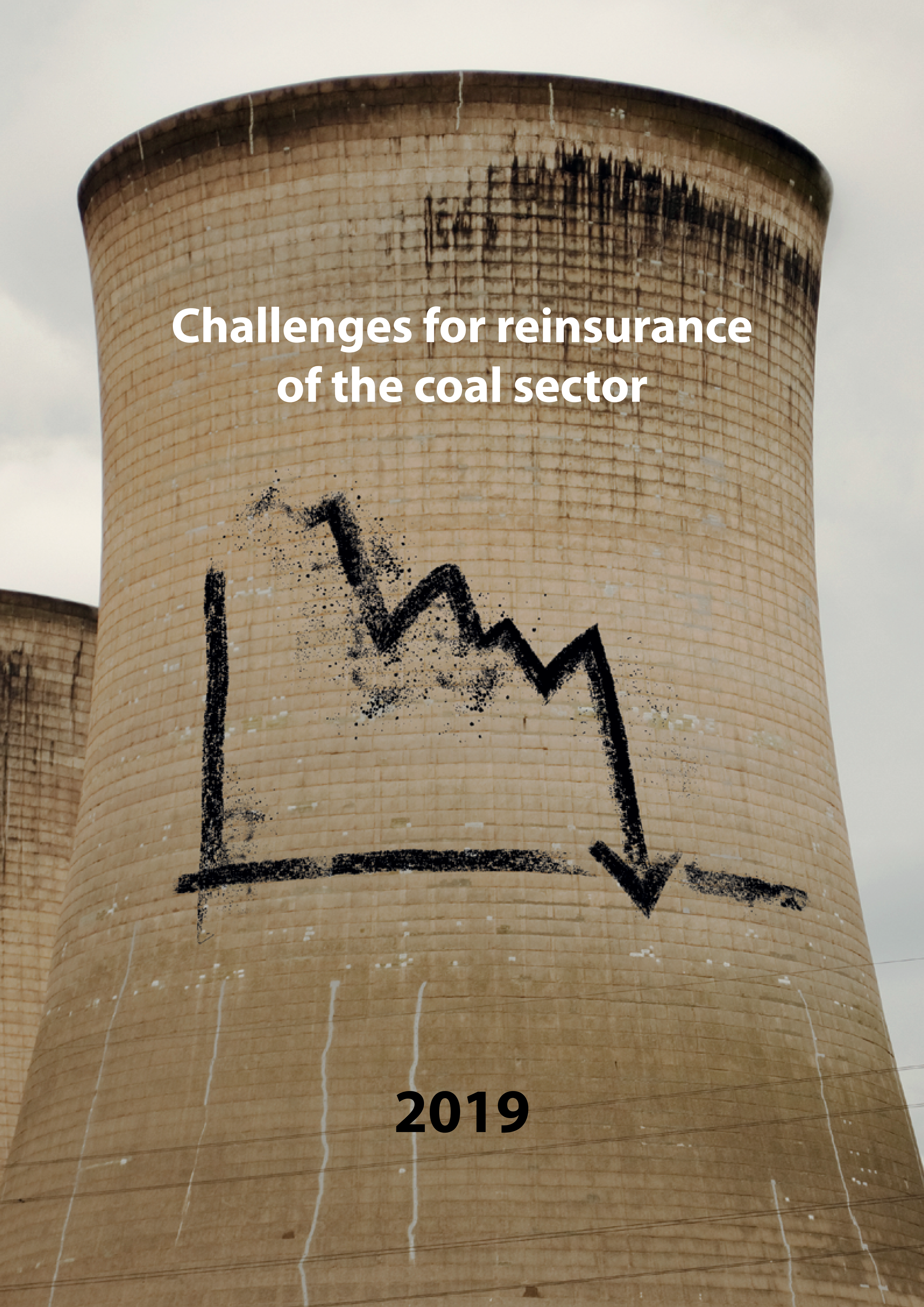
Challenges for reinsurance of the coal sector



2019

Foundation "DY-OPMN" is the formal and legal representation of the Polish Coalition "Development YES – Open-pit Mines NO," a civil society grassroots movement to prevent plans to build new lignite open-pit mines and to support the transformation of Polish economy from fossil fuels to energy efficiency and renewables. The Foundation is also a member of the Unfriend Coal network that calls insurance companies to get out of the coal business and support the transition to clean energy.

The mission of the Foundation is to support the activities of the civil society aimed at stopping plans to build new open-pit lignite mines in Poland, including assistance to non-governmental organizations, associations, and individuals opposing the construction of open-pit lignite mines, fighting the negative effects of the operation of existing ones, and promoting the development of energy systems based on renewable energy sources, energy efficiency and local self-sufficiency.

Author: Jan Chudzyński, Foundation "Development YES – Open-pit Mines NO"

www.rozwojtak-odkrywkinie.pl

Foundation "Development YES – Open-pit Mines NO" wishes to thank the Grassroots Foundation for financing work on this briefing. Opinions presented in this publication do not necessarily reflect the official standpoint of the foundation.

