

## FOSSIL FUELS: THE POSSIBLE IMPACT OF REDUCED INSURANCE COVERAGE

### Growing Opposition

In [September 2016](#) a Lutheran pastor in America's Washington state led a blockade of a train of oil tankers; he and other members of 'Veterans for Peace' were repeating a similar blockade earlier in 2016 of a coal train by 'Raging Grannies'.

These events could easily be dismissed as the actions of a minority of climate cranks, but that would be foolish. Since 2016, these anti fossil fuel protests have become increasingly mainstream, and the insurance market has witnessed growing and successful pressure intended to shame insurers into refusing to insure the coal industry.

The protestors no doubt feel added legitimacy for this pressure, since the publication of the IPCC's [October 2018 report](#) that calls for urgent action within the next 12 years to keep global warming to 1.5oC, and, even more recently, the EBRD's [announcement](#) that it too will no longer fund coal and oil projects.

### Non-Governmental Organisations

Whatever one feels about the climate change debate, the pressure on the insurance market and wider financial services sector has been successful. One NGO, [Unfriend Coal](#), is leading a campaign to render the coal industry uninsurable. Moreover, 2018 has seen large insurance businesses such as Allianz, Aviva, Scor, Swiss Re and Lloyd's of London, scale back their coal industry involvement, largely in response to this campaign.

Unfriend Coal's ultimate objective is to starve coal of finance, by denying the investors the security of insurance. However, as the CEO of Swiss Re [said](#) back in July: *"it's not simple...if you stopped financing and insuring it tomorrow it would be a disaster for society"*.

Unfriend Coal is certainly right about one thing: the insurance sector is right at the centre of this debate. On the one hand insurers bear the brunt of the [increasing](#) scale of natural catastrophe losses, howsoever caused, and they fund numerous research projects into this subject and into climate change.

### Impact on Less Developed Countries

On the other hand, insurance is an essential component in any finance arrangement for a project. Insurers have an obligation to be responsible players in society, by underwriting investment projects that will help improve living standards for the two-thirds of humanity who live in less developed nations.

These may be coal fired power projects because basic energy provision is often the [first step](#) towards unlocking greater prosperity. It's not a perfect world and the insurance sector must serve the world as it is as today, as well as try to respond to those who want change for tomorrow. Coal mining and power generation will likely play an increasing role in South East Asia and Latin America in the coming decade, even as some developed nations [reduce](#) or even stop fossil fuel use.

Nevertheless, there is still disunity amongst OECD countries. [Australia](#) and the [United States](#) are politically supportive of coal and consequently there have been no insurers there reducing their exposure to the coal industry.

## Conclusion

So, what to do? Follow the money and keep insuring risks that are unfashionable and unpopular, or stop insuring sectors that have been fingered as climate changing by a prosperous first world minority that perhaps watches too much TV. This dilemma is an uncomfortable one for a sector that isn't really used to the limelight and just normally gets on with the job of mitigating the risks facing so much of today's human endeavour.

Fossil fuels are 'dirty', and most would agree we can't just blindly continue polluting the world as we have done in the past, but insurers need to take a step away from the ideology and remember that the priority surely is to continue lifting as many as possible out of poverty, by supporting infrastructure investment.

This implies judging each project on its merits. It means taking the foot off the throttle, but not jamming on the brakes. For the sake of human progress, insurance needs to play its part in unlocking good investment projects of all types that could reduce poverty for millions more, rather than turn its back on whole sectors of economic activity.

## About the Author

*Mark Tetley has wide experience gained from senior positions across the London insurance market as both an underwriter and a broker, in a variety of sectors. He provides advice and assistance on a wide range of insurance and risk issues, including comprehensive nuclear liability and property insurance assistance, complex infrastructure project programme design and review, claims and policy reviews, assistance with project insurance design and implementation in developing countries, and many other aspects of risk mitigation.*

*Prospect Law is a multi-disciplinary practice with specialist expertise in the energy and environmental sectors with particular experience in the low carbon energy sector. The firm is made up of lawyers, engineers, surveyors and finance experts.*

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