in companies supposedly banned from their investment universe.
- While their divestment criteria lack ambition, BNP Paribas, Natixis and Storebrand are among the few asset managers showing some consistency by applying the same policy to the assets they manage for their own account and to some of the ones managed on behalf of third parties.

Despite the obvious advancements outlined above, this more sophisticated coal policy which combines the most stringent relative, absolute and forward-looking expansion criteria is not able to result in a rapid and fair coal phase-out in line with the latest climate science (by 2030 in European and OECD countries, and by 2040 in other countries). To guarantee this, investors would have to additionally commit to:

- Totally phase out coal across all the portfolios they manage for their own account and third parties alike.
- Tighten their exclusion criteria over time to support a progressive and fair coal phase-out.
- Adopt a transparent, forceful and time-bound strategy to engage with companies that are not subject to exclusion criteria but have to rapidly close (and not sell) their coal assets.

Recent developments (end of 2017/2018) show encouraging moves from the investor community towards **aligning with climate science**.

- Storebrand updated its pre-existing coal policy in December 2018. According to the improved coal criteria Storebrand will effectively divest from coal investments by 2026. Similarly to the Norwegian Government Pension Fund Global[4], Storebrand[5] publishes the list of companies that are excluded from its investment universe.

[4] https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/
[5] https://www.storebrand.no/en/sustainability/exclusions/_attachment/10509?_ts=168534135d9

- Allianz has developed coal exclusion criteria that refer to limiting global average temperature increase to below 2 degrees Celsius – including the need to retire coal assets – and has set an end-date by which coal must be completely removed from its investment portfolios (2040). More recently, Storebrand committed to not investing in companies with a coal share of revenues above 5% by 2026. To reach their targets, Allianz and Storebrand will tighten their exclusion threshold over time – for example by reducing their threshold by 5 % every second year - so that even power utilities with a low-coal exposure threshold and those with plans to expand the lifetime of coal assets eventually come under increased scrutiny.
- The Climate Action 100+ is a coalition of 310 investors (representing USD 32 trillion in assets under management) that is publicly asking the world's largest carbon emitters, including some of the largest coal companies, to "take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels". This can provide the right platform for investors to engage with companies, including Enel/Endesa and Engie, in order to guarantee that they decarbonise their activities by closing rather than selling their coal assets, in line with the Paris climate targets.

Insurers and re-insurers

An exponential increase in coal policies after a late start

The first coal policies applying to insurers' underwriting business - their main activity - were only adopted in 2017. This was four years after the first exclusion criteria adopted by commercial banks, and three years after the first coal divestment policies from investors (amongst which there are many insurers). Since 2017, however, the number of insurers restricting their insurance coverage to coal has increased at a steady and fairly rapid pace.

Seven out of the nine major European (re)insurers active in underwriting coal (AXA, Allianz, Generali, Munich Re, SCOR, Swiss Re, Zurich) have adopted public criteria restricting their insurance coverage to the coal sector. Hannover Re, which plays an important role in underwriting coal in Europe, as well as Mapfre, have yet to follow.

In addition to these major insurers, smaller European insurers are active in underwriting coal in Southern, Central and Eastern Europe. Among them are Polish insurer PZU, Austrian insurer Uniqa ; two subsidiaries of Vienna Insurance Group (Interrisk and Gothaer Poland) ; TuIR Warta, a subsidiary of the Talanx group that also owns Hannover Re ; the Slovenian insurers Sava and Triglav, both very active in the reinsurance market.

Initial coal policies are mostly limited to the project level

(Re)insurers tend to screen out coal from their insurance portfolio at project level, by applying it to contracts that cover a specific risk or project, called stand-alone or single-site insurance or facultative reinsurance. **Eight insurers have restricted underwriting cover to some or all new coal plants**.

- Allianz, AXA, Generali, Zurich, Swiss Re and VIG have restricted underwriting support to new coal plants worldwide.
- Munich Re committed to stopping providing cover to new coal plants except in countries where a significant part of the population has no access to electricity and based on a list of criteria. No project in Europe will be eligible according to this rule.
- SCOR excludes support for new lignite coal plants.

Coal companies need insurance cover to operate their existing coal plants and to expand or build new units. European power companies such as PGE and EUAS, which are very active in building new coal infrastructure, are likely to feel the pinch.