Cover photograph I i IV – iStock
Design and composition: Zuzanna Sri

Unfavourable trends in the global reinsurance market, risks related to climate change, key reinsurance and insurance companies moving away from coal – these are the most important challenges for the power insurance market in 2019 according to experts from Willis Towers Watson.[1]

Apart from the unfavourable trends, i.e. the expected increase in costs of reinsurance and insurance, the leading insurance broker's report makes reference to 2015 Bank of England's PRA (The Prudential Regulation Authority) study that sets framework for analysing risks that reinsurers and insurers are exposed to due to climate change.[2] The three categories of medium- and long-term risks are:

Physical risks – directly related to the damages and an increase in claims and losses as a result of more frequent extreme weather events

Transition risks – risks resulting from the transformation towards a low- or zero emission economy – financial consequences of changes (decrease) in the valuation of coal assets and the costs of an inefficient transformation pathway

Liability risks – related to reputational risk, and cases of recognition of civil liability of energy companies for damages caused by climate change; e.g. climate lawsuits[3]

The scope of what has been announced so far by the world's largest insurance and reinsurance institutions regarding their withdrawal from coal re/insurance and investments is only a step towards keeping the temperature rise below 1.5°C. No (re)insurer, has adopted policies compliant with the objectives set by the 2015 Paris Agreement.

This briefing outlines the role of reinsurance in coal expansion and the operation of existing coal infrastructure. It also showcases how the re/insurance industry's moving away from coal impacts the coal sector locally and globally.

1. Willis Towers Watson, Power and renewable energy market review 2019 https://willistowerswatson.turtl.co/story/power-and-renewable-energy-market-review-2019-online
2. Bank of England PRA, The impact of climate change on the UK insurance sector https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/impact-of-climate-change-on-the-uk-insurance-sector.pdf
3. See https://www.nytimes.com/interactive/2019/04/09/magazine/climate-change-peru-law.html

Changes in re/insurers' coal policies

First policies introducing restrictions on insurance of coal sector have been announced just two years ago, in 2017. Today, ten most important European insurers and reinsurers have put such restrictions. These are AXA, Allianz, Generali, Hannover Re, Mapfre, Munich Re, SCOR, Swiss Re, Talanx and Zurich. At the beginning of 2019, Vienna Insurance Group (VIG) and Uniqa joined the group. However, the largest insurance company in Poland and the leading insurer of the expanding domestic coal sector, PZU, still has no such policy publicly available.[4]

- Allianz, AXA, Generali, Hannover Re, QBE (Australia), SCOR, Swiss Re, Uniqa, VIG and Zurich ended insuring new coal-fired power plants
- Munich Re decided to stop insuring and reinsuring new power plants with the exception of countries where a significant part of the population (more than 10%) has no access to electricity + Hannover Re / Talanx
- Allianz, AXA, QBE, SCOR, Swiss Re, Uniqa, VIG and Zurich also committed to limit insurance for **existing coal-fired power plants**[5]

These decisions of insurance and reinsurance companies translate into a reduction in the insurance capacity available for the coal sector. This trend is expected to increase costs of re/insurance and also affect coal expansion plans. Without re/insurance of an investment process, it is difficult to get funding on ever more reluctant financial market. Most of the so called large risks, a category that includes construction of new coal infrastructure, are too large for a single local insurance company to handle and require international reinsurers to step in.

What does the market say about moving away from coal?

The importance of this trend is highlighted in the latest report of Willis Towers Watson, a leading insurance broker. The topic of divestment and re/insurers' withdrawal from coal appears in a dedicated chapter at the very beginning of *"Power and renewable energy market review 2019"*.[6] Authors of the report admit that these trends constitute a significant impulse that can accelerate the process of moving away from coal towards a low-carbon economy. It is a manifestation of the new climate-conscious philosophy of insurance, which - as they explain - is also backed by very concrete analyses that indicate an increase in insurance payouts for damages caused by extreme weather events.

4. https://rozwojtak-odkrywkinie.pl/pdf/PZU_Group_EN_online.pdf
5. https://beyond-coal.eu/wp-content/uploads/2019/02/EBC_Coal_policy-impact_briefing_paper.pdf
6. Willis Towers Watson, Power and renewable energy market review 2019 https://willistowerswatson.turtl.co/story/power-and-renewable-energy-market-review-2019-online

"[..] insurers' retreat from underwriting coal business has left coal-fired generators with a significant reduction in available capacity. This has various different parameters set by the individual carriers and although the carriers do not have knee jerk reaction on renewals they slowly look to remove themselves from programmes over an agreed period. This reduction in available capacity will invariably see upward pressure on rates and coverages as the competition for market share in this specific sector will be much more limited." [7]

The trend influences domestic coal business, e.g. coal sector in Poland. As some industry's executives admit, getting an insurance has become more difficult these days.

