SUSTAINABILITY SMOKESCREENS:

AIG IS STILL RISKING OUR FUTURE

Public Citizen Analysis of American International Group's 2020 Environmental, Social, and Governance Report

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TABLE OF CONTENTS

Introduction

In June 2021, AIG released its first "Environmental, Social and Governance" (ESG) report, in which it openly reaffirmed its commitment to insuring and investing in the fossil fuel industry. As a major insurance provider for coal, oil, and gas, AIG enables the destruction of our planet. Unlike many of its insurance peers, the company does not have any policies to phase out its fossil fuel underwriting and investments. Amid increasingly urgent calls from Indigenous communities, environmental advocates, world leaders, and its own investors, AIG must change course on its climate inaction.

Background

The insurance industry is deeply vulnerable to a changing climate. The very core of the business—helping individuals and companies to manage risk—becomes immeasurably harder as a warming planet changes previously predictable patterns like weather. In fact, as climate harms escalate, insurers are already attempting to withdraw from markets, such as the market for fire insurance in wildfire-prone areas of California.

Insurers' losses due to damages from natural catastrophes are ballooning as climate-related disasters increase in intensity and frequency. Global insured losses from 2009-2018 rose to an average of $65 billion per year, compared to an average of $43 billion per year over the previous three decades (1989-2018). In 2020 alone, insurance losses from natural catastrophes totaled $82 billion globally. Meanwhile, the industry's billions of dollars in fossil fuel investments are vulnerable to falling prices of coal, oil, and natural gas, which saw global demand peak in 2019. According to the Carbon Tracker Initiative, fossil fuel demand "is unlikely ever to recover to its pre-[COVID-19] levels."

Insurers face escalating threats due to climate change, but their own role in supporting the fossil fuel industry often goes unscrutinized. Insurance companies underwrite fossil fuel projects and invest billions into fossil fuel companies. While some insurers now restrict coverage for fossil fuels, most policies are inadequate, and U.S. insurers lag far behind their global peers.

AIG's Climate Failure

AIG—the giant insurer that received a $182 billion bailout from the U.S. government in 2009 after its risky practices contributed to the economic crisis—is one of the worst climate offenders. The company is a top global insurer of oil and gas, and it underwrites multi-billion-dollar coal projects. As of 2017, AIG had at least $26.8 billion invested in fossil fuel companies.

AIG's resistance to ending fossil fuel underwriting and investing is not in its own business interest. In June 2021, Legal & General Investment Management (LGIM), the largest asset manager in the U.K., announced that it would divest from AIG due to its failure to adequately address climate change. A 2020 Moody's report found that ending coal coverage and investments "protects [insurers] against potential climate change

liability risk, and reduces the risk of their investment assets becoming 'stranded.'" More recently, the investment bank Societe Generale found that exiting coal adds to insurers' valuations.

Global Calls to Action

World leaders are joining the call for insurers and other financial institutions to leave coal, oil, and gas. At the Insurance Development Forum's Summit in early June 2021, United Nations Secretary-General António Guterres addressed insurers: "We need net zero commitments to cover your underwriting portfolios, and this should include the underwriting of coal—and all fossil fuels. "The International Energy Agency's report on a pathway for the energy sector to net zero emissions took this statement a step further: "There is no need for investment in new fossil fuel supply in our net zero pathway."

In contrast to calls from these leaders, AIG's Sustainability Report falls woefully short of meaningful climate action. AIG can help protect the planet, consumers, and its own corporate interest by ending its enabling of climate-wrecking projects.

> **"I support the G7 commitment to end all public international support for coal by the end of this year. [The insurance] industry needs to follow suit."**
>
> - ***UN Secretary General António Guterres, at the Insurance Development Forum Summit June 2021***

Necessary Action

To meaningfully support a transition to a low-carbon economy, AIG must:

1. Immediately stop insuring new and expanded coal, oil, and gas projects.
2. Stop all insurance cover for existing coal sector clients.
3. Phase out insurance for oil and gas companies.
4. Divest from coal, oil, and gas companies.

To respect Indigenous rights, AIG must:

5. Commit not to insure the Trans Mountain pipeline and its expansion in advance of the August 31, 2021 renewal date.
6. Commit to uphold Indigenous rights by denying coverage to projects that do not have the Free, Prior, and Informed Consent of impacted communities.

