

# Time for AIA To Prove Their Climate Credentials

## *AIA Is Too Important To Lag Global Insurers in Coal Investment, Divestment, and Exclusion*

### Executive Summary

AIA has been the subject of a recent campaign to encourage divestment of its coal and coal-fired power investments. However, AIA has responded so far with little but vague statements about past coal asset divestments and suggestions that it is moving toward policy changes in the future. This is a missed opportunity. AIA is too important an insurer and global financial firm to take the risks from coal and coal-fired power assets so lightly. As global investors continue to ratchet up scrutiny of financial services companies, AIA will be seen as a laggard and have its motivation to support efforts like the UN's Principles of Responsible Investment, the Task Force on Climate-related Financial Disclosures, and Climate Action 100+ increasingly under scrutiny.

To date, AIA has shown little interest in the carbon footprint of its investment portfolio, even though it likely holds as much as USD 6 billion in coal and coal-fired power assets on its books. AIA's equity portfolio registers a carbon footprint above even the average MSCI index for Asia, even though cleaning up its equity exposure would be easy to do. If AIA is not negatively screening even its equity portfolio, we should expect to see far more coal assets in the rest of its more long-dated investments.

**AIA likely holds as much as USD 6 billion in coal and coal-fired power assets on its books.**

Based on a top-down analysis, we estimate that 15-20% of AIA's USD 30 billion infrastructure fund is probably invested in coal and coal-fired power. Using a bottom-up analysis by asset class, we estimate that AIA could hold from USD 4.1-5.8 billion of coal and coal-fired power exposure in its equity, corporate credit, and quasi-government/SOE credit portfolios combined. USD 4-6 billion would be a range of 2-3% of AIA's overall investment portfolio. This may not seem like a great deal, but even if just 10% of that USD 6 billion winds up stranded and needs to be written down, it would take a significant bite out of earnings, potentially impact AIA's brand value, lead to a drop in AIA's share price, and raise doubts about AIA's investment management.

AIA is already behind its peers and needs to address this exposure. Of 11 insurers that have signed the same climate pledges as AIA, AIA is only one yet to announce a

coal investment policy. AIA should remove the uncertainty about its actual coal and coal-fired power exposure and lay out plans to exit those positions and avoid that exposure going forward. Until the company offers more transparency and clarifies its intention to implement clear coal divestment and investment exclusion policies, AIA's future investment performance will need to be considered against the risks from stranded assets. AIA has already taken steps to outsource some of its infrastructure investments to HSBC so some of this may be happening already. AIA's CIO Mark Konyyn has also shown an eagerness to avoid the risks presented by stranded assets to AIA's performance, so the problem is clearly understood.

The time for promises and generalities has passed. Regional and global investors, and more especially AIA policyholders, need action.

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## AIA Under Pressure

### 'AIA KICK OUT COAL'

AIA is the latest financial institution to feel the heat from campaigners focused on motivating a global divestment from coal and coal-fired power assets to meet Paris climate commitments.<sup>1</sup> Unfortunately, instead of seizing the opportunity to join the global exodus from coal, AIA offered a vague response that lacked detail or commitment:

*AIA said it has reduced the carbon intensity of its portfolio in recent years by halting direct equity holdings in coal mining and coal power generation, focusing on renewables and investing in more green bonds. The company says it is now considering its position regarding its remaining coal-related investments. "The results of that process are currently being reviewed and finalized, and they will guide our future investment strategy in this area," a spokesman said by email. "AIA places the highest priority on the wellbeing of our communities and we continuously work to ensure long-term sustainable outcomes through our investments."<sup>2</sup>*

AIA is one of Asia's most important regional investors. Its investment success and financial health are crucial to its policyholders and thereby to the health of all of the active and passive portfolios which hold AIA shares. Yet AIA, unlike many of its financial sector peers, is a laggard in its response to the ongoing global energy transition. While over 150 global financial institutions<sup>3</sup> have committed to restrict coal investment and lending, AIA has yet to commit either to divest coal assets by a date certain or exclude coal investments going forward. AIA claims to have made equity divestments already, but their stake in Tenaga (an electric utility that sources more than 50% of its generation from coal power – see more below) suggests there is much left to do.

**AIA increasingly lags the 150 plus global financial institutions that have committed to restrict coal investment and lending.**

AIA needs to clarify its plans to eliminate and avoid the risks from coal and coal-fired power assets going forward and remove this uncertainty around its performance.

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<sup>1</sup> IOF. AIA kick out coal! November 2020.

<sup>2</sup> The Guardian. [AIA Sponsorship is Stain on Spurs Shirts, Say Kick Out Coal Campaigners](#). 24 November 2020.

<sup>3</sup> IEEFA. [100 and counting](#).