Some insurers, including Allianz, AXA, SCOR, Swiss Re, VIG and Zurich have also pledged to restrict their cover to existing coal plants. Key to assessing the value of their policies is the type of projects covered and whether the insurer applies its policy to non-single-site contracts. Indeed, while new coal assets are likely to be (re)insured mainly through stand-alone insurance or through facultative reinsurance, existing assets are likely to be (re)insured mainly through insurance packages or treaty reinsurance.

Initial insurers' underwriting coal policies did not, in most cases, apply to contracts that cover multiple risks, companies or projects – called insurance packages or treaty reinsurance.

- Allianz policies cover existing coal plants but are applied only to single-site insurance.
- Similarly, SCOR's policy covers lignite coal plants but is applied only to facultative reinsurance.
- AXA's policy covers all existing coal plants and is applied to stand-alone insurance and insurance packages. AXA rejects cover to packages in which coal represents more than 50% of the package (in annual produced MWh terms). All packages contracted before the policy was adopted and in which coal represents more than 50% will be terminated by January 2020.
- Swiss Re also screens out existing coal plants and clients with more than 30% in coal (production or revenue), and applies its policy to all facultative reinsurance and to treaty reinsurance contracts when coal represents more than 30% of the treaty.
- VIG will not renew existing risk insurance of coal mines and plants in countries with existing coal phase-out plans and committed to not increase its coal insurance activities arising from their competitors' coal exit strategies in countries without such plans.

In order to overcome the difficulties of screening out existing coal assets from insurance packages and reinsurance treaties, insurers could resort to excluding companies based on their specific exposure and activity in the coal sector.

First steps towards expanding coal policies to the corporate level

Among the initial (re)insurers' coal policies, there were two that **applied to the corporate level** – but each had significant weaknesses.

- Zurich applies its coal policy coverage at corporate level to some extent. However, it has opted for the high (and weak) 50% exclusion threshold both for mining and power companies. It also only applies its policy to potential new clients, giving up to two years for existing clients to show commitments on how they will diversify below the 50% threshold.
- AXA announced in early 2017 that it would coherently apply the thresholds of its investment policy to its insurance business, which at that point in time was the 50% threshold (based on revenues) that it had adopted in 2015. AXA failed, however, to apply the much more restrictive divestment criteria it adopted in December 2017 to its underwriting business. This reflects a fear that prevails in the banking sector, that excluding too many companies will risk a loss of market share.

What is required to close the gap between current coal policies and the goals of the Paris Agreement

As outlined above, the number of policies adopted by insurers is growing at a steady and fairly rapid pace. Coming from major insurers and reinsurers, these moves are likely to be followed by other (re)insurers and to already be impacting the coal market. Indeed, as major insurers stop insuring coal, smaller players will likely be approached to fill the gap. However, smaller insurers will need higher levels of reinsurance to offset the legal, financial and natural risks of coal projects, which can run into billions of dollars. But reinsurers, including the two major firms, Swiss Re and

Munich Re, are also restricting their support to coal. Combined with the increasing number of insurers that have adopted coal policies, coal companies are likely to find it increasingly difficult to get cover for their coal activities.

Despite the obvious advancements outlined above, the policies adopted by (re)insurers would not guarantee a rapid and fair coal phase-out in line with climate science (by 2030 in European and OECD countries, and by 2040 in other countries). This would require a commitment by (re)insurers to:

- End all cover to new coal projects, without exception;
- Exclude, from direct or indirect coverage (including packages and treaties), companies depending on coal for more than 30% of their business, producing more than 20 million tons of coal a year or having more than 10 GW of coal capacity, and having coal expansion plans;
- Make the publication of a coal phase-out plan a condition for support to other companies, including time-bound targets for closing rather than selling their coal assets in line with the Paris climate targets.

Recent developments (May-July 2018) are again showing encouraging moves from the insurance community towards such **climate science-aligned investing**:

- Even if Allianz failed to adopt clear exclusion criteria for its insurance support to coal companies in its recent coal policy (May 2018), its commitment to fully phase out coal-based business models across its Property and Casualty portfolios by 2040 implies that all its clients will have to phase out their coal assets in order to maintain Allianz's support. While it is impossible to identify to what extent this commitment already impacts Allianz's existing clients, companies that are still planning new coal plants or holding firmly to their coal assets (including PGE, ČEZ, EUAS, RWE and Uniper) are likely to be among the first to be excluded from Allianz insurance support.
- Swiss Re became the first reinsurer (July 2018) to commit to not provide any kind of coverage, including treaty reinsurance (the equivalent of insurance packages for reinsurers), to companies generating more than 30% of their revenues or power generation from coal. A more rigid approach has to be introduced for its treaty reinsurance business, and in the meantime Swiss Re is engaging with its clients to limit their coal portfolios.
- In November 2018, Generali decided to stop providing coverage to new clients which generate more than 30% of their revenues or power production from coal, produce more than 20 million tonnes of coal a year, or are planning new coal plants. Generali is also engaging with existing clients, "monitoring their plans to reduce environmental impacts, their strategy to shift to low-carbon activities and the measures envisaged for protecting the community and citizens"6. Generali announced it will decide either to end the Property coverages for the coal-related activities of these companies or to renew them depending on the outcomes of the engagement dialogues in Q1 2019. However, Generali has not published any public specific criteria under which the success or failure of the engagement process will be assess.
- VIG will not renew coverage to companies with 50% share of revenues or production from coal if these companies are from countries with existing coal phase-out plans. However, the policy leaves out countries with no phase-out plans yet in place.

[6] Generali's coal policy: https://www.generali.com/our-responsibilities/our-commitment-to-the-environment-and-climate

Banks

First movers, with a focus on project finance

Banks were the first financial institutions to adopt coal policies. From 2010 to 2015, these policies mostly focused on **restricting direct financing to certain types of new coal power projects**. Many European banks adopted specific efficiency or emissions thresholds that new coal projects had to reach in order to secure finance.

2015 represented another turning point, when the first banks (Natixis and ING) **ended direct financing to all new coal plants worldwide**, with no distinction between projects or between developed and developing countries. As of October 2018 this policy approach has been replicated and adopted by 21 international banks[7] on the power side (including 18 European banks).

These policies clearly impact European companies' capacity to finance new coal projects in Europe. While pushing European coal companies to look for other financiers or indirect ways of financing new coal projects, the price tag of these projects can be expected to increase and deter them from moving forward.

Expansion to corporate finance: the exclusion and reduction approaches

In autumn 2015, French banks went beyond exclusions at the project level to also restrict **general corporate finance through lending and the underwriting of new shares and bonds.** They have adopted two main approaches since then: the exclusion approach and the reduction approach. Most banks, however, adopt a combination of criteria, sometimes combining the exclusion and reduction approaches.

The exclusion approach implies that banks blacklist companies based on the **percentage of their exposure to the coal sector.**

- In 2015, Natixis was the first major bank to adopt this approach not only for potential new clients, but also for existing clients, based on the relative coal share of power generation for power companies. Seven banks have now adopted such an approach8. Natixis, ABN Amro, KBC, Crédit Agricole and Commerzbank use a 50% exclusion threshold. BBVA and RBS use a 40% exclusion threshold while Commerzbank applies a stricter threshold of 30% for clients in Germany, although not applicable immediately. The Finnish Osuuspankki (OP) has a much lower threshold of 25%. However, it is primarily based on the coal share of revenues. According to their policy, OP also excludes electricity power producers whose coal-based emissions "are amongst the highest". OP's policy is accompanied by an exclusion list, which explicitly discloses the companies that do not make the grade – including RWE, Uniper, and PGE[9].
- Theoretically, a 50% threshold should cover PGE, ČEZ and RWE. However, similarly to some investors, some banks only base the threshold on the share of coal in companies' revenues instead of including coal power sales or using the coal share of power production for power companies. Moreover, all, apart from Natixis and ABN Amro, make exemptions for clients

[7] https://www.banktrack.org/page/list_of_banks_that_ended_direct_finance_for_new_coal_minesplants
[8] https://www.banktrack.org/campaign/list_of_banks_policies_on_coal_utilities
[9] https://www.op.fi/documents/20556/63974/Poissuljettavat+yhti%C3%B6t/dddb168d-9067-434c-8d84-247988958a74

that have a diversification strategy. Commerzbank says that it is expecting/ it expects these companies to go below the threshold by 2021 while KBC says they must "demonstrate they will become compliant within a short timeframe".