"More and more financial giants are deciding that they will not finance and insure coal-fired power generation. And it is obvious that without insurance it's hard to get financing." [8] – said Daniel Ozon, CEO of a coking coal producer Jastrzębska Spółka Węglowa (JSW).

Representatives of a leading insurance broker in Poland indicate that there is a further reduction in the traditionally limited insurance capacity. ***"Suddenly [...] we found ourselves approaching the wall. The withdrawal of the existing leaders meant there is an urgent need to fill in the gap that has appeared. Our clients in the energy sector, as well as ourselves as professional advisors, we had to put some extra time and work to search for alternative solutions, from other markets and other entities. [...] Search for contract renewal options for conventional coal-fired power plants should be initiated earlier – certainly much earlier than it was traditionally done by most clients."*** [9]

Higher insurance costs as well as higher contribution (deductible) in potential claim payouts are the expected effects of the insurance companies moving away from coal. According to the head of the energy department in Asian subsidiary of Marsh, a leading insurance broker, these trends can be a blow for new coal investments, coal power plants in particular. For the decreasing number of insurers accepting coal risks leads to higher prices.[10]

Nevertheless, the authors of the Willis Towers Watson report point out that coal power plants are still insurable. For there are still some exceptions in the coal policies of re/insurers and there are still other players in the market that are willing to step in. It is expected that eventually state insurance programs would be used as insurers of last resort to provide insurance coverage for coal infrastructure if private insurers leave coal for good.

7. Willis Towers Watson, Power and renewable energy market review 2019, p.69
8. https://gornictwo.wnp.pl/wegiel-ma-coraz-trudniej-przybywa-ekologow-wsrod-bankow-i-ubezpieczycieli,333783_1_0_0.html
9. Miesięcznik Ubezpieczeniowy, Energetyka węglowa – aktualne wyzwania, Feb 2019, p.33-34
10. http://www.brinknews.com/asia/coal-fired-generation-faces-a-changing-market/

What is reinsurance

Reinsurance is insurance for insurers. It is a transfer of a part of the insured risk (policy) from the insurance company to another insurance company that can thus be referred to as reinsurer. In return for accepting a risk of a potential payout in the future, the reinsurer receives its share of the premium paid by the customer to the primary insurer.

Under such an agreement, the reinsurer takes on a defined share of risk, i.e. the obligation to transfer a fixed amount of compensation in the event of damage. The insurer retains such a portion of the risk (the so-called insurer's own retention/own contribution) that, even in the worst-case scenario, does not pose a threat to his financial condition and solvency.

retrocession, capital markets

↑

reinsurers

↑

insurers

↑

customers – individual/businesses insuring their property/health

There are several types of reinsurance contracts. They differ in rules under which the risk is transferred or in the manner in which risk is shared between the parties. In the context of this analysis, the most important division seems to be the one into ***treaty*** and ***facultative reinsurance***.

Under a ***treaty reinsurance*** contract, a reinsurer automatically accepts risks that have certain characteristics, as agreed in the contract. It can be agreed that the insurer will pass e.g. a group of car or maritime insurance risks (policies) to the reinsurer. These risks (individual insurance contracts) are pooled together, considered as a group or a package of risks, and are not subject to individual risk reviews by the reinsurer. Treaty reinsurance contract can be obligatory for both parts, i.e. neither party may decline to transfer or accept a specific risk as long as the key parameters of the risk or a pool of risks meet the pre-agreed criteria.

The process of transferring risks under the ***facultative reinsurance*** contract is completely different. In this case, there is no automatic transfer of risk and each individual risk (or a larger package of risks) is subject to reinsurer analysis. Such a contract is usually prepared with the participation of a reinsurance broker that mediates between the insurer and potential reinsurers. Also, there are some mixed forms of contracts – facultative and treaty contracts – which allow the insurer to choose single risks that the reinsurer is obliged to accept.

There is also a distinction between proportional and non-proportional reinsurance. This distinction relates to the way in which an insurer and a reinsurer share the premium. The most commonly used method is a proportional agreement under which the reinsurer's share of the risk, premium and possible payment of compensation is set at one and the same level for all these aspects of the agreement.

Non-proportional reinsurance, on the other hand, departs from a single, proportional level of exposure and allows for differences in the share of the risk and share of the premium accepted by the reinsurer. One option is to reinsure the excess loss, i.e. to require the reinsurer to cover the loss within a specified range above the amount up to which the insurer is solely responsible.

As mentioned above, in the context of the present analysis, the most important division is the one into ***facultative*** and ***treaty reinsurance***.

Why is reinsurance important for insurance companies

Reinsurance is a win-win solution for both insurance companies and customers. Insurance companies are regulated by solvency rules that set an acceptable ratio of the level of risk assumed (in this case the sum of possible indemnities) to the capital. By transferring part of the risk to the reinsurer, the insurance company reduces the level of the ratio of risk assumed to their capital. In doing so, it increases its so-called insurance capacity and, thus, the possibility of selling more insurance (accepting new risks).

