Investigation into Turkish coal insurance

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International reinsurers are the first on the contact list, an investigation shows

Amid the high-level talks held at COP26 in Glasgow, an investigation reveals a reduced, yet continued support for the Turkish coal industry on the part of global reinsurance and insurance companies. The role of international re/insurers and domestic banks in the process of providing insurance for the coal sector in the country that has recently ratified the Paris Agreement is seen as crucial. Global insurers walking away from fossil fuels will rule out support for new and existing projects.

In the run-up to the COP26, the IPCC Working Group I report, *Climate Change 2021: the Physical Science Basis*, was released in August, pointing the finger at human influence for triggering climate change. In what the UN Secretary-General dubbed a 'code red for humanity', scientists warned the effects of warming will remain irreversible for hundreds of years, while also noting it was still possible to limit warming through strong and sustained reductions in CO2 emissions.

Turkey has gone through a calamitous summer marred with natural disasters, drawing attention to the impacts of climate change as well as lack of adaptation measures. Wildfires ravaged the country, but especially its Mediterranean region, reportedly up nearly nine-fold from a 10-year average. More than 80 people were killed in a flood that hit the country's Black Sea region, though the actual death toll could be higher. Meanwhile, a severe drought has been continuing for almost a year, drying lakes, hurting agriculture, and creating worries over the availability of drinking water.

Growing recognition of the potential of renewable energy, scaling down of the planned coal capacity, recent ratification of the Paris Agreement and the approval of emission reduction goals are all paving the path to the net zero Turkish economy. But as the new World Energy Outlook (WEO) released by the International Energy Agency (IEA) on October 13 shows, **no more**

Swiss Re Munich RE Allianz

new coal, oil and gas projects is the condition to meet net zero scenarios that could prevent the runaway climate change. Governments, the energy industry and the financial sector must act accordingly.

The insurance industry is the one that has a unique leverage over the energy producers. Without insurance, most new coal, oil, and gas projects cannot start, and many existing ones must close. Addressing the Insurance Development Forum (IDF) in June this year, UN Secretary-General António Guterres called on insurers to align their underwriting portfolios to net zero commitments, including all fossil fuels.

2021 Scorecard on Insurance, Fossil Fuels and Climate Change, a report by the global coalition Insure Our Future shows that 35 major insurers have already eliminated insurance for new coal projects, a growing trend in recent years. Many of them are also ruling out support for the existing coal mines and power plants. Coal industry representatives worldwide report facing higher costs and vastly limited options when seeking insurance for their assets.

Findings of an investigation into the Turkish coal insurance business are consistent with the global trends shaped by major international insurers moving away from coal. It is getting difficult to find a suitable insurer, and **insurance contracts are not only more expensive, but their conditions are increasingly unfavorable to the insurance buyers.** As a result, companies have been trying to find insurance and reinsurance in more competitive markets abroad, where larger insurance capacity is available.

Although reinsurance companies that are said to still dominate the Turkish market for energy reinsurance (Munich Re, Swiss Re, Allianz, Axa, and Chubb) are not taking on new coal-related

risks, **they mostly continue to renew existing contracts,** an industry insider reveals.

'Most have been involved with the plants since their construction, and they continue to renew their contracts'. Munich Re and Swiss Re are said to maintain their market share, without adding new projects to their portfolio.

The investigation also sheds light on the practicalities of insuring and reinsuring large-scale projects in Turkey, including coal-fired power plants. It was found that institutions financing new projects are the ones that hold substantial power when it comes to choosing insurance and reinsurance partners.

'If a certain bank provides all of the financing for a coal-fired power plant, it is almost certain that its partnered insurance company will insure the plant,' an industry executive explained. It is not only the matter of long-term relationships and business ties, but also minimising the risks associated with financial institutions' interests.
'In the instances where multiple banks were in charge of financing a project, the insurance companies they worked with were likely to co-assure the plant', they add.

These conclusions match the findings in the case investigated by Rekabet Kurumu (Turkey's Competition Authority). A study into an accusation of manipulating a process of choosing an insurance company on the part of a lending institution led the investigators to consider it a practice that reflects how the entire market operated with regards to the insurance and reinsurance of large-scale projects.[1]

1 https://www.rekabet.gov.tr/Karar?kararId=ce60f7ed-612d-4742-9993-b87fc80801a4

International insurers and reinsurers, with more capital and larger insurance capacity available than their domestic counterparts, are key in the process. As the local market is insufficient to meet the financial requirements of large-scale projects, brokers with international networks are prominent in this field. Investors are said to *'often prefer to work with insurance brokers who have access to multiple insurance companies able to shoulder high-scale risks, rather than directly asking insurance companies to bid.'* **In consequence, an international reinsurer is first approached, and the search for a domestic insurance company is what follows that step.**

Combined with the increasingly tight policies on coal by international insurers and reinsurers, a trend clearly supporting a transition to a net zero economy, this puts Turkish coal developers in a distressing position when coverage for new coal capacity is considered. The decision by Allianz Turkey to discontinue insurance of not only new coal mines and power plants but also existing ones is an illustration of the widespread shift in the industry. However, a firm stance by Allianz on reinsuring any new coal capacity in Turkey is needed. According to its policy updated in May 2021 Allianz can still underwrite and reinsure coal-based businesses deriving below 30% of their electricity from coal and planning new coal mines until the end of 2022 which will be the crucial year for the new coal infrastructure.[2] The proof of Allianz climate leadership in Turkey will be ruling out their support for coal mines developers in 2022.

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

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