Some banks have adopted a reduction approach, meaning their support to a company **is conditional on its relative exposure to the coal sector:**

- BNP Paribas and UBS offer financial support conditional on the adoption of a "diversification strategy to reduce the share of coal in its power generation" (BNP Paribas) or of a "strategy [...] to reduce coal dependency" (UBS). However, the implementation of these policies is not straightforward as they are coupled with other non-specific criteria.
- While this "diversification" criterion has the advantage of being dynamic and forward-looking, it only looks at the relative exposure of a company to the coal sector, and not at its absolute activity. By buying or developing non-coal assets, a coal plant developer would lower its relative exposure to coal, appear to be diversifying and thus pass below the required threshold. For example, BNP Paribas has not ruled out RWE from its financial support – despite the fact that RWE is expanding its coal mining activity and planning a new coal plant in Germany – because RWE's purchase of renewable energies assets from E.ON will reduce its coal share.
- To be effective, the criteria must be coupled with a clear immediate exclusion of coal plant developers and the provision of support only to companies that have committed to gradually align their business model with the Paris Agreement and have a diversification strategy which aims at phasing out their coal plants by 2030 in European and OECD countries, and by 2040 in other countries.

Some banks have taken a different reduction approach, which **aims to reduce their *own* exposure to coal power:**

- Société Générale and ABN Amro have committed to align their activities with the IEA 2 degrees Celsius scenario. Société Générale thus committed to limit the coal-fuelled part of its financed energy mix (installed MW) to 19% at by end of 2020, while ABN Amro limited the exposure of its lending portfolio to companies and projects in the electricity generation sector to a maximum of 28% in the period 2019-2020.
- In late-2018, ING and BBVA, BNP Paribas, Société Générale and Standard Chartered pledged to align their lending portfolios with climate science using the Terra Approach developed by the 2 Degrees Investing Initiative[10].
- This approach generally can be meaningful to track banks' lending to the coal sector, on the condition that forward-looking criteria (such as companies' coal expansion or phase-out plans) allow the banks to consider the future impacts of current loans. Up to now, ABN Amro has not publicly reported on the implementation of its policy, while Société Générale has simply noted that it was "on track to meet its commitments in 2020"[11].
- However, by applying itself only to lending and not to bonds and shares underwriting, which account for around half of banks' financial supports to coal, the whole approach is insufficient to align banks' financial support with science-based targets consistent with the Paris

[10] https://www.ing.com/Newsroom/All-news/ING-talks-climate-in-Katowice-at-COP24.htm
[11] Société Générale 2018 registration document, p.277

Agreement. It is imperative to couple such an approach with other strong immediate exclusion criteria for companies which are highly exposed to coal or expanding their activity in the coal sector, as well as with a robust time-bound engagement strategy to apply to companies that have an opportunity to transition rapidly enough to a 100% renewables-based energy system. Société Générale fails on this point, contrary to ABN Amro.

Expansion to corporate finance: the absolute coal expansion criterion

Similar to the paradigm shift identified among investors from the end of 2017, an encouraging development arrived in April 2017 when ABN Amro became the first bank to screen companies active in coal not according to their relative exposure to the coal sector but based on two absolute criteria: their potential plan to expand activity in coal, and their activity in lignite mining or burning.

By requiring from its clients a "commitment not to increase coal-fired electricity generation capacity", ABN Amro became the first and only bank in the world to formally blacklist most coal plant developers: those utilities still planning to build new coal plants around the world. Applied to all financial supports, this criterion makes ABN Amro's policy the only bank policy consistent with the scientific fact that there is no more room for new coal. It is also the only bank in the world to blacklist utilities that burn lignite, or to require them to have a lignite phase-out.

This coal policy rules out all key European power utilities, including ČEZ, Engie, Enel/Endesa, Fortum/ Uniper, PGE, RWE and EUAS.

Expansion to corporate finance: aligning with climate science

Another significant breakthrough occurred at the end of 2017 when ING announced: "all existing clients in the utilities sector should have reduced their reliance on thermal coal to close to zero by the end of 2025 for us to continue the relationship beyond that time." [12]

This criterion sends a very clear signal to companies currently active in the coal power sector that want to retain **ING** financing. ING does not require a full coal phase-out but a below-5% coal exposure by 2025; this could potentially let coal plant developers slip through the net. However, its new criterion could virtually affect all European power companies, as none have committed to reduce their coal exposure to below 5% by 2025. What is missing from ING is a clear statement that companies must phase out their coal activity by closing instead of selling their coal assets, as well as immediate exclusion criteria for power companies that are highly dependent on coal or developing new coal plants.