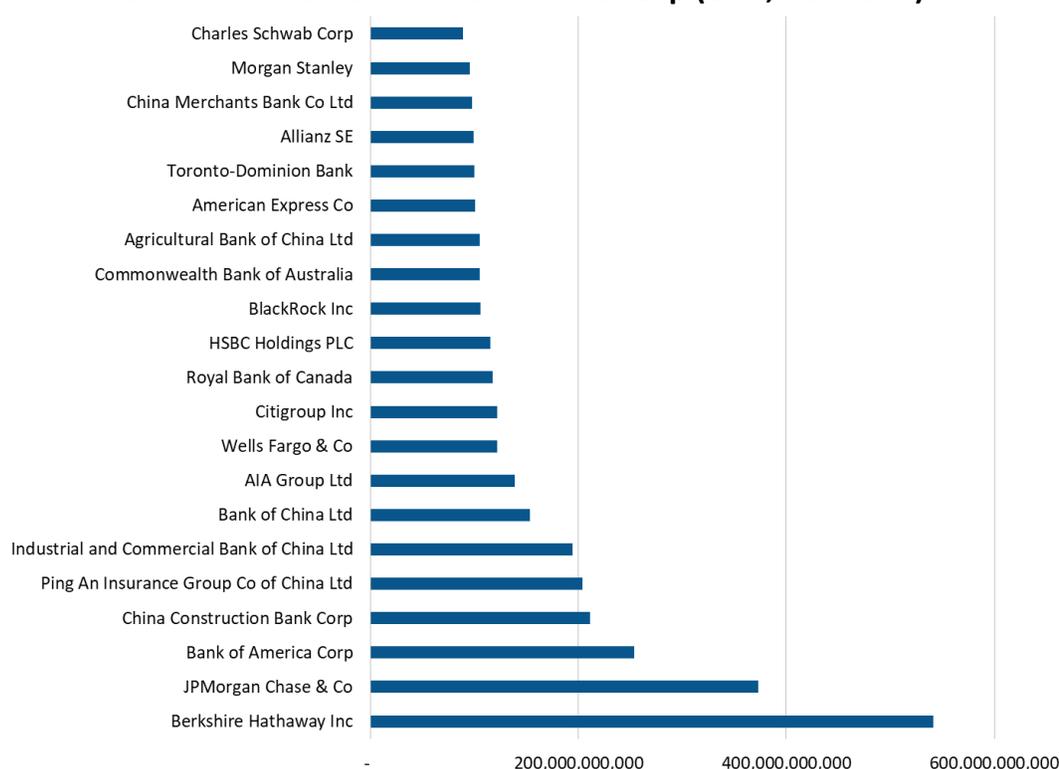
## AIA In Context

### *One of the Most Important Financial Firms in the World*

AIA is one of the world's largest financial firms, and one of Asia's largest insurers. Through its agents and employees across the 18 markets it serves, AIA has over 36 million individual policies and more than 16 million policyholders within group insurance programs.<sup>4</sup> AIA serves markets that total over 3.6b<sup>5</sup> people, and AIA insurers a little over 1% of them. In terms of AIA's addressable population of potential policy holders, among those 3.6b, that percentage is likely much higher.

AIA is also one of the world's largest investable financial stocks. Almost all of AIA's shares are outstanding; AIA's near USD140b free float puts it within the top 10 of global financial stocks.<sup>6</sup> AIA is more investable than Morgan Stanley, more investable than BlackRock, and more liquid than Citigroup. AIA's ample free float also puts it near the top of Austral/Asian stocks, bigger than Sony and Nomura, but just behind BHP and Toyota. AIA's life insurance business would be a substantial holding in any portfolio looking for regional Asian or global financials exposure.

**Table 1: Global Financials Free Float Market Cap (USD, Dec 2020)**



Source: IEEFA, Reuters Eikon.

<sup>4</sup> AIA Annual Report 2019. Page 2.

<sup>5</sup> Combined populations of China, India, Indonesia, Philippines, Vietnam, Thailand, Myanmar, South Korea, Malaysia, Australia, Taiwan, Sri Lanka, Cambodia, Hong Kong, Singapore, New Zealand, Macau, and Brunei compiled from [Worldometers.Info](http://Worldometers.Info).

<sup>6</sup> Data from Reuters Eikon, Nov 2020.

## *AIA Proudly Supports Substantive Efforts Toward Carbon Friendly Investing via PRI, TCFD, and CA100*

Hong Kong's stock exchange, a member of the HKEX Group (HKEX), has implemented mandatory Environmental, Social, and Corporate Governance (ESG) reporting for listed companies. AIA now produces an annual assessment according to HKEX's requirements.<sup>7</sup>

HKEX's ESG filing requirements are a step forward for Hong Kong's equity market. HKEX's effort to avoid resistance has granted the company filing the report a great deal of discretion on materiality. While there are mandatory filing requirements, including for climate risks, HKEX has provided corporates with leeway to define their stakeholders and business materiality in ways that may miss the point of the intended disclosure.

In AIA's case, this has produced ESG disclosure that is light on the insurer's enormous investment portfolio and heavy on its operational footprint. Aside from AIA's offices, AIA's 2019 ESG report devotes a great deal of text discussing AIA's efforts to understand and improve the health of its shareholders and lower its pay-outs as a result. AIA's section on environment and climate change in its 2019 ESG filing devotes more than 75% of its text to AIA's operational carbon footprint.<sup>8</sup>

If a Hong Kong listed company wants to show a more serious commitment to ESG reporting they need to ally themselves with stronger, global efforts like the UN's Principles of Responsible Investment (PRI), the Task Force on Climate-related Financial Disclosures (TCFD), and/or the Climate Action 100+ (CA100).

AIA has signed on in support of all three.

The PRI is a more general commitment by institutional investors to incorporate ESG issues into investment decision making across asset classes.<sup>9</sup> The TCFD is designed to improve transparency in reporting of climate-related financial information. And the CA100 is designed to influence a discrete set of carbon-intensive corporates to improve their carbon footprint.

