RAINFOREST ACTION NETWORK ANALYSIS OF LIBERTY MUTUAL'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REVIEW

October 2020

Background

In 2020, Liberty Mutual published its first-ever Environmental, Social and Governance (ESG) Review,[1] outlining the company's recent steps to build out an ESG program within the company and accelerate a low-carbon energy transition.

However, the ESG Review makes clear that Liberty Mutual remains far from aligning with a climate-safe future and a world in which human rights are respected. Liberty Mutual's future-facing policies have not been updated since December 2019, when Liberty Mutual finally restricted underwriting and investing in some coal companies. As detailed in this analysis, Liberty's coal policy has loopholes the size of new coal mines and power plants, and its restrictions do not touch oil and gas.

Liberty Mutual is one of the top ten oil and gas insurers globally.[2] It also continues to invest billions of its customers' premiums in coal, oil, and gas companies. Given that Liberty's existing policies are not yet commensurate with the urgency and scale of the climate crisis, this briefing sets out our recommendations for Liberty Mutual's pathway to decarbonize its business in line with a safe climate future.

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Policy Recommendations[3]

For Liberty Mutual to "responsibly deploy capital for a decarbonized future," as it writes in the review, it must take meaningful action to restrict underwriting fossil fuel expansion and phase out fossil fuels from its underwriting and investmenr portfolios in line with a 1.5°C scenario:[4]

1 **Stop insuring new fossil fuel projects.**
The science is clear that we must limit global warming to 1.5°C to prevent the most catastrophic effects of climate change. This requires urgent action, as the potential emissions from coal, oil, and gas reserves already in production would take the world well beyond 2°C. That means that insuring any new fossil fuels or investing in their expansion is incompatible with the goals of the Paris Agreement.[5] Liberty Mutual must stop insuring all new infrastructure projects that contribute to expanded fossil fossil fuel production.

2 **Commit to phasing out insurance for coal, oil, and gas companies in line with a 1.5°C pathway.**
In addition to stopping fossil fuel expansion, Liberty Mutual should commit to aligning its overall fossil fuel policies and practices with the most prudent emissions pathway detailed in the Intergovernmental Panel on Climate Change's special report on global warming of 1.5°C, which calls for emissions to be halved by 2030 and effectively reduced to zero by 2050. This means that Liberty Mutual must rapidly phase out its underwriting of existing coal, oil, and gas extraction and infrastructure projects and companies.

3 **Divest all assets from coal companies and oil and gas companies that are not in line with a 1.5°C pathway.**
We urge the company to put its fossil fuel divestment policies on paper and join the growing movement of asset managers, pension funds, universities, and other institutions that are divesting their investment portfolios from coal, oil, and gas.

4 **Respect human rights, especially the rights of Indigenous Peoples.**
Liberty Mutual must stop financing projects and companies that abuse human rights, especially Indigenous rights. This means setting up a screen on projects to ensure that they have obtained the Free, Prior, and Informed Consent (FPIC) of impacted communities. Liberty Mutual should also apply the screen to company-level insurance to ensure that all clients' projects abide by FPIC.

Fossil Fuel Expansion

When your house is on fire, the last thing you want to do is pour fuel on it. And yet, that is the agenda of the fossil fuel industry. Research shows the global carbon budget cannot afford a single new piece of fossil fuel infrastructure, but fossil fuel companies are continuing to build new coal-fired power plants, tar sands pipelines, fracked gas wells, and other infrastructure.

Leading insurers like Liberty Mutual enable this buildout by underwriting and investing in fossil fuels, but they can play a key role in accelerating the low-carbon transition. The two key steps to bend the carbon curve are to end support for coal, oil, and gas expansion and commit to phase out fossil support in line with a 1.5*C trajectory. Liberty Mutual has begun to take action on the first step.