In addition to increasing its insurance capacity and maintaining safe levels of risk, the insurance company may want to use reinsurance also in order to improve the management of the existing risk portfolio, i.e. by harmonising it through getting rid of unusual risks.

Reinsurance improves the availability and scope of the insurance offer. Insurers and their potential customers do not need to fear that the safe levels of risk are exceeded and insurance sales will be halted at some point. Access to reinsurance also makes it possible for insurers to agree to accept atypical risks from their customers. Moreover, thanks to their expertise and superiority, reinsurers impose appropriate standards and experience-based rates on the insurance market.

Reinsurance is a contract that binds an insurance company and a reinsurer and does not affect the relationship between the customer (policyholder) and the insurer. In the event of a loss, the reinsurer shall transfer the agreed amount or part of the compensation to the insurance company, which shall pay the entire policy amount to its customer.

Retrocession – reinsurance for reinsurers

Reinsurers, too, seek methods to increase their reinsurance capacity and disperse the risk. They use retrocession, i.e. reinsurance for reinsurers.

Among the ways to reinsure reinsurers are: catastrophe bonds (CAT), issuance of which reached USD 11 billion in 2017.[11] The catastrophe bonds are short-term instruments with a maturity date usually not longer than three years. In the case of an catasthrophic event, the investor loses funds which the reinsurer uses to cover damages. However, if the risk is not realised in the period before the redemption of bonds, the reinsurer gives back its value and interest to the bondholder.

Catastrophic bonds help both reinsurers and investors. Over the last 15 years, buyers on average do not lose CAT bonds investment. However, as the average interest rate has dropped to 5% it is not an overly attractive offer.[12]

CAT bond market and other insurance-linked securities (ILS), sidecars and industry loss warranties (ILWs) are growing dynamically and today constitute a significant part of the retrocession market (reinsurers' reinsurance).[13]

The boom in retrocession coincides with the inflow of large amounts of capital into the reinsurance sector over the last decade. The profits achieved and the anticipated expansion of the industry attracted investors (including insurance hedge funds) who, in the face of low interest rates in the world economy, were looking for an attractive opportunity.

11. http://www.artemis.bm/news/cat-bonds-hit-11bn-in-2018-market-reaches-36bn-outstanding/
12. https://www.bloomberg.com/opinion/articles/2018-09-11/catastrophe-bonds-are-anything-but-a-disaster
13. http://www.artemis.bm/news/retrocession-market-increasingly-dependent-on-third-party-capital-sp/
http://www.guycarp.com/capital-solutions/alternative-capital.html

How is the reinsurance sector financed?

Similarly to the case of insurance companies, the reinsurance industry's income is generated by positive difference between premiums gained and payouts, as well as the return on capital invested on capital market.

Along with the risk, reinsurers get a corresponding share of the premiums paid by customers. Due to the acquisition or marketing costs incurred by insurers, the share obtained by reinsurers is not proportionate to the share of risk taken, but slightly lower.

Capital investments constitute another source of profit for reinsurers. A share of $240 billion that flows into the reinsurance industry every year is invested in shares and bonds. This makes re/insurers an important group on the capital market and creates links between this industry and stock exchanges. For the value of stocks and bonds held by insurers and reinsurers is taken into account in the calculation of the capital requirements in order maintain solvency of a company. This means that with the increase of stock prices, the value of assets held by the insurer increases, which in consequence – and in accordance with the regulations – increases the ‚insurance capacity' of the company, allowing it to take on additional risks without having to raise additional capital. The fall in stock prices, on the other hand, triggers a move in the opposite direction.

While a booming market leads to the development of the insurance and reinsurance sector by allowing them to take on more risk, a sudden decrease in stock prices may cause problems for the sector – not only due to a decrease in the value of assets, but also due to a reduction in insurance capacity they posses. The primary consequence of the downward trend is therefore an increase in insurance and reinsurance prices.

Due to the huge value of the capital invested in securities, the investment decisions of insurers and reinsurers may have an impact on particular stock exchanges and listed companies. It is worth noting that at the end of 2018 Munich Re alone held a portfolio of shares worth EUR 139 billion, which, for comparison, equals a half of the value of all companies listed on the Warsaw Stock Exchange.[14]