[12] https://www.banktrack.org/download/environmental_and_social_risk_framework_1/esr_framework_20171212.pdf

4. Conclusion: demands to investors, insurers and banks

This paper shows that coal policies adopted by financial actors (investors, insurers and banks) have grown in number over recent years. They have also become increasingly ambitious and sophisticated over time. Financial institutions that have not yet adopted coal policies are expected to come under increased pressure to adopt coal policies, and power utilities that do not move away from coal will face increasing difficulties in accessing finance and insurance coverage.

Despite advances, none of the current coal policies are fully aligned with the Paris Agreement's goal to "keep global average temperature to well below 2°C above pre-industrial levels, and pursue efforts to limit temperature increase to 1.5°C", by making "financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". The Europe Beyond Coal campaign has therefore developed principles and approaches for impactful and meaningful public coal policies (see box below) which will help financial actors to bring their policies in line with the Paris Agreement.

Europe Beyond Coal's principles and approaches for impactful and meaningful public coal policies for financial actors

In order to meet the UN Paris Climate Agreement goals of limiting "global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C", no new coal power capacity may be built and coal power will need to be phased out in the coming years. Investors have recently acknowledged climate science research that support the need to phase out coal by 2030 in the European Union and in Organisation for Economic Co-operation and Development (OECD) countries; by 2040, in China; and by 2050, in the rest of the world. More recent analysis by the IEA 'beyond 2°C scenario' indicates that non-OECD countries should phase out production from coal power even earlier, by 2040.

A. Overall commitment: to mitigate climate and financial risks associated with the coal sector, financial institutions* should adopt a public "no coal policy", which supports the alignment of their business models with climate science-based targets that are consistent with the goals of the UN Paris Climate Agreement. This implies that financial institutions should commit to over time (2030 in OECD/Europe, 2040 globally) eliminate coal assets from all business lines, and that all coal companies in which they are involved should either be actively engaged with or divested from.

B. Exclusion criteria for coal projects: as a consequence, financial institutions should not provide or renew direct support to coal plants/mines/infrastructures worldwide - including project finance and other dedicated finance support, advisory mandate, insurance underwriting, investment.

C. Assessment criteria for exclusion of coal companies: the criteria below capture companies that are currently either expanding or are highly exposed to coal, in relative as well as absolute terms:

- Companies with coal expansion plans, including the construction/development/ expansion of coal plant/mine/infrastructure, and life extension of existing coal plants through retrofit, acquisition of existing coal assets;
- Companies producing more than 20 Mt of coal per year, or with over 10 GW of coal power capacity;
- Companies that generate more than 30% of revenues from coal mining or produce more than 30% of power from coal.

By applying these criteria to their financial universe, financial institutions can identify which companies are currently unlikely to be able or be unwilling to transition rapidly enough to a 100% renewables-based energy system, and reconsider financial support** accordingly. These criteria should become stricter over time, as the deadline for a complete coal phase-out is approaching.

D. Criteria for engagement with coal companies: additional criteria need to apply to companies that own coal assets, but are considered to still have an opportunity to transition rapidly enough to a 100% renewables-based energy system. By applying targeted and impactful engagement*** financial institutions should ask those respective companies to:

- Adopt, within one-year maximum, a decarbonisation target to gradually align their business model with the UN Paris Climate Agreement.
- Publish, within two-years maximum, a clearly articulated and detailed implementation plan for the gradual closure (not sale) of existing coal plants and mines, exiting coal at the latest in 2030 in the OECD and in Europe, and in 2040 in the rest of the world.

By applying these four recommendations, a financial institution will achieve zero coal exposure within the respective decarbonisation timeframes.

*Financial institutions include banks, insurers and investors.

**Financial services include lending, underwriting, advisory, insurance coverage and investment with regards to own accounts as well as third parties.

***Financial institutions must gradually reduce/remove financial support within set timeframes (6, 12, 18, 24 months) if the engagement process does not lead to sufficient results.