It is notable that AIA is one of only 11 insurers globally to throw their support behind the TCFD, CA100, and the PRI.<sup>10</sup> The list skews toward Europe where momentum to address climate change has been greatest. There is a wide variability among the ten insurer's commitments, with a few of the Scandinavians' near total exclusion of and divestment from carbon energy setting the highest standard.

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<sup>7</sup> AIA's latest ESG report was in 2019: [AIA Environmental, Social and Governance: Report 2019](#).

<sup>8</sup> Based on a simple word count from the "Operating Responsibly" section devoted to environmental issues and climate change in [AIA's ESG Report 2019](#).

<sup>9</sup> As a UN vehicle, the PRI excludes Taiwan entities that may have signed on if allowed. Neither the TCFD nor the CA100 have that restriction.

<sup>10</sup> UN PRI's [Full List of Signatories](#); [Climate Action 100+ Investors](#); [TCFD Supporters](#).

**Table 2: Insurers Which Have Signed on To CA100+, PRI, and TCFD**

Insurer	Domocile	Coal Investment Policy/Practice
AIA Group	Hong Kong	-
Allianz	Germany	Coal Investment Policy/Practice
ASR	Netherlands	Coal Investment Policy/Practice
AXA Group	France	Coal Investment Policy/Practice
CNP Assurances	France	Coal Investment Policy/Practice
Dai-ichi Life	Japan	Coal Investment Policy/Practice
Folksam	Sweden	Coal Investment Policy/Practice
Gjensidige	Norway	Coal Investment Policy/Practice
Länsförsäkringar	Sweden	Coal Investment Policy/Practice
Skandia Mutual Life	Sweden	Coal Investment Policy/Practice
Swiss Re	Switzerland	Coal Investment Policy/Practice

SOURCE: IEEFA, Various.

While 10 of these insurers have coal investment policies, AIA does not. Nonetheless, AIA still highlights its participation in TCFD, CA100 and the PRI within its ESG report. AIA's motivation in signing on to those three efforts appears to be a legitimate zone of enquiry.

## AIA's Investment Portfolio

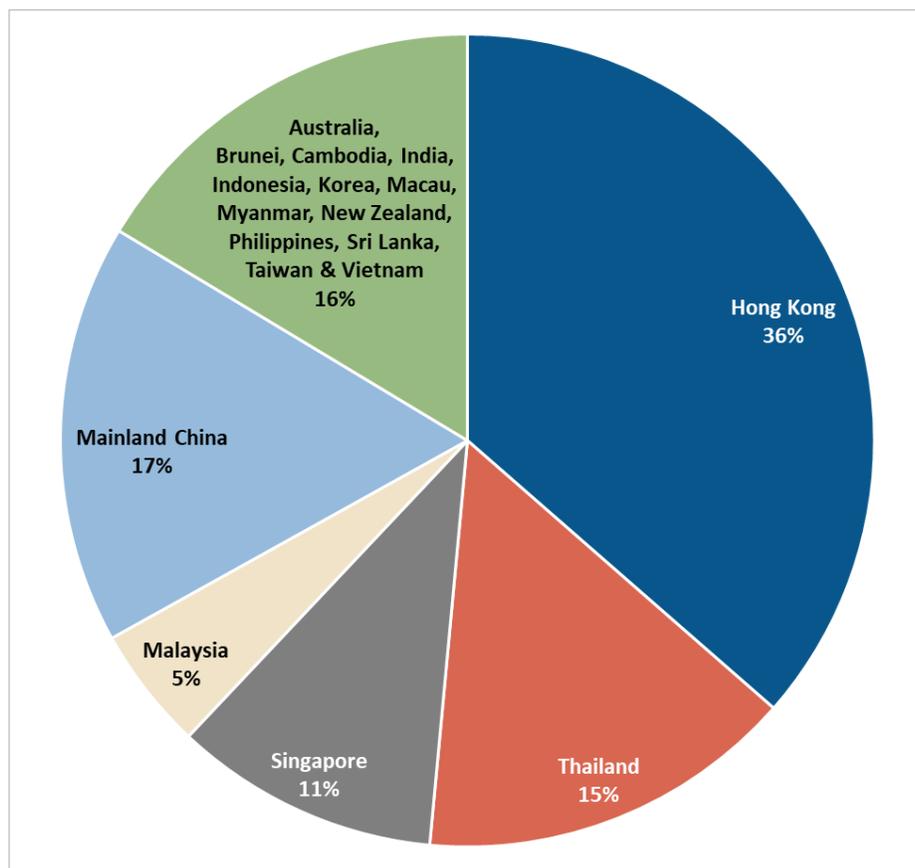
AIA has pan Australasian exposure, but the bulk of its embedded value is in Hong Kong.<sup>11</sup> As an insurer in diverse markets, AIA looks for long-dated assets that match its local currency liabilities. AIA's largest liability set in US dollar-pegged Hong Kong means it holds a substantial portion of its investments in USD assets as well.<sup>12</sup> While AIA has centralized its trading and hedging operations in Singapore, AIA's investments outside of Hong Kong are largely driven by its local operations.

As a health and life insurer, AIA makes a portion of its money by taking in premium income to invest in assets that are expected to outperform its future liabilities. AIA's policyholder and shareholder portfolio investments are intended to match the insurance liabilities of its core business. In that portfolio, any fluctuations in the value of those investments will impact the ability of AIA to match its liabilities.

