The Exodus from NZIA

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Over the last two weeks, ten major insurance and reinsurance companies have left the Net Zero Insurance Alliance (NZIA), including AXA, Allianz, SCOR and Swiss Re, some citing antitrust allegations. Last Friday, the alarm sounded when Lloyd’s (and QBE) added its name to the list. At its peak, the alliance represented about 15% of world insurance premium volume but now six of the eight founding signatories have left, merely 2 years after its establishment. According to the NZAI website, the alliance now comprises 17 members, including large names such as Aviva and Generali. Those that have left are obviously those with the largest exposure to the American market, where anti-climate and anti-ESG sentiment has become extremely politicised. There is no doubt that for the firms leaving, and the alliance itself, reputation is at stake.

Why have major insurance companies decided to withdraw from the Net Zero Insurance Alliance?

AXA, for instance, said that it was leaving to “continue its individual sustainability journey”. While this statement may not provide extensive detail, a letter sent to the Alliance dated May 16th sheds some light on the situation. Signed by 23 US state attorneys general, the letter raises concerns that certain climate-related targets outlined in the Alliance’s goals may potentially be in violation of state and federal antitrust laws. They pointed fingers at the alliance for pushing insurance companies and their clients to rapidly reduce their emissions leading to increased costs, which are being passed on to consumers.

This combination of political and legal pressure in the United States has created significant strain on the climate initiative. Four of the former signatories have significant U.S. activity, which has naturally fuelled debate among American politicians.

Another reason given for the departures is the stringency of the alliance requirements. According to the current rules of membership, all insurers are required to meet one of the five mandated objectives within the first year of joining, and three within three years of joining. Just last week, prior to announcing its departure, the CEO of Lloyd’s expressed his concerns, emphasizing the necessity for the alliance to make its membership rules less prescriptive, or otherwise running the risk of dismantlement.

The implosion of such an alliance may represent a hurdle for collaborative efforts in the insurance space. It could be considered as a step backwards for the collaborative approach to target-setting. Moreover, for the past two years, the alliance has provided valuable support to insurers and non-members, in developing tools and methodologies to measure and disclose GHG emissions associated with underwriting portfolios.

What does it mean for the NZAM and other Net Zero initiatives?

The Net Zero Asset Managers initiative (NZAM), Net Zero Asset Owner Alliance (NZAOA) and Net Zero Banking Alliance (NZBA) are the other major coalitions, all part of the Glasgow Financial Alliance for Net Zero (GFANZ) umbrella. Interestingly, despite having left NZIA, AXA and AXA Investment Managers are both still members of NZAO and NZAM, respectively.

Regrettably, the GFANZ, its associated initiatives and their members have been facing increased criticism and antitrust accusations from U.S. Republican senators. On October 19, 2022, 19 Republican state attorneys general served six U.S. banks with civil investigative demands, seeking information related to their involvement with the NZBA and raising antitrust concerns. At the end of last March, 53 of the largest asset managers in the US received a letter from 21 state attorneys general, cautioning them against engaging in what they referred to as “woke” environmental and social initiatives. Notably, this letter was directed to large asset managers such as BlackRock, Franklin Templeton and Goldman Sachs, all members of the Net Zero Asset Managers initiative. Compared to their insurance counterparts, these asset managers exert a strong influence on the U.S. political landscape, which makes them less vulnerable and better equipped to navigate through difficult times. This is no doubt why we have not witnessed a similar flee.

Nevertheless, there have been exits. Last April, Green Century left the NZAM initiative, following in the steps of Vanguard. Green Century, the fossil-free fund manager, mentioned compliance challenges as the motivation of their departure. On the other hand, Vanguard, the second-largest asset manager in the world, cited the need for independence and a desire to provide clarity on its investment views.

The various alliances are already responding to these challenges by watering down their rules to retain members. The GFANZ amended its membership rules by dropping its requirement to commit to the UN-supported Race to Zero campaign after major U.S. banks were considering withdrawing from the group. Similarly, the NZBA refused to impose restrictions on fossil-fuel financing on its members. However, such compromises have led to criticism from green activists which fear that alliance objectives are being unduly diluted. On the regulatory side, the EU commission also joined the effort and relaxed its antitrust guidelines for companies which team up to solve climate challenges. The objective is to help companies engage in legitimate and genuine sustainability co-operation while creating a safe harbour from prosecution.

The mass exodus from the NZIA and staggered exits from other initiatives raises questions on the credibility and effectiveness of collaborative groups, including the GFANZ and beyond. It is still debatable whether climate leaders, in many cases, are withdrawing from these alliances due to concerns about potential business losses in the U.S. or actual legal jeopardy. It is important to combat antitrust claims against climate action, and it remains crucial for the financial community – insurers, asset managers and asset owners – to strengthen and uphold their climate commitments. However, doubts will persist regarding the true impact of their actions if they operate independently. There will be challenges, no doubt, from legal, political and operational points of view. However, collaborative efforts can be more effective in driving meaningful change and addressing the planetary emergency.