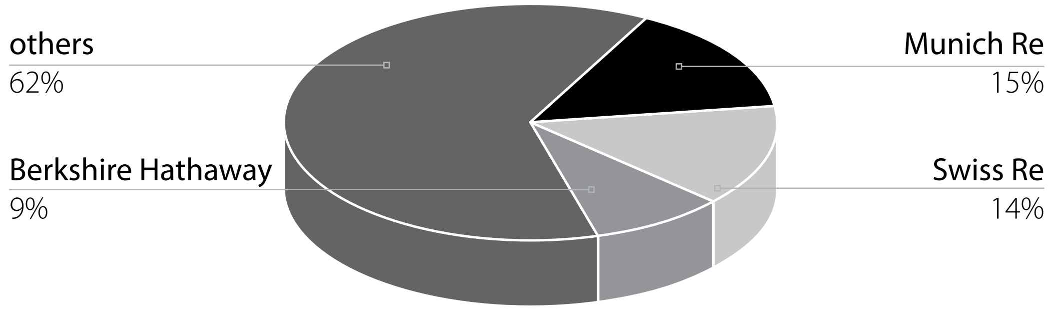
Reinsurance market

In 2017, the value of the global reinsurance market, expressed in premiums accepted by reinsurers, amounted to over USD 247 billion.[15] The world leader Munich Re collected nearly 15% of premiums, Swiss Re 14%, Berkshire Hathaway 9% and Hannover Re 8%. The largest 20 reinsurers have nearly 90% of the market share.

	Reinsurance Company Name	Gross Life & Non-Life Reinsurance Premiums Written	Gross Non-Life Only Reinsurance Premiums Written
1	Munich Re	$37,821	$21,377
2	Swiss Re	$34,775	$20,371
3	Berkshire Hathaway	$22,740	$17,815
4	Hannover Re	$21,314	$12,832
5	SCOR	$17,718	$7,218

TOP5 reinsurers by gross premiums written in 2017 (USD $m's)
Source: data from rating agency A.M. Best. https://www.reinsurancene.ws/top-50-reinsurance-groups/

14. https://www.munichre.com/site/corporate/get/documents_E-1382025853/mr/assetpool.shared/Documents/0_Corporate_Website/Financial_Reports/2019/annual-report-2018/302-09122.pdf
15. https://www.reuters.com/brandfeatures/venture-capital/article?id=60145



Apart from the largest global entities, there are also several hundred local, capital-weaker reinsurers. Their role is mainly to take risks from domestic insurers and pass it on to larger international reinsurers.

The leading reinsurers have substantial influence on the market – they set the financial and technical conditions of contracts. Thus, the commonly used contract standards in the case of insurance of construction and assembly risks are based on the standards set by Munich Re and is called the Munich insurance standard.

The reinsurance of risks from the coal sector represents a small part of the overall market. The value of insurance premiums from the coal sector is estimated at USD 6 billion, of which USD 4 billion are premiums for insurance policies for coal-fired power plants and USD 2 billion come from the area of extraction and transport. This represents merely 0.3% of premiums from the non-life insurance sector.[16]

Reinsurance market condition

Despite high payouts as a consequence of the record damages caused by extreme weather events in recent years, the financial condition of the reinsurance market is good. In the exceptionally costly year of 2017, when catastrophic losses were three times the average of previous years and reached USD 144 billion worldwide,[17] the reinsurance sector still made substantial profits. For example, Munich Re recorded a loss of -538 million USD (476 m EUR) in property reinsurance, but thanks to the results in life&health segment, the overall result of reinsurance activity amounted to 135 million USD (120 m EUR).[18]

In 2018 profits were even higher, due to higher rates for reinsurance services than in previous years. The dominant position of reinsurers over insurers usually enables them to set the prices accordingly to the market condition. In 2018, profits from reinsurance activities of Munich Re alone amounted to USD 2 billion (€1.86 M).[19]

In recent years, the reinsurance sector has achieved best financial results in within the re/insurance industry as a whole. The increase in the share price of reinsurance companies was also exceptionally high. Nevertheless, the long-term trend of low reinsurance rates is expected to reverse.

16. Unfriend Coal, Insuring Coal No More. The 2018 Scorecard on Insurance, Coal and Climate Change, p.13 https://unfriendcoal.com/insuring-coal-no-more-scorecard-press-release/
17. https://www.globalreinsurance.com/news/natural-catastrophe-insured-losses-highest-ever-in-2017--swiss-re/1426825.article
18. https://www.reinsurancene.ws/munich-res-operating-profit-falls-2017-reinsurer-expects-continued-market-improvement/
19. https://www.reinsurancene.ws/munich-re-reports-solid-2018-result-raises-2019-profit-guidance/

Market reversal approaching

Reinsurance is a good business, but more and more experts predict that the time of soft market, i.e. constant capital inflow and low rates is coming to an end. According to analysts, the market is about to become hard, i.e. the costs of reinsurance and insurance will increase.

Referring to the cycles of expansion and contraction of the reinsurance and insurance markets, terms 'soft' and 'hard' market are frequently used. The soft phase and the so-called softening of the market result from the abundance of available capital and are reflected in falling rates, while hardening means increasingly strict market conditions – limited access to capital and rising insurance and reinsurance prices.