Claims Debunked

Insuring and Investing in Fossil Fuels

AIG's Claim: "We do not feel it would be in the best interest of our stakeholders and the general public which expects reliable access to energy to abruptly reduce or stop insurance access to clients that are heavy users or producers of fossil fuels, or to cut all investments in companies that have not yet completed their sustainability transition."

Why it's a smokescreen:

The rapid phase-out of fossil fuels and decarbonization of the world economy is **absolutely** in the public's best interest. There is no room for additional fossil fuel infrastructure and extraction in a Paris-aligned world. Advocates are asking AIG to align its business with science-based climate targets, like those within the Paris Climate Agreement. AIG's resistance to adopting those targets is a rejection of the Paris framework.

AIG's task is to commit to a concrete phase-out plan, starting with fossil fuel expansion and the most carbon intensive sectors, including coal and tar sands. Instead, it is recommitting to the fossil fuel industry. A clear phase-out plan would aid the clean-energy transition by putting fossil-fuel clients on notice that they must act swiftly or face loss of support. AIG must also prioritize divestment from fossil fuel companies, most of which have no plan for a "sustainability transition" at all.

Carbon Exposure Assessment

AIG's claim: AIG is in the process of undertaking a carbon exposure assessment to determine its contribution to emissions across its underwriting and investment portfolios.

Why it's a smokescreen:

Rather than sort through complex methodologies of accounting to assess its carbon exposure, AIG should disclose its underwriting and investments in fossil fuels and phase them out, beginning with those that are most at odds with Paris targets. Given that AIG is a major underwriter of coal, oil, and gas, it is impossible to evaluate the company's purported commitment to decarbonization or claims of sustainability without transparency on its fossil fuel underwriting and investments. While consultants pore over AIG's portfolios with no action plan in sight, the planet warms, disasters increase in frequency and intensity, and 8.7 million people across the globe die annually from air pollution caused by burning fossil fuels.

The exposure assessment will help address more complex pieces of AIG's negative environmental impact, such as the emissions related to underwriting in other sectors that contribute to climate change, including manufacturing, agriculture, and transportation. New York State's pension fund's divestment plan is a good example to

look to: It has already divested from coal and tar sands oil, with full divestment from fossil fuels planned by 2025 and a commitment to evaluate and divest from other sectors that contribute to climate change by 2040. AIG must take significant steps to eliminate the most harmful sectors first and provide transition time around changing underwriting and divestment for the rest of its portfolio.

Emissions

AIG's claim: AIG is committed to net zero carbon emissions in its operations by 2050.

Why it's a smokescreen:

AIG's emissions from operations are trivial compared to the impact of its underwriting and investment in fossil fuels. Moreover, AIG could likely achieve near-zero carbon operations in very short order—perhaps as little as a year—through measures like purchasing renewable power, improving efficiency, eliminating flights, and using electric vehicles. It is committing here to do nothing more than go with the flow of expected global action on climate set forth in the Paris Agreement—and only with regard to operations.

AIG also reported that it halved its emissions in 2020 compared to 2019. Much of the change resulted from pandemic-related restrictions (e.g., travel restrictions and telecommuting). AIG chooses to report business air travel as the sole source of scope 3 emissions[1] and does not include emissions from its investments and underwriting. The Task-Force on Climate-Related Financial Disclosures, of which AIG is a supporter and with which it claims its report is aligned, recently proposed new guidance for insurance companies that recommends disclosing Scope 3 emissions related to underwriting of insurance contracts.

Policy Recommendations

Coal Underwriting

Where AIG stands: AIG has no restrictions on coal underwriting. Its report touts that coal made up less than 1% of its premiums in 2020. Immediately ceasing insurance for new coal projects and a rapid phase out cover for coal companies would take minimal effort on AIG's part. As the number of insurers with the expertise to underwrite new coal projects dwindles, AIG stands out as one of the few companies still propping up this dying industry.

[1] The Greenhouse Gas Protocol divides emissions reporting into scope 1, 2, and 3. Scope 1 is considered "direct emissions from owned or controlled sources". Scope 2 is classified as "indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company." Scope 3 is defined as "all other indirect emissions that occur in a company's value chain".