AIA also sells investment products on a pass-through basis where the purchaser will accept the performance risk. For these products, AIA earns fee income, but this is a small part of AIA overall and is separate and distinct from its core operations.

<sup>11</sup> AIA Annual Report 2019. Independent Auditor's Report on The Supplementary Embedded Value Information. Note 2. Page 275.

<sup>12</sup> AIA Annual Report 2019. Note 1. Page 293: "The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars."

**Figure 1: AIA Embedded Value by Market (2019)**

Source: IEEFA, AIA 2019 Annual Report.

Given the diversity of AIA’s activities, our focus is on the parts of AIA’s business that most directly aligns with investment activity that AIA controls on a discretionary basis—specifically the policyholder and shareholder portfolio investments.

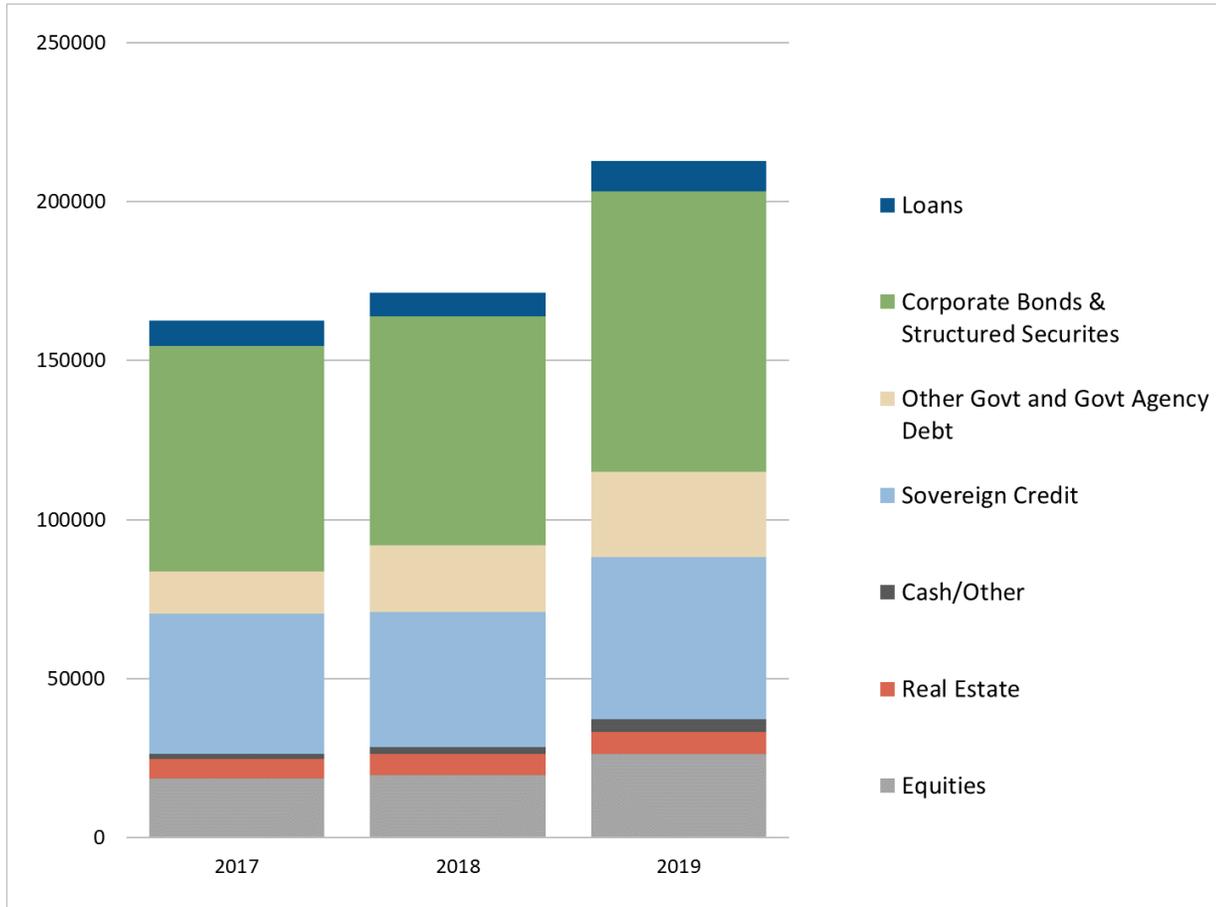
As an insurer, AIA has spent a great deal of effort to understand and improve the health of its policyholders.<sup>13</sup> This is not altruism, but instead AIA’s goal is to improve its actuarial pay-out liabilities. The healthier and longer a policyholder’s life, the more premium they pay to AIA, the less AIA pays out, and the more AIA has to invest.

Because of the long-dated liabilities of its policies, AIA’s policyholder and shareholder investment portfolio is predominantly composed of longer dated assets, particularly corporate credit and sovereign debt. AIA only invests about 10% of its portfolio in equities and about the same proportion in non-sovereign government agency debt too.

<sup>13</sup> AIA’s brand promise is to “help people live healthier, longer, better lives” because it is in both sides’ best interests.

