A Balancing Act:

The Risks of Reducing Insurance for Australia's Fossil Fuel Sector Amid ESG Pressures

Jillian Pancott | Rachel White

WOTTON KEARNEY

A Modern-day, First World Problem

Australia has committed to 82% of renewable energy by 2030, but even as our Environmental, Social and Governance (**ESG**) initiatives gain momentum, we will not be able to reach this deadline. This means our reliance on fossil fuels will continue in a greater capacity for longer than expected. At the same time, Insurers are scaling back their underwriting capacity for coal and fossil fuel businesses, while simultaneously increasing capacity in an emerging renewables market. A commendable initiative but what are the risks of this insurance shortfall between the fossil fuels[1] and renewable energy sectors?

This article will explore how Australian Insurers can tackle this issue without shifting the burden onto the Australian economy via increased electrical costs and brownouts or blackouts.

What is ESG and why is it a focal point for Australian Insurers?

Insurers have been driven to pursue ESG strategies by global initiatives[2], domestic pressure, company values and consumer expectations. The Insurance Council of Australia released the Climate Change Roadmap in 2022 and subsequent update in 2023[3] detailing five pillars the industry could implement to substantively reduce greenhouse gas (**GHG**) emissions and achieve net-zero.

Insurers are now looking to their underwriting portfolios, bringing them in line with Climate Change Roadmap Pillar 3 (net-zero GHG emissions with customers) and identifying how they can move towards net-zero in the businesses being underwritten.

Composition of the current energy market

Australia's coal industry

Coal remains a key component of the economy and energy market. Australia was the second largest coal exporter in 2023[4], and Australia's mining sector contributes to around 11.4% of the country's GDP.[5] Locally, 46% of Australia's energy is derived from coal,[6] with Queensland and New South Wales accounting for 50% and 40% of Australian black coal production respectively.[7]

[1] While Australia maintains operations in all fossil fuels listed, the primary focus of this paper will be on coal.
[2] Paris Agreement, United Nations 2015. https://unfccc.int/process-and-meetings/the-paris-agreement
[3] Climate Change Roadmap Towards a Net-Zero and Resilient Future: 2023 Update
[4] https://www.ga.gov.au/aecr2024/coal (14/01/2025)
[5] https://www.industry.gov.au/sites/default/files/2024-12/reqdec2024_03_03_0.pdf (14/01/2025)
[6] https://www.energy.gov.au/energy-data/australian-energy-statistics/data-charts/australian-electricity-generation-fuel-mix (27/11/2024)
[7] Coal, Australia's Energy Commodity Resources 2023 (https://www.ga.gov.au/digital-publication/aecr2023/coal) (14/01/2025)

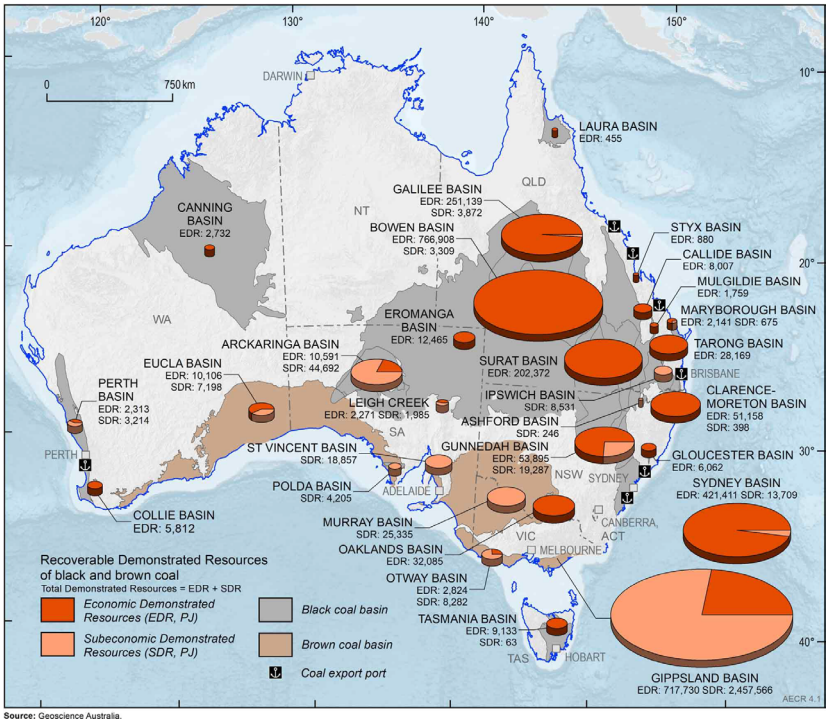

Figure 1: Australia's recoverable demonstrated resources of black and brown coal as at end 2022[8]