Policy Recommendations: AIG must not underwrite new and expanded coal mining, power, or associated infrastructure projects, and it must rapidly phase out other underwriting for coal companies[2] that do not have a coal exit plan to close all coal-related assets by 2030 in EU/OECD countries and by 2040 globally. To support a just transition for workers in the coal industry, workers' compensation policies and existing mine reclamation surety bonds should be exempt from this policy.

Peer Progress: 27 insurance companies have policies restricting insurance coverage for coal projects. AXA will exit coal by 2030 in EU/OECD countries and by 2040 worldwide, with a requirement for coal companies to disclose an exit plan by 2021. Six insurers exclude coal with both relative and absolute thresholds.

Oil and Gas Underwriting

Where AIG stands: AIG has no phaseout plan for oil and gas. The company is one of the world's largest insurers of the oil and gas sector and has insured destructive projects including the Trans Mountain tar sands pipeline in Canada.

Policy Recommendations: AIG must immediately cease coverage for new or expanded oil and gas projects and infrastructure and set a concrete timeline to phase out any coverage of these sectors. To be consistent with a 1.5°C pathway, the UN Production Gap report found that global oil and gas production must decline annually—oil by 4% and gas by 3%—between 2020 and 2030.

Peer Progress: Insurer Suncorp prohibits underwriting new oil and gas projects and phases out all oil and gas coverage by 2025. At least eleven companies have policies restricting underwriting for tar sands oil. Generali, for example, commits to zero underwriting exposure to tar sands, including companies with over 5% of revenue from tar sands extraction and all tar sands pipeline operators.

Fossil Fuel Investments

Where AIG stands: AIG has invested $26.8 billion investor in fossil fuel companies. The company currently has no public plan to divest assets from fossil fuels.

Policy Recommendations: The company must divest all assets, including those managed for third parties, from coal, oil, and gas companies that are not aligned with a

[2] Coal companies defined here as those that either (1) generate at least 20% of their revenue from mining and transporting coal or at least 20% of their electricity from burning coal; (2) produce at least 10 million tons of coal per year or operate at least 5GW of coal-fired power stations; or (3) are planning new coal mining, power, or infrastructure projects.

1.5ºC pathway, including any company that is building new coal, oil, or gas expansion projects.

Peer Progress: Suncorp has pledged not to invest in new coal, oil, and gas projects, and has a plan with interim targets to phase out all investments in oil and gas by 2040. Eight US insurers have restrictions on investments in the coal sector, and fifteen companies globally have restricted investments in tar sands producers and pipelines.

Indigenous Rights

Where AIG stands: AIG has no policy to ensure that Indigenous Rights are respected by its underwriting and investment clients.

Policy Recommendations: AIG must adopt a policy to respect Indigenous Rights. It should ensure that clients fully respect and observe all human rights, including the right to Free, Prior and Informed Consent (FPIC) as articulated in the UN Declaration on the Rights of Indigenous Peoples. This policy would require robust due diligence and verification mechanisms.

Peer Progress: No major U.S. insurer has a policy to ensure that the right to Free, Prior, and Informed Consent of Indigenous communities is respected as criteria for underwriting decisions.

Spotlight: The Trans Mountain Pipeline

AIG has provided insurance for the controversial Trans Mountain tar sands pipeline in Canada. This pipeline and its massive expansion project violate Indigenous rights, threaten local ecosystems and communities' health, and enable the extraction of highly polluting tar sands. Tar sands is one of the most carbon-intensive oils in the world—its production results in 14 percent more greenhouse gas emissions than typical crude oil.

To date, fourteen insurers have ruled out underwriting Trans Mountain, and many of these companies have also adopted policies ruling out support for all tar sands expansion projects. AIG has failed to make any commitments regarding Trans Mountain's pipeline networks or tar sands more broadly.

AIG's coverage of Trans Mountain is clearly in violation of the environmental and human rights principles of the UN Global Compact, which AIG joined this year. The company refuses to meet with leaders from Indigenous communities impacted by the Trans Mountain pipeline and its expansion. As long as AIG underwrites devastating projects like the Trans Mountain pipeline, it cannot credibly claim to have a meaningful commitment to the environment or human rights.

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