Based on IEEFA's research, it appears that AIA is most likely to hold exposure to coal and coal-fired power in its corporate bond, non-sovereign agency, and equity portfolios. While AIA has done much to improve the health of its policyholders, IEEFA finds little evidence from AIA that it has initiated a similar effort to improve the health of its investment portfolio.

**Figure 2: AIA Shareholder and Policyholder Investment Portfolio (2019)**



Source: IEEFA, AIA Annual Report 2019.

## AIA Equities: Proof There Is a Problem

If AIA were to demonstrate the intention to align with their global peers, we would expect AIA to announce a policy on its investments in coal with a focus on its equity holdings first. AIA's equity portfolio makes up about 10% of the insurer's total investment portfolio on average, totalling USD26.2b as of its 2019 filing. AIA's equities are the most liquid and easily rebalanced asset class in which AIA invests.

AIA's failure to decarbonize its equity holdings in line with global trends is not a question of liquidity: the insurer reports that more than 95% of its equity holdings

could be sold within one day.<sup>14</sup> AIA knows where the carbon intensity is within its portfolio (see below), so if it wanted to rebalance its equity holdings toward a lighter carbon footprint it could do so within 24 hours. AIA's failure to transition its equity portfolio suggests larger issues lurking within its other, less transparent, less liquid, and more long dated asset classes.

AIA completed an audit of its equity portfolio's weighted average of issuer carbon intensity<sup>15</sup> in 2019.<sup>16</sup> Such an audit provides clear indications of where a portfolio needs to be rebalanced to decrease its carbon footprint. According to AIA's 2019 ESG report, the weighted average of issuer carbon intensity in AIA's equity portfolio was 301.8 tons CO<sub>2</sub>e per million US dollar. AIA chose to compare that figure to MSCI's Emerging Market Index score of 328.7 tons, even though that figure was calculated one year earlier in June of 2018. AIA's decision to benchmark its portfolio against a pure emerging markets metric lacks credibility, as more than a third of its assets are in Hong Kong and invested in USD assets. Nonetheless, AIA has rightly pointed out that they had beaten the 2018 emerging markets figure.

Unfortunately, MSCI's more recent figures aren't as favorable to AIA. MSCI released its latest Index Carbon Footprint Metrics on April 30, 2020, showing the emerging markets metric had dropped to 298.1.<sup>17</sup> At this level, AIA now doesn't meet the emerging markets average.

Given its commitments to TCFD, PRI and CA100, it would be reasonable to hold AIA to a slightly higher standard in its equity portfolio than just MSCI's broad emerging market index. MSCI's Emerging Markets ESG Leaders index was down to 209 at the end of last April.

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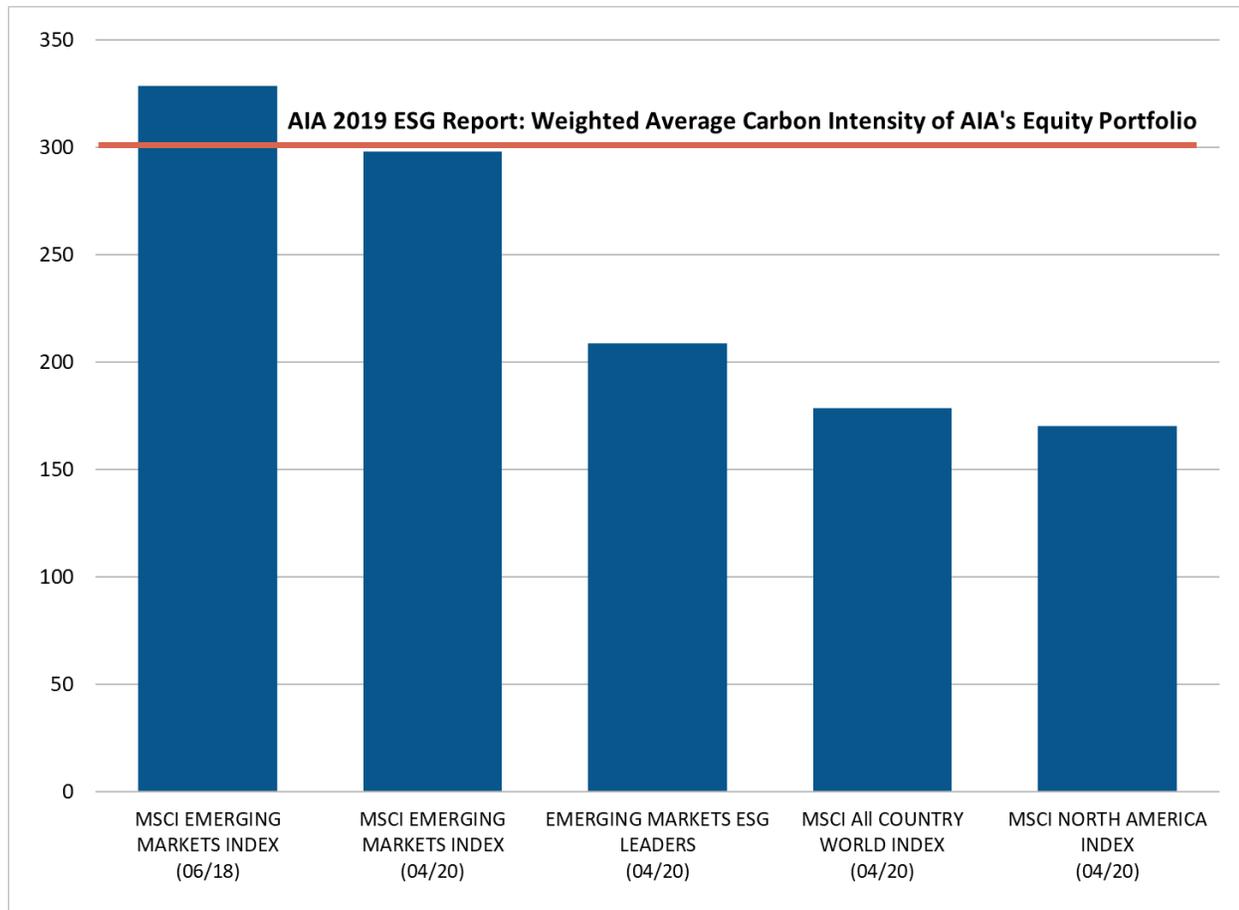
<sup>14</sup> [AIA Annual Report 2019](#). Note 21. Bottom Note (1). Page 205.