5. Annex: Coal Policies of Financial Institutions

Abn Amro
https://www.abnamro.com/en/about-abnamro/in-society/sustainability/policy/sustainability-policy/sector-specific-policy/energy.html

AG2R La Mondiale
https://www.ag2rlamondiale.fr/files/live/sites/portail/files/pdf/Investisseurs/Investisseur-Politique-charbon.pdf

AP2
http://www.ap2.se/en/news-reports/news/2016/andra-ap-fonden-avvecklar-agandet-i-ytterligare-19-fossilbolag/

Allianz
https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/responsibility/documents/Allianz-Statement-coal-based-business-models.pdf

AXA
https://group.axa.com/en/newsroom/news/axa-launches-new-climate-change-actions

BBVA
https://www.banktrack.org/download/sector_norms_1/sectornorms_final_feb18.pdf

BNP Paribas
https://www.banktrack.org/download/coalfired_power_generation_sector_policy/csr_sector_policy_cfpg.pdf

CDC
https://www.caissedesdepots.fr/sites/default/files/medias/cp_et_dp/cp_engagements_climat_2018.pdf

CNP Assurances
https://www.cnp.fr/Journaliste/Tous-les-communiques-de-presse/2018/CNP-Assurances-annonce-de-nouvelles-ambitions-pour-se-desengager-de-l-industrie-du-charbon

Commerzbank
https://www.banktrack.org/download/policy_framework_for_handling_environmental_and_social_risks_in_its_core_business/commerzbank_es_framework_en_final_1.pdf

Crédit Agricole
https://www.banktrack.org/download/csr_sector_policy_coalfired_power_plants/csrsectorpolicycoalfiredplantsnovember2016.pdf

FRR
http://www.fondsdereserve.fr/documents/annonce-exclusions-FRR.pdf

Generali
https://www.generali.com/doc/jcr:30c761bd-832b-4453-bc15-b202dd52c998/lang:en/

Groupama
http://www.groupama.com/wp-content/uploads/2018/12/CP_Le-Groupe-Groupama-renforce-sa-strat%C3%A9gie-d%E2%80%99investissement-socialement-responsable-et-confirme-sa-politique-de-d%C3%A9sengagement-des-industries-charbon-et-des-%C3%A9nergies-fossiles_031218.pdf
http://www.groupama.com/fr/nos-engagements/rapport-climat-esg-2/

Hannover Re
http://hannover-rueck.unternehmensberichte.net/reports/hannoverre/annual/2018/nb/English/4030/sustainability-in-asset-management.html

ING
https://www.banktrack.org/download/environmental_and_social_risk_framework_1/esr_framework_20171212.pdf

KBC
https://www.banktrack.org/download/kbc_group_energy_credit_and_insurance_policy/csd_kbcgroupenergycreditandinsurancepolicy.pdf

KLP
http://english.klp.no/polopoly_fs/1.36221.1496298275!/menu/standard/file/2017.06.01%20PM_010617_KLP-listen%20v3%20English.pdf

Natixis
https://www.banktrack.org/download/csr_sector_policy_applicable_to_the_coal_industry_coalfired_power_plants_and_thermal_coal_mines_1/csr_sector_policy_applicable_to_the_coal_industry_coalfired_power_plants_and_thermal_coal_mines_1.pdf

Osuuspankki
https://www.op.fi/documents/20556/63974/Vastuullisen+sijoittamisen+periaatteet+uusin/f7f5e793-a2f6-475f-839e-c5b713a277be

RBS
https://www.banktrack.org/download/ese_policy_power_sector/power__policy__dec__2016_1.pdf

Société Générale
https://www.banktrack.org/download/coalfuelled_power_sector_policy/coalfuelledpowersectorpolicyoct2016.pdf

SCOR
https://www.scor.com/sites/default/files/23_-_coal_disengagement_veng.pdf

Storebrand
https://www.storebrand.no/en/sustainability/improved-coal-criteria

Swiss Re
https://www.swissre.com/media/news-releases/2018/nr_20180702_swiss_re_establishes_thermal_coal_policy.htm

VIG
https://www.vig.com/fileadmin/web/Corporate_Responsibility/Klimawandel-Strategie/20190218_VIG_Climate_Change_Strategy_2019.pdf

Zurich
https://www.zurich.com/en/knowledge/articles/2017/11/insurers-can-facilitate-the-transition-to-a-low-carbon-future

Other:

French insurance federation
https://www.ffa-assurance.fr/en/content/insurers-announce-three-new-initiatives-support-fight-against-climate-change-0

Munich Re
No policy: https://unfriendcoal.com/munich-re-coal-announcement-welcome-step-but-lacking-consequence/

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Europe Beyond Coal is an alliance of civil society groups working to catalyse the closures of coal mines and power plants, to prevent the building of any new coal projects and hasten the just transition to clean, renewable energy and energy efficiency. Our groups are devoting their time, energy and resources to this independent campaign to make Europe coal free by 2030 or sooner. *https://beyond-coal.eu/finance*