A long lasting state of an ever-softening market inevitably leads to a moment when a fall in the value of premiums collected from the market makes the business unprofitable. However, it is impossible to predict when the turning point will come. The authors of the *Power and Renewable Energy Market Review 2019* report on reinsurance in the energy sector indicate, however, that they see changes in moods and that this year one should prepare for a reversal of the trend. They point out that after a few costly years and low profitability, reinsurers want to focus on increasing profits, which means higher costs for insurers and their customers.[20]

In 2017, Warren Buffett, the world's best-known investor and owner of Berkshire Hathaway, a leading reinsurance company, said that the insurance sector was already largely saturated and was slowly losing its appeal to investors. Two years earlier, he sold shares of Munich Re and Swiss Re.[21] According to Charlie Munger, Vice -President of Berkshire Hathaway, the insurance sector has seen a lot of capital and finance related people entering who saw a chance for easy money in setting up a reinsurance company in one of the tax havens. And with such a dynamically growing supply of capital and fixed demand for services, the resulting price competition inevitably leads to a drop in profits.[22]

In addition to capital investments, reinsurance and insurance companies are investing heavily in big data solutions, blockchain-based tools and neural networks in order to strengthen their profitability and market position. New technologies are designed to stay ahead of the competition thanks to more efficient business process management and better risk assessment.[23]

Case: reinsurance of coal sector in Poland

Until recently, Munich Re and Swiss Re were the leaders in power risk reinsurance in Poland, while Lloyd's market was indicated as the reinsurance centre for coal mining. The global nature of the reinsurance market makes it easier for a foreign insurance company's subsidiary operating in Poland to obtain reinsurance than it is in a case of a domestic company. This is due to the access to company reinsurance programmes of parent companies that possess significant capacity, expert knowledge and vast network of professional contacts.

20. Willis Towers Watson, Power and renewable energy market review 2019, p.64-68 https://willistowerswatson.turtl.co/story/power-and-renewable-energy-market-review-2019-online
21. https://www.valuewalk.com/2016/05/buffett-reinsurance-annual-meeting/
22. https://www.youtube.com/watch?v=YJFZrJilVVY
23. https://www.reinsurancene.ws/reinsurers-set-records-2017-insurtech-investment/

Re/insurance of the construction of PGE's Opole power plant

Re/insurance of a construction of two coal-fired units, 900 MWe capacity each, to be completed in fall 2019; most expensive insurance deal in Poland

Value of the project: EUR 2,7bn

Insurance broker company: EIB

Insurers: consortium of insurers – Allianz Poland (leader), PZU, Warta, Ergo Hestia and Generali

Insurance premium: EUR 32m

Duration of the insurance deal: 7 years starting from Feb 1, 2014

Scope of the insurance deal: "all-risk"

Reinsurance: top reinsurers from the UK and European (continental) market

Allianz manager's comments in a special piece in Polish insurance magazine[24]:

– it took a very long time for the contract to be concluded

– the project required not only international cooperation within Allianz Group, but also with reinsurers on global markets

– potential damage in case of explosion of one of the boilers may exceed even 1.1 billion EUR

Such contracts cover a number of risks occurring during construction and are among the most complex ones, and their policy price may reach as much as 1% of the investment costs. In 2014, before PGE commenced the construction of two 900MWe units in the Opole Power Plant, a record-breaking EUR 32 million insurance policy was issued. It is worth noting that in the case of such agreements the maximum amount of compensation may even exceed the investment costs, i.e. PLN 11.6 billion, which cannot be borne by any single insurer. Therefore reinsurance is indispensable.

As data on tenders for insurance of both new and existing coal mines and coal-fired power plants in Poland show, it is common practice to create consortia of insurers sharing the risk. Thanks to this method, the risk is distributed among several entities which, due to the limited insurance capacity, could have a problem with taking on such a large risk on their own.

24. https://www.eib.com.pl/uploads/news/Allianz_ubezpiecza_najwiekszy_projekt_polskiej_energetyki.pdf

Insurance contracts written by consortia:

Construction of a 490 MWe unit at PGE's Turów coal-fired power plant	
Insurance deal starting:	2015
Worth:	6,7 mln EUR
Insurers: Uniqa, Interrisk (Vienna Insurance Group), Gothaer PL	
Note: now both Uniqa and VIG have policies restricting coal insurance	

Construction of a 1075 MWe unit at Enea's Kozienice coal-fired power plant	
Insurance deal starting:	2013
Worth:	22 mln EUR
Insurers: Allianz, Generali, Ergo Hestia (Munich Re), Warta (Talanx)	
Note: now all the above have policies restricting coal insurance	

Construction of a 910 MWe unit at Tauron's Jaworzno coal-fired power plant	
Insurance deal starting:	2014
Worth:	7,7 mln EUR
Insurers: Uniqa, Interrisk (Vienna Insurance Group)	
Note: now all the above have policies restricting coal insurance	

The history of the tender for insurance of the construction of new units in the Opole power plant not only helps to understand the financial scale of the transaction, but also illustrates the importance of the availability of reinsurance for such projects. The Opole tender was won by the consortium composed of Allianz, PZU, Warta, Ergo Hestia and Generali, while Vienna Insurance Group (VIG Group) and AIG had difficulties in finding support from reinsurance sector and didn't bid for the contract.