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Coal

Due to the high emissions associated with coal, more than 100 globally significant banks and insurers have announced policies to restrict support for coal mining and/or coal-fired power plants.[6] In December 2019, Liberty Mutual committed to not insure new risks for companies with more than 25% exposure to coal and phase out existing coverage to such companies by 2023. Liberty will also divest from these companies. This is a first step to exit the coal sector, but Liberty Mutual's commitments on coal fall short in two major ways:[7]

- The policy does not address insurance cover for new coal mine and power plant projects, as it only applies insurance exclusions at the company level. This means that Liberty Mutual is at risk of insuring hundreds of coal expansion projects being built by diversified mining and power companies. In addition to ruling out insurance for new coal at the project level, Liberty Mutual should restrict insurance for companies that are building new coal. There is a growing consensus that there is no room in the carbon budget for new coal. Last year, United Nations Secretary-General Antonio Guterres called for a halt to the construction of any new coal power plants after 2020, and in recent months, major U.S. banks have ruled out project finance for new coal projects.[8]

- Nor does the policy set out a timeframe to fully phase out coal business from Liberty Mutual's underwriting and investment portfolios. A 1.5ºC pathway requires that the highly carbon-intensive coal industry be phased out entirely by 2030 in EU/OECD countries and by 2040 globally.[9] Liberty Mutual must revisit its policy and ratchet down the coal company thresholds over time to ensure that its clients are undergoing an energy transition consistent with these phaseout dates.

Oil & Gas

Unlike its leading U.S. and global peers, Liberty Mutual's fossil fuel restrictions do not touch oil and gas.

We are particularly concerned about Liberty Mutual's major role in the tar sands sector, which poses grave risks to Indigenous rights and the climate. Tar sands is a particularly emissions-intensive form of oil, and like coal, it cannot be expanded if we want to stay within 1.5ºC. Furthermore, tar sands projects threaten Indigenous land, health, culture, and livelihoods, and many fail to obtain the Free, Prior, and Informed Consent of impacted Indigenous communities.

Liberty Mutual must match and exceed its leading peers by adopting a policy that restricts insuring and investing in all tar sands extraction and transport projects and companies. Tar sands pipelines are of particular concern, as these would drive expanded tar sands production, with three projects – Trans Mountain, Keystone XL, and Line 3 – currently in the spotlight. Liberty Mutual is currently insuring two of these: Trans Mountain and Keystone XL.[10] In recent months, Liberty Mutual has faced growing pressure from Indigenous leaders, climate activists, and politicians to stop insuring tar sands expansion.

Beyond tar sands, we call on Liberty Mutual to phase out all oil and gas business in line with 1.5ºC. RAN and 60 climate and rights organizations recently released a roadmap for what Paris-alignment looks like for financial institutions.[11] Following these principles, we call on Liberty Mutual to commit to requiring that the projects and companies you support are aligned with 1.5°C by COP26, the next round of UN climate negotiations to be held in November 2021. Furthermore, by this date, you must have a process in place to measure and disclose your climate impact and commit to halve it by 2030 and phase it out by 2050 at the very latest.

Renewable Energy & A Just Transition

Liberty Mutual aspires to be a "leader in the global transition to renewable power and resources." The arguments in support of large-scale deployment of renewable energy are increasingly compelling from both financial and sustainable development standpoints. However, Liberty Mutual publishes some outdated claims in the energy transition section of its ESG Review.

The review claims that clean energy is prohibitively expensive for many, particularly those in developing countries, and unreliable due to storage challenges. It also states that fossil fuel divestment would disproportionately punish those living in energy poverty and have significant consequences for regions that depend on oil and gas for jobs and economic stability.

Here's our response:

1 Renewable power is affordable.
Renewables are cheaper than new coal and gas plants in two-thirds of the world, according to BloombergNEF. The cost of wind power has fallen about 50% since 2010, solar has dropped 85%, and according to a 2018 report by the International Renewable Energy Agency, unsubsidized renewable energy is now most frequently the cheapest source of energy generation.[12]

2 Renewable power is reliable.
Experience from numerous parts of the world shows that it is possible to effectively integrate high percentages of intermittent solar and wind into electricity grids.[13] The falling costs and growing sophistication of battery storage technology is facilitating even higher levels of grid penetration of intermittent renewables.[14] A recent study led by UC Berkeley's Goldman School of Public Policy which incorporates the latest data on renewable and battery costs, shows that the US can "achieve 90% clean, carbon-free electricity nationwide by 2035, dependably, at no extra cost to consumers, and without new fossil fuel plants."[15]

