

# STATEMENT ON COAL-BASED BUSINESS MODELS

APRIL 2020

## RATIONALE

While the global demand for reliable and affordable energy is expected to rise, there is widespread scientific consensus that energy generation needs to be decoupled from greenhouse gas (GHG) emissions. This is necessary to limit global warming to 1.5° Celsius compared to pre-industrial times, as postulated by the Intergovernmental Panel on Climate Change (IPCC) and as adopted in the Paris Climate Agreement.

The necessary GHG emissions reduction entails that fossil-fuel based energy generation will have to be drastically reduced in the coming decades. With coal being the fuel with the highest CO<sub>2</sub> emissions in relation to its energy content, contributing a significant share of global emissions, and low-carbon technological alternatives being readily available, (i) a stringent phase-out of installed coal-based energy production and (ii) far-reaching avoidance of new coal additions is required to enable transitioning global energy generation to lower emission levels.

To drive the transition to a low-carbon economy, Allianz has set itself ambitious climate and environmental targets and collaborates with international organizations, companies and civil society. Allianz is a founding member of the UN-convened Net-Zero Asset Owner Alliance<sup>1</sup>, participates in the Energy Transitions Commission<sup>2</sup> as well as The Investor Agenda<sup>3</sup> and is committed to the Science Based Targets initiative<sup>4</sup>.

## OBJECTIVE AND MEASURES

We are engaging the companies in our proprietary investment as well as our Property & Casualty (P&C) insurance portfolios to move away from coal-based business models and to present effective strategies to reduce the share of coal in mining and combustion at a minimum in line with the criteria laid out below.

Since 2015, Allianz has not financed coal-based business models. Equity stakes have been divested, fixed income investments made before 2015 are in run-off, and no new investments have been allowed since 2015.

Furthermore, Allianz does not offer insurance for coal power plants or mines and requires all companies from both P&C insurance as well as proprietary investment portfolio to fully phase out coal by 2040 at the latest.

Our criteria are being further sharpened over time and explained in more detail below.

<sup>1</sup> [www.unepfi.org/net-zero-alliance](http://www.unepfi.org/net-zero-alliance)

<sup>2</sup> [www.energy-transitions.org](http://www.energy-transitions.org)

<sup>4</sup> [www.theinvestoragenda.org](http://www.theinvestoragenda.org)

<sup>5</sup> [www.sciencebasedtargets.org](http://www.sciencebasedtargets.org)

For the definition and application of our criteria, we are relying on best available company data in a challenging data environment. We are open to any remarks regarding shortcomings as well as possible additions.

## SCOPE OF EXCLUSION

If companies do not present a credible strategy to transition away from coal at a pace which is compatible with the scientific pathways of limiting global warming to 1.5°C, we are excluding them from our business along the following set of criteria.

### I. Criteria for our investments

Companies which, either themselves (directly) or through entities they control (indirectly, minimum of 50% stake), breach the following thresholds:

#### Energy generation from coal:

- deriving 30% (25% as of December 31<sup>st</sup> 2022) or more of their generated electricity from thermal coal  
*and/or*
- planning more than 0.3 gigawatts (GW) of thermal coal capacity additions

#### Coal mining:

- deriving 30% (25% as of December 31<sup>st</sup> 2022) or more of their revenues from mining thermal coal

Furthermore, we continue to not directly invest in any coal-based infrastructure, such as coal power plants, coal mines, coal-related railways or coal ports.

#### Details

- **Capacity additions:** This criterion is based on available company data. It assesses whether a company is planning and/or building additions of more than 0.3 GW in coal power capacity. This allowance is established mainly for data and technical reasons, e.g. to allow retrofitting or refurbishment of existing plants in order to improve their efficiency, but to avoid building of new plants.

### II. Criteria for our Property & Casualty insurance

Allianz does not offer single-site/stand-alone insurance coverages related to the construction and/or operation of thermal coal-fired power plants and mines where coal is extracted, effective as of May 2018. Single-site/stand-alone coverage means the covering of loss and damages for a single power plant and/or mine (green- and brownfield) for an insured, as well as for offering guarantees (bonds) to a respective client. The exclusion is applicable for new (first time) contracts and the renewal of contracts.

Exceptions to the above are only applicable for coal-fired power plants based on a case-by-case assessment. Criteria for this assessment include thermal efficiency, consideration of renewable and/or other low-carbon alternatives to a power plant and reasonable rejection of these alternatives, blackouts or load shedding in

the region due to a lack of generation capacities and the development status of the country (in line with the UN classification). Based on the criteria outlined above and our practice so far, we only grant a very limited number of exceptions for compelling cases.

As of December 31<sup>st</sup> 2022, Allianz will exclude companies from its P&C insurance portfolios which fail to present a credible transition strategy away from coal and breach the following thresholds:

**Energy generation from coal:**

- deriving 25% or more of their generated electricity from thermal coal  
*and*
- having 5 GW or more installed thermal coal capacity

**Coal mining:**

- deriving 25% or more of their revenues from mining thermal coal  
*and*
- mining 50 million metric tonnes thermal coal or more annually

Engagement with major coal companies provides an opportunity to support companies' management of material risks related to climate change and to establish the transition pathway away from coal.

## ALLIANZ COAL PHASE-OUT

The criteria and thresholds laid out above will be tightened over time. As we are committed to fully phasing out coal-based business models across our proprietary investment and our P&C insurance portfolios, we will reduce the thresholds from the current 30% to eventually 0% in 2040 at the latest. In a next step, we will reduce the thresholds to 25%, applicable as of December 31<sup>st</sup> 2022. We target a further reduction to 15% by year-end 2025, subject to amendments of criteria and alignment with developments in climate science and climate policy.

The reduction pathway for the Allianz Coal Phase-Out is based on IPCC's 1.5°C scenarios with most recent and frequent data and no or low overshoot of emissions. Our thresholds applicable to a company's coal share align with the mean share of coal<sup>5</sup> in the 1.5°C scenarios' global electricity composition.

**NOTES:**

*The approach laid out above is subject to regular review to reflect developments in climate science and climate policy. Further adjustments to these thresholds and scope of application will be announced in advance.*

*The content of this document will be integrated into the next version of the Allianz ESG Integration Framework.*

<sup>5</sup> Coal without carbon capture and storage