A comment in Puls Biznesu, a Polish economic newspaper described this case: *Eventually, only Allianz [Allianz-led consortium of insurers] made an offer. Neither VIG Group, which was represented by its Polish subsidiary Compensa, nor AIG decided to do so. It was said that problems with obtaining sufficient reinsurance was the reason. In the case of Opole project, the maximum amount of compensation may significantly exceed the construction costs. Such a financial burden could not be handled by any insurer – not only in Poland, but also in the world. Therefore, the largest global reinsurance companies are involved in the contract in Opole.*[25]

The current policies limiting reinsurance, insurance and investment in the coal sector would significantly shorten the list of insurers participating in Opole contract. Allianz, Ergo Hestia, Generali, Warta (owned by Talanx) and the Vienna Insurance Group would have to withdraw from the bidding. Also Munich Re, Swiss Re,

25. Allianz will sell a mega insurance policy, https://www.pb.pl/allianz-wystawi-megapolise-744284

Hannover Re, SCOR and MAPFRE informed about their move away from reinsuring new coal projects. Two of the world's largest reinsurers were also leaders in reinsurance of construction projects carried out in Poland. Their withdrawal from coal significantly changed the situation on the Polish market, as the access to insurance in this sector was already limited.

Representatives of EIB, a leading insurance broker on the Polish market, assert in *Miesięcznik Ubezpieczeniowy (Insurance Monthly): the continental reinsurers were the [...] largest providers of the so-called insurance capacity under the treaty [...]* ***and facultative reinsurance contracts, which were always necessary*** *to arrange for multi-billionaire energy risks.*[26]

The risks associated with coal mining are complicated to insure and require reinsurance support. This is the result of a wide variety of deposits and techniques of coal extraction, as well as large potential damages, which result in the necessity to pay compensation of a significant value. Additionally, it should be remembered that activity in this sector is characterised by a constant deterioration of working conditions and an increase in the level of mining risk. In the case of mine risks, it is often the available reinsurance offers that determine terms and conditions presented by insurers, thus shaping both the price and the scope of the policy.[27]

How long does it take to place a risk?

Obtaining facultative reinsurance for energy projects may take up to six months. The level of risk depends, among others things, on the applied technologies and materials, therefore reinsurers expect the most detailed documentation of the project. After a thorough analysis of the information provided, there is time for negotiations. The whole process is usually carried out with the involvement of a reinsurance broker.

Similarly to the case of a single policy being issued by several insurers working together in a consortium, the risk in facultative reinsurance deals is shared and placed within more than one reinsurer.

In case of treaty reinsurance, contracts are usually signed for a year, and renewals often take place during autumn meetings of reinsurers and insurers in Monte Carlo, Baden-Baden, Dubai and Singapore.[28]

The relationship between reinsurers and insurers is not purely market-based – most contracts are regularly renewed, as a long-term relationship is more important than short-term benefits. Variations in the costs of reinsurance services depending on the market situation are accepted.

26. Energetyka węglowa – aktualne wyzwania. Miesięcznik Ubezpieczeniowy, luty 2019, s.33-34
27. Lisowski J., Łyskawa K., The analysis accession to the functioning of the Mutual Insurance for the Group mines in Poland, Journal of Management and Finance Vol. 14, No. 3/1/2016 http://zif.wzr.pl/pim/2016_3_1_6.pdf
28. https://www.globalreinsurance.com/sections/monte-carlo

How global change can affect in local markets?

Czech Republic

Česká pojišťovna a.s. (subsidiary of Generali) and Česká podnikatelská pojišťovna, a.s., (subsidiary of Vienna Insurance Group), are the leading insurers of Czech coal mines and coal-fired power plants. They insure, among others, a new unit in the Ledvice lignite-fired Power Plant owned by CEZ.[29] Kooperativa pojišťovna (second subsidiary of Vienna Insurance Group) and the Czech branch of Allianz are also active in this market.

The main reinsurer of Vienna Insurance Group's subsidiaries is VIG Re, with its registered office in Prague. VIG Re transfers the assumed risks to international reinsurers.

Poland

The leading insurer of the Polish coal sector is the mutual insurance company TUW PZUW.[30] It operates within the PZU group – the largest insurer in Poland and in the region of Central and Eastern Europe. Its dominant position results from, on the one hand, the government's plan to insure large companies by an insurer with domestic capital and, on the other hand, from the trend of major European insurance companies to move away from coal. In 2017, TUW PZUW signed a letter of intent to insure construction of the planned Ostrołęka C coal-fired power plant.[31]

PZU SA is a reinsurer of risks accepted by TUW PZUW, which are then transferred to international reinsurers. So far, the leading reinsurers of the Polish coal sector have been Munich Re and Swiss Re. Apart from them, the reinsurance partners of PZU in the recent years, in the area of both life and non-life risks, were Hannover Re, Lloyd's, VIG Re and SCOR.[32]

By becoming a shareholder in Syndicate 2121 in December 2017, PZU was granted a membership of Lloyd's market, which makes it easier to obtain reinsurance of its risks. The syndicate is managed by Argenta Holding and specializes in insurance and reinsurance of, among others, power engineering and large property risk. Argenta Holding is owned by one of the world's leading reinsurers, Hannover Re.[33]

Bulgaria

The largest insurer in Bulgaria is Bulstrad, an insurance company owned by Austrian Vienna Insurance Group. However, publicly available information on insurance contracts for coal mines and power plants in Bulgaria in recent years indicate that companies owned by Generali (ZAD Victoria) and Allianz (ZAD Energia) have the highest activity in this area. In recent years, the Bulgarian coal sector has also been insured by domestic insurance companies – OZK Insurance and Euroins. The information we managed to reach includes, among others, insurance agreements for Maritsa East 2 power plant as well as for Mini Maritsa-iztok -the lignite mining company operating on the Maritsa Iztok deposit.

29. https://www.insurancebusinessmag.com/asia/news/environmental/campaign-group-lashes-out-at-insurers-of-new-coal-power-plant-115444.aspx
30. https://rozwojtak-odkrywkinie.pl/pdf/PZU_online.pdf
31. http://www.tuwpzuw.pl/podpisanie-listu-intencyjnego-nt-wspolpracy-ubezpieczeniowej-we-wspolnym-projekcie-enea-energa-tuw-pzuw.html
32. See PZU'S Management's reports 2015-2017 http://www.pzu.pl/en/investor-relations/downloads/managements-reports
33. http://www.hannover-re.com/1226452/hannover-re-p-amp-c-in-the-united-kingdom-argenta

The policy of the Bulgarian branches of Generali and Allianz should be compliant with the policies of the head offices of both insurers. The same should apply to the Bulgarian-based GP Reinsurance, a reinsurer owned by Generali group, that provides reinsurance to Generali branches in Central and Eastern Europe. In turn, Bulgarian OZK Insurance cooperated with Swiss Re and Hannover Re, reinsurers introducing policies limiting coal insurance.[34]

Within the Euroins group there is a reinsurer EIG Re. Euroins Group is a dynamically developing group with branches in Romania, Macedonia, Georgia, Czech Republic, Russia and Ukraine. The Group has been cooperating with the German insurer HDI Global for several years, also in reinsurance[35]. In March 2019, the group purchased from Munich Re branches of the insurance company ERGO in Romania, the Czech Republic and Belarus.

Adria and Balkan region

Slovenia, Croatia, Serbia, Montenegro, North Macedonia, Kosovo

The leading insurance group in the Adria and Balkan region is the Triglav group, whose main shareholders are the State Pension Fund (ZPIZ Slovenia) and the Slovenian Sovereign Fund (SDH). Insurance companies belonging to this holding company are the leaders on the markets in Slovenia, Montenegro and Macedonia. In terms of market shares in Serbia and Bosnia and Herzegovina, the company is ranked 5th and 6th. According to the information from the report of the Slovenian Chamber of Insurance from 2017, Zavarovalnica Triglav is the only insurer of coal mining in the country.[36] This is confirmed by publicly available information on contracts for insurance of the Premogovnik Velenje lignite mine, as well as lignite-fired Šoštanj power plant.

The largest reinsurers in the region are Slovenian Sava RE and Triglav RE. Despite the regional dominance of the Triglav Group in insurance sector, Sava RE is ahead of Triglav RE in terms of reinsurance in Slovenia. Both companies transfer a significant part of the collected risk to the leading European and global reinsurers.

However, both reinsurers' reach extends beyond local markets – Sava Re has customers in more than 100 countries, offering them property, engineering, energy and marine reinsurance. In 2018, Sava Re acquired a Serbian insurer Energoprojekt Garant, which used to provide industrial and construction insurance for Energoprojekt, a large construction and assembly company active in the energy sector, including construction of coal power plants.[37]

34. https://www.ozk.bg/uploads/docs/39_en_39_bg_OZK-Insurance%20-%202016%20Annual%20Report%20&%20Financial%20Statements.pdf
35. http://eig-re.com/en/deynosti
36. Statistical Insurance Bulletin 2016 s. 63 https://www.zav-zdruzenje.si/wp-content/uploads/2017/10/Statistical-insurance-bulletin-2016.pdf
37. https://www.sava-re.si/en/media-centre/news/1657/sava-re-acquires-serbian-insurer-energoprojekt-garant-a-d-belgrade/


FUNDACJA
ROZWÓJ
TAK
ODKRYWKI
NIE
OGÓLNOPOLSKA KOALICJA
www.rozwojtak-odkrywkinie.pl