3 Grid stability does not require the expansion of gas infrastructure.
Given the rapid development of battery storage technology, the buildout of gas is not necessary to deploy and scale up clean energy sources. It is not a bridge fuel, and it is not clean. A 2019 report from leading scientific organisations and the United Nations warned that "the continued rapid expansion of gas supplies and systems risks locking in a much higher gas trajectory than is consistent with...1.5°C or 2°C."[16]

4 Renewable energy is often the best solution to energy poverty.
Fossil fuels are often heralded as a requisite for cost-effective electrification, but, in reality, clean power sources are often the best solution. Fossil fuel development will do nothing to increase electrification in the absence of major investments in grid extension. In fact, low-cost, decentralized forms of energy such as renewables-powered microgrids are typically the quickest and cheapest way to electrify the remote communities that are currently beyond the reach of the grid.[17]

5 Divestment will drive a just transition.
A clean energy transition will certainly have major implications for communities reliant on fossil fuels for their livelihoods. This is why we are advocating for a wind-down of the fossil fuel industry that supports workers and communities. Liberty Mutual divesting from fossil fuels will not translate to the world stopping fossil fuel use overnight, but it will send a strong signal to companies and governments that they must immediately begin the "managed decline" of the fossil sector. Failure to begin this managed decline now will result in major economic and social costs for workers and communities down the line.[18]

Conclusion

This first-ever ESG Review reflects Liberty Mutual's commitment to addressing climate change, and we acknowledge the steps that Liberty Mutual has taken to cut fossil fuel investments and shift capital out of the coal sector. We also applaud the commitment to develop underwriting expertise in renewable energy sources.

However, to return to the fire analogy: insuring renewable energy and continuing to back fossil fuel expansion is like tackling a burning house with a hose in one hand and a fuel can in the other. To live up to its word and bring about the transition to the low-carbon economy it purports to support, Liberty Mutual must commit to stop insuring the expansion of fossil fuels and phase out coverage for coal, oil, and gas in line with 1.5°C.

ENDNOTES

1. "Environmental, Social and Governance Review 2019," Liberty Mutual, April 2020.
2. "Time for the Insurance Industry to Unfriend Oil and Gas," Insure Our Future, June 2020.
3. For more details on these recommendations, see the May 2020 letter from Insure Our Future to the U.S. insurance industry.
4. See p. 12 of Liberty Mutual's "Environmental, Social and Governance Review 2019."
5. Greg Muttitt, "The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production," Oil Change International, September 2016.
6. "Financial institutions are restricting thermal coal funding," IEEFA, accessed May 26, 2020.
7. For more details, see RAN's January 2020 analysis of the policy.
8. See Antonio Guterres' remarks at the closing of the Climate Action Summit in 2019. In 2020, JPMorgan Chase, Citibank, and Morgan Stanley strengthened their coal financing restrictions.
9. "Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C," Climate Analytics, September 2019.
10. See the Certificate of Insurance for Trans Mountain and surety bond filing for Keystone XL.
11. See the publication "Principles For Paris-aligned Financial Institutions", September 2020.
12. "Renewable Power Generation Costs in 2018," International Renewable Energy Agency (IRENA), May 2019.
13. "Grid-Scale Battery Storage," USAID and NREL, September 2019.
14. "Battery Storage Paves Way for a Renewable-powered Future," International Renewable Energy Agency, March 2020..
15. "2035 Report: Plummeting Solar, Wind, and Battery Costs Can Accelerate our Clean Energy Future," Goldman School of Public Policy, June 2020.
16. "Production Gap Report," SEI, IISD, ODI, Climate Analytics, CICERO, and UNEP, September 2019.
17. "Mini Grids for Half a Billion People: Market Outlook and Handbook for Decision Makers," Energy Sector Management Assistance Program, June 2019.
18. The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production, September 2016.

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