<sup>15</sup> The weighted average of issuer carbon intensity of an investment portfolio measures that portfolio's exposure to carbon intensive companies. The measure is determined by averaging each portfolio company's carbon intensity (Scope 1 + 2 Emissions / \$M Sales) according to its portfolio weight. This can be used for both fixed income and equity, and easily allows portfolio decomposition to display component attribution. See MSCI. [Carbon Footprinting 101](#). Page 27. September 2015.

<sup>16</sup> [AIA ESG Report 2019](#). Page 49.

<sup>17</sup> MSCI. [Index Carbon Footprint Metrics](#). 30 April 2020.

**Figure 3: AIA's Weighted Average Carbon Intensity of Equity Portfolio vs. MSCI Indices**



Source: IEEFA, AIA 2019 ESG Report, MSCI Index Carbon Footprint Metrics.

At the very least, AIA's likely ~10-15% of equities in USD-denominated securities via Hong Kong necessitates some reference to far lower MSCI All Country or MSCI North American scores. If AIA's true equity market exposure were weighted according to its actual geographic allocation, a simple 'back of the envelope' estimate would drop a truly comparable portfolio score by 15-20 points towards 280.

The reason for AIA's score can be inferred: AIA is slightly more overweight in carbon-intensive sectors, such as coal and coal-fired power utilities, than MSCI's broad market indices as a whole. It would be fair to suggest that AIA is managing an equity portfolio that is yet to screen against or divest from coal and coal-fired power assets.

Disclosure requirements vary within Asia, so it is difficult to get a complete picture of what stocks AIA holds. Even if AIA appears on a share register, it may hold some or all of that position as part of its funds business (USD24.1b as of December 2019, a little over USD2b less than equity holdings for policyholders and shareholders). In

addition, AIA may hold some equities through custodians, exchange-traded funds (ETFs), and/or sub or external managers within certain markets, and therefore not appear as a shareholder at all.

For example, AIA is listed as owning over USD130m of electric utility Tenaga Nasional Berhad (TENA KL) in Malaysia. Tenaga has a near 10% index weight in Malaysia so it would be a significant component of any portfolio designed to mirror broad market exposure – as AIA’s policyholder and shareholder investments do. However, it would also be a natural holding for any investment fund constructed to provide exposure to the Malaysian market.

Having said that, AIA likely holds Tenaga mostly in its policyholder and shareholder investment portfolio given the size of the holding. AIA holds equities for its index replication, so a position in Tenaga would be 10% of a broader Kuala Lumpur Composite Index (KLCI) replication strategy. This would make AIA’s overall holdings of Malay equities total more than USD1.3b (USD130m/10%).

AIA reports that the entire assets under management (AUM) of its Malaysian AIA Pension and Asset Management Sdn. Bhd. (APAM) to be just RM667m, or roughly USD165m. AIA’s entire unit-linked or investment fund single equity AUM (the non-policyholder and shareholder investments in single stocks) is also just USD6.6b, so it would be unlikely for AIA to hold nearly 15% of its total equity exposure of that business in Malaysia. Malaysian equities are not a large weight in broad Asian market indices and don’t attract that much interest internationally.

Tenaga still generates more than 50% of its power capacity from coal power, and we estimate that AIA probably holds at least USD100m of it to hedge its policyholder and shareholder liabilities. Given the composition of coal power in the 18 equity markets in which AIA operates, AIA’s total, overall, regional equity exposure to coal and coal-fired power is likely to be at least double that size.

## Estimating AIA’s Coal Power Investments

### *Infrastructure*

AIA made a concerted push to increase infrastructure investment in 2016. This included a multi-market trip by then CEO Mark Tucker to a few ASEAN capitals and many government meetings. His public statements then put the size of AIA’s existing infrastructure portfolio at USD40-50b<sup>18</sup>, with Tucker consistently emphasizing the natural fit of infrastructure investments within AIA’s insurance business.

In Indonesia, AIA voiced its eagerness to diversify away from government debt and participate in Indonesian infrastructure projects.<sup>19</sup> AIA stressed that Indonesia was unique for AIA in lacking infrastructure exposure, as the norm for AIA in the rest of Asia was investments mostly in infrastructure. Tucker was quoted as saying AIA had

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<sup>18</sup> Tucker varies this number with different statements in different markets to different press. The most often quoted number was USD40B.