The Australian Government continues to actively support the fossil fuel industry. The Australian Institute reported in May 2024 that the Australian Government provided A$14.5 billion worth of spending and tax breaks to assist fossil fuel industries.[9]

Despite the economic significance of the coal industry to Australia, the focus of Insurers' ESG initiatives is to reduce the underwriting and investment in fossil fuel operations across Australia.

Where Insurers and the Australian Government are aligned is in the shift in focus towards renewable energy projects.

Australia's Renewable Energy

The Australian Government intends to phase out over 90% of coal-fired power by 2035. However, Australia is not prepared for the alternative electricity generation of nuclear or other renewables.[10] In fact, for Australia to achieve their renewable goals by 2030, 82% of the energy mix will need to be derived from renewables. Currently, renewable energy sources account for only 46% of Australia's energy supply.[11]

[8] https://www.ga.gov.au/aecr2024/coal
[9] The Australia Institute, "*Fossil fuel subsidies in Australia 2024*", May 2024.
[10] The Australian Financial Review, "*Nuclear too slow to replace coal by 2035: energy bosses*" John Kehoe and Jenny Wiggins, Tuesday 22 October 2024
[11] The Australian Financial Review, "*2035 emissions target 'unlikely before election'*" Phillip Coorey, Tuesday 22 October 2024

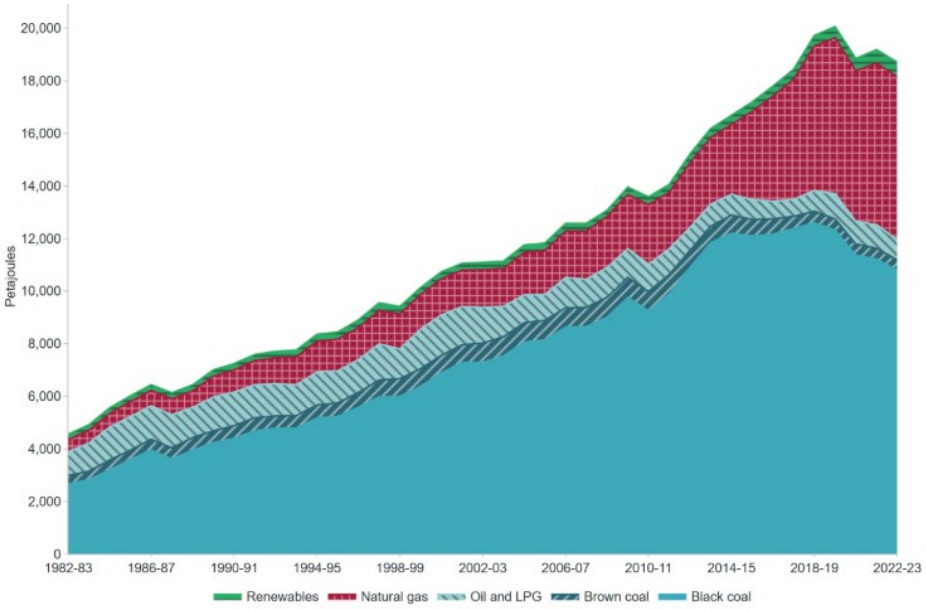

Figure 2: Australian energy production by fuel type in PJ from 1982-83 to 2022-23[12]

A few questions spring to mind when considering the wider implications to insurance companies adopting a move towards a net-zero underwriting portfolio:

- What downstream risks exist for the Australian economy if insurance is withheld from Australian coal producers?

- How can insurance companies manage the increased risk portfolio of transitioning from coal to renewable energy?

Wider implications of the net zero portfolio

Consequences of reducing underwriting capacity of the coal industry

As ESG strategies see insurance companies withdraw from underwriting coal projects, the coal operations themselves do not stop or cease. Coal remains in high demand both locally and overseas, but until renewables are our primary energy source and are adequately insured, the shortfall in underwriting capacity between these industries introduces a complex set of risks for energy security and economic stability.

Coal businesses can adopt a combination of measures instead of relying on local underwriting including:

- increase its self-insured retention, absorbing more risk internally;

[12] https://www.energy.gov.au/energy-data/australian-energy-statistics/data-charts/australian-energy-production-fuel-type

- seek additional co-insurers to pick up the lost insurance capacity in the Australian market, and over-burden fewer insurance companies; or

- increase overseas insurer capacity on the risk.

As a growing number of Australian Insurers move away from underwriting local coal risks, the threat of wide-spread economic impacts increases in the face of catastrophic events. Insurers who remain on risk bear a greater proportion of the loss.

A catastrophic example

Assume, as a hypothetical, a reality where local insurance companies have withdrawn from their underwriting capacities of Australian coal mining projects for ESG compliance. Coal businesses have sought insurance through overseas insurance companies with more restrictive covenants and policies, and have increased their self-insured retentions, further internalising their risk.

A significant cyclone event affects the eastern coast of Australia, causing wide-spread flooding, damage and closures to the coal-producing regions in NSW and Queensland, an area which accounts for 90% of the country's black coal production, and nearly 50% of Australian energy generation.

Following this catastrophic event, delays in resuming operations occur at the mines and output remains reduced due to the businesses' inability to return to mining operations. These costs are borne by the business due to a higher self-insured retention.

The impacts will be widespread. The Australian energy market may begin to experience shortages due to reduced coal-fired energy. Rolling blackouts occur, and businesses large and small across Australia will struggle to operate. In some instances, insurance policies may trigger coverage for Business Interruption losses under extensions and endorsements, in other situations, businesses will bear the losses without compensation.

For context, early indications following Cyclone Alfred are that the Quarterly Australian GDP took a A$1.2 billion hit, in an event that resulted in 2 to 4 days of power disruptions to businesses.[13] Dependent on circumstances, assume half of the GDP impact are indemnified losses, at A$600 million for a relatively short interruption period.

This illustrates how Insurers' environmental strategy can have wider social and financial consequences on economic stability and energy security.

Renewable risks

What about those Insurers who have transitioned to covering businesses involved in the generation and storage of renewable energy? As insurance companies shift from fossil fuel to renewables, the risk profile shifts from that of low risk, established industry with dependable supply chains to those of emerging markets, where minimal claims history and greater supply chain issues result in an elevated risk profile. This translates to higher premiums but also greater claimed losses.

[13] Reuters, "Cyclone Alfred to dent Australia's March-quarter GDP, treasurer says." 17 March 2025

The Australian Renewable Energy Agency (**ARENA**) details all past and current renewable projects, by category and cost. A review of projects with a total cost of A$175 million or more[14] demonstrates some key themes in the renewables market:

1. **Project timelines can span years**

   As an example, there are three major solar projects ranging in duration from 5 to 13 years, which likely places their project completions after our 2035 milestone.

   Projects with extended design and building timelines increase the underwriting risk for Insurers. Procurement and supply chains are less established, and disruptions can cause significant delay in these projects, increasing indemnity spend to either expedite repairs and replacement, or suffer delayed start-up losses.

2. **Funding sources are inconsistent**

   These same three solar projects received ARENA funding between 10% to 50% of the project cost.[15] The remainder of the cost is borne through other funding avenues.[16]

   This means, in the event of a loss, expectation will fall to their insurance to maintain project timelines, for risk of limited funding from other sources.

The increased risk of these two issues is not transferable, or at least not a directly transferable risk, from fossil fuel to renewable companies. Insurers are left in a difficult position trying to bridge the gap in underwriting history and risk profiles of two distinctly different projects and industries.

Solutions for the Insurance Industry

What is our way forward? As a nation, we need to:

1. Double our renewable energy production by 2030 through investment and available insurance coverage of renewable energy sources,

2. Phase out all but 10% of our fossil fuel consumption by 2035,

3. Safeguard the Australian economy, by preventing the increased costs of insuring an emerging energy market from being passed down to individuals and businesses.

Doubling down on renewables

To double our renewable output, quite simply we need more renewable businesses entering the market. Experts in this area discuss the need for capital investment, in what is an already expensive start-up exercise.

The insurance industry can support this initiative in two ways:

---

[14] https://arena.gov.au/projects/?project-value-start=175000000&project-value-end=200000000&technology=

[15] Darling Downs Solar Project received A$20m against a project cost of A$194.8m, whilst Moree Solar Farm received A$101.7m against a project cost of A$200.83m.

[16] Other funding sources are not immediately clear. One project, AGL Solar Project, appears to have received funding under the Education Investment Fund and through University of Queensland. https://arena.gov.au/projects/agl-solar-project/

1. By investing in renewable projects with the funds that have been withdrawn from fossil fuel projects. In this way, the insurance industry is taking a positive position on the environmental investment in this sector.

2. Comprehensively insure renewable projects. Local Insurers can look to international insurance markets to build robust and reasonable risk profiles for renewables, reducing the risk and associated premiums to ensure we do not financially overburden the renewable businesses.

Australia's 2030 renewables target is double its current reliance. Yet the Australian Government has committed to investing in both fossil fuel and renewable industries in almost equal proportions between now and 2027.[17]

The insurance industry cannot enact change alone. The Australian government also needs to do their part by increasing their financial support to incentivise renewable projects in Australia.

One way this can be achieved is by establishing a reinsurance pool to subsidise the cost of renewable insurance, akin to what it has done for cyclone events.[18] This could be done through diverting a portion of the government fossil fuel funding towards ensuring affordable insurance to renewable businesses. In doing so, the government assists with offsetting (1) the increased cost and risk of premiums in a vital emerging market, and (2) the higher claimed losses of insurable events.

Fossil fade: down to the last 10% by 2035

Fossil fuel businesses are facing a future of export, with most of the Australian fossil fuel product being shipped overseas to other nations. This is, of course, assuming our renewables market is strong enough by 2035 to offset the reduction in fossil fuel consumption.

Insurers who remain invested in and insuring Australian fossil fuels by 2035 bear the risk locally of product which is bound for overseas markets.

A way forward for those local Insurers is to reduce their proportion of risk, commensurate with the fossil fuel output and energy consumption which remains in the Australian market. Fossil fuel companies should look to mirror this export trend by distributing the risk with overseas Insurers in the primary export market.

This will ensure insurance companies' compliance with ESG initiatives through a fair and reasonable approach, and place environmental strategies at the fore of consideration of the risks they write.

Striking a balance

Our transition to renewable energy is steadily advancing, supporting our climate change commitments and responsibility to future generations. The insurance industry is setting the pace for progress, by reducing their underwriting capacity in coal and fossil fuels and shifting to renewables.

This is not without increased risk. To safeguard our industry and economy, Insurers and the government need to work together to enable a stable and inclusive energy transition from fossil fuels to renewables, thereby reducing the risks to Australian businesses. Doing so will tick the boxes for Insurers' ESG strategies.

---

[17] https://www.dcceew.gov.au/energy/renewable/capacity-investment-scheme A$67B 2024 to 2027, plus A$14.5B in subsidies and tax breaks to fossil fuel is approx. A$30 B per year.

[18] The Cyclone Reinsurance Pool, a A$10 billion Government guarantee to offset the increased premiums in the cyclone-risk affected areas, and provide reinsurance to insurance companies.

Authors

Jillian Pancott
Director, Forensic Accounting Services (Aust.)
Sedgwick
+61 427 953 176
jillian.pancott@sedgwick.com

Rachel White
Special Counsel
Wotton Kearney
+61 9064 1891
rachel.white@wottonkearney.com

Australian offices

Adelaide

Lvl 1, 25 Grenfell St
Adelaide, SA 5000
+61 8 8473 8000

Brisbane

Level 21, 71 Eagle Street
Brisbane, QLD 4000
+61 7 3236 8700

Canberra

Ste 4.01, 17 Moore St
Canberra, ACT 2601
+61 2 5114 2300

Melbourne

Lvl 30, 500 Bourke St
Melbourne, VIC 3000
+61 3 9604 7900

Perth

Lvl 49, 108 St Georges Tce
Perth, WA 6000
+61 8 9222 6900

Sydney

Lvl 9, Grosvenor Plc,
225 George St
Sydney, NSW 2000
+61 2 8273 9900

New Zealand offices

Auckland

Lvl 8, 21 Queen St
Auckland 1010
+64 9 377 1854

Christchurch

203/237 High Street
Christchurch 8011
+64 3 667 4003

Wellington

Lvl 12, 342 Lambton Qy
Wellington 6011
+64 4 499 5589

Asia office

Singapore

138 Market St,
05-01, CapitaGreen
Singapore, 048956
+65 6967 6460

WOTTON KEARNEY