<sup>19</sup> Hermansaya, Anton. [AIA mulls engagement in Indonesian infrastructure projects](#). Jakarta Post. 16 November 2016.

some form of infrastructure investment in every country it serves, which was both good for their liability matching and a “good demonstration of commitment”.

Tucker gave the same message in the Philippines where he again emphasized AIA’s desire to invest in infrastructure projects in the Philippines.<sup>20</sup> Tucker underscored “infrastructure is perfect” for AIA’s insurance business need for long-term investments in long-term assets. He said, “If there are right opportunities, we’ll invest.”

AIA’s Philippines subsidiary is Philam Life. During that 2016 trip, Philam CIO Arleen May S. Guevara said Philam Life would pursue infrastructure opportunities in energy, power generation, toll roads and water utilities. At that time, Philam Life had already been part of a consortium that financed ~USD175m of the Toledo coal-fired power plant on Cebu. According to The World Bank, Philam Life financed approximately USD21.42m of the project which began operating last year.<sup>21</sup>

Tucker said the same thing over and over again that year: AIA wants to expand its infrastructure investment in Asia-Pacific.<sup>22</sup> He made clear that AIA had substantial infrastructure investments in most markets already, but that it wanted more as it fit into AIA’s investment liability-matching needs.

AIA has not disclosed a sector breakdown of its fixed income portfolio since its IPO in 2010 (see below). Given indications from its equity portfolio that there has been no screening against coal, it is reasonable to assume that AIA invested in line with financing requirements in its local markets. We reference the below market surveys for indications:

- In 2011, McKinsey forecast that nearly half of the forecast USD1T in Asian infrastructure investment between 2010-20 would go to power opportunities.<sup>23</sup>
- In 2015, Preqin analyzed 2010-15 Asian infrastructure investment and found utilities made up anywhere from 16-40% of Asian infrastructure deals.<sup>24</sup>
- In 2016, the Asian Development Bank found 22% of all Asian infrastructure deals were in utilities.<sup>25</sup>

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<sup>20</sup> de Vera, Ben O. [AIA on lookout for infra investments in PH](#). Business Inquirer. 12 January 2016.

<sup>21</sup> [Contribution of Institutional Investors: Private Investment in Infrastructure 2011–H1 2017](#). World Bank Group. 2018. Page 30.

<sup>22</sup> [AIA to Expand Infrastructure Investment In Asia-Pacific](#). Hong Kong Economic Journal via EJI Insights. 16 March 2016.

<sup>23</sup> Tahilyani, Naveen, Tamhane, and Tan. [Asia’s \\$1 Trillion Infrastructure Opportunity](#). McKinsey Quarterly. March 2011.

<sup>24</sup> Preqin. [Preqin Special Report: Asian Infrastructure](#). June 2015.

<sup>25</sup> Inderst, Georg. [Infrastructure Investment, Private Finance, and Institutional Investors: Asia from a Global Perspective](#). Asian Development Bank Institute Working Paper Series. January 2016.

- In 2017, McKinsey forecast that 35% of Asian infrastructure investment was expected in power.<sup>26</sup>
- In 2020, the Asian Infrastructure Investment Bank looked at the value of closed private infrastructure transactions in Asia between 2015-2019 and found conventional coal power makes up anywhere from 20-25% of total private infrastructure investment.<sup>27</sup>

In AIA's 2019 ESG report, AIA highlights its "Sustainable Infrastructure" portfolio concerning its investments to "enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management." In that section, AIA pointed to its more than USD8b in transport infrastructure investments – USD2.6b in road and rail and USD5.5b in other infrastructure like ports and airports.<sup>28</sup> It is not unreasonable to put AIA's coal energy infrastructure investments in that same ballpark.

Based on this research, IEEFA believes it is reasonable to assume that 15-20% of AIA's Infrastructure Portfolio is composed of traditional, coal-fired power assets. With a total infrastructure portfolio of USD30b as of 2019, this puts AIA's coal-fired power investments between USD4.5b on the conservative end, to USD6.0b as our base case. This range of USD4.5-6.0b is within AIA's total transport infrastructure investment of USD8.1b, but around the same level as its investments purely into transport infrastructure – both reasonable benchmarks.

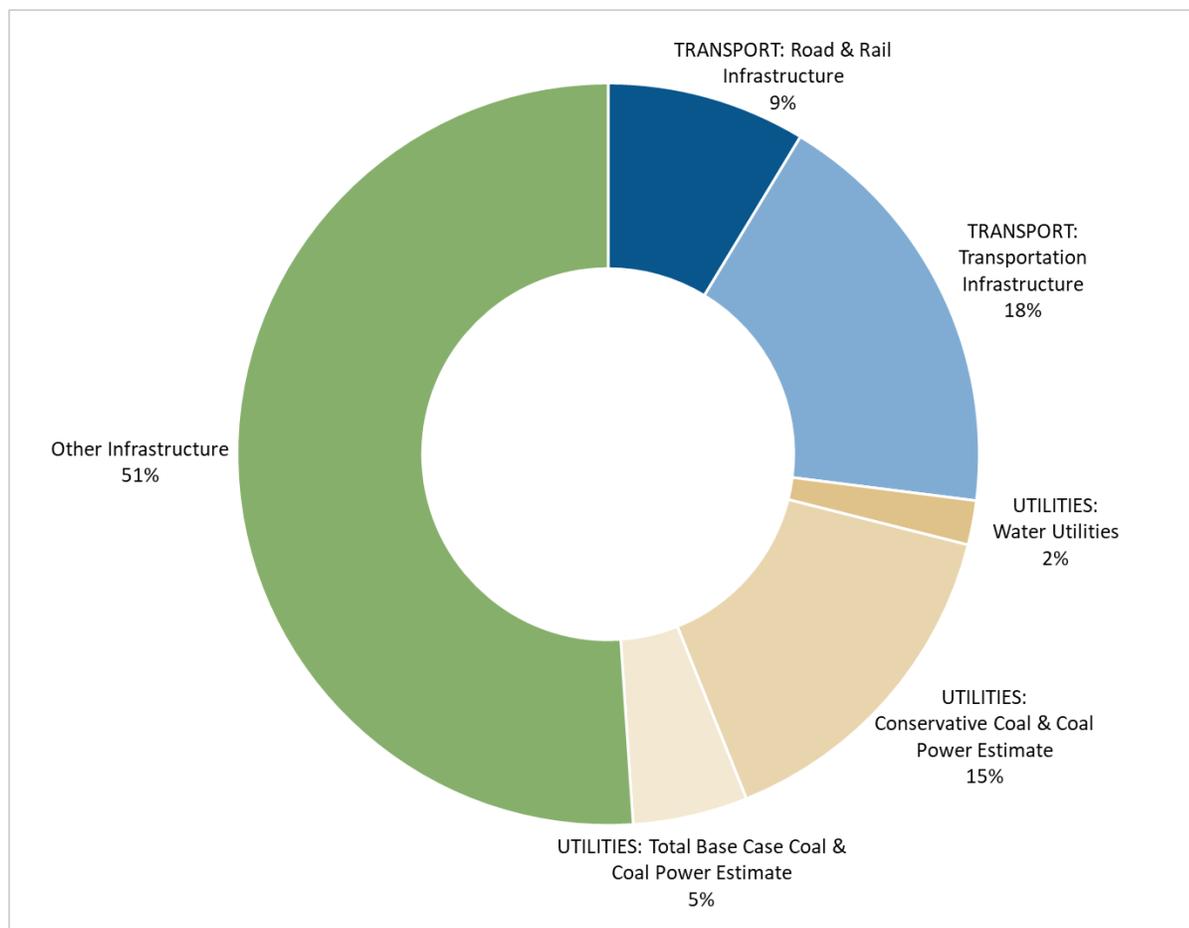
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<sup>26</sup> [Asia and the New Infrastructure Opportunity](#). Presentation during Siemens Finance Week. McKinsey & Company. February 2017.

<sup>27</sup> [Asian Infrastructure Finance 2020](#). Asian Infrastructure Investment Bank with key contributions from The Economist Intelligence Unit. 2020.

<sup>28</sup> [AIA ESG Report 2019](#). Page 52.

**Figure 4: AIA Infrastructure Investment – Estimated Coal Exposure (Total USD30B)**



Source: IEEFA, AIA 2019 ESG Report.

## Asset Allocation

AIA's unimpressive weighted average carbon intensity of its Equity Portfolio implies pursuit of exposure without screening for or divestment from coal and coal-fired power. If we assume AIA's long-dated assets in other parts of its policyholder and shareholder investment portfolio weren't screened, we should expect to find coal and coal-fired fixed income assets in that part of AIA's asset mix as well.

AIA needs the long-dated, local currency returns that power generation infrastructure financial assets provide to match the long-dated, local currency liabilities of its insurance policy liabilities. AIA holds equities largely for broad market exposure to mimic local equity market returns, but they don't match AIA's long-term liabilities. While AIA's coal and coal-fired power equities may only add to just 1% of AIA's overall equity portfolio, the nature of Asia's local currency debt markets should make AIA's holdings of corporate and quasi-public coal and coal-fired power bonds and structured credit a far higher percent of those asset classes.

Unfortunately, the last window had into AIA's corporate credit portfolio was from its IPO prospectus in the summer of 2010. At that time, AIA's corporate credit exposure to coal and coal energy appeared to have been potentially quite large (see Table 3).

**Table 3: AIA 2010 IPO Prospectus Corporate Bond Portfolio Breakdown by Sector**

	November 2009		31 May 2010	
Banks	6,864	28%	6,752	27%
Oil & Gas	3,089	13%	3,281	13%
Telecommunications	2,293	9%	2,465	10%
Diversified Financial Services	2,079	9%	2,399	10%
Electricity, Power, and Gas	2,359	10%	2,587	10%
Conglomerates	924	4%	928	4%
Real Estate	760	3%	775	3%
Insurance	543	2%	561	2%
Transport & Marine	612	3%	667	3%
Mining	257	1%	276	1%
Others	4,367	18%	4,552	18%
<b>TOTAL</b>	<b>24,147</b>	<b>100%</b>	<b>25,243</b>	<b>100%</b>
<b>TOTAL Elec, Power, Gas, &amp; Mining</b>	<b>2,616</b>	<b>11%</b>	<b>2,863</b>	<b>11%</b>

Source: IEEFA, AIA 2010 IPO Prospectus.<sup>29</sup>

At the time of listing, AIA maintained fairly diversified holdings of regional corporate credit which included power, electricity, and mining. AIA's holdings in those sectors made up over 10% of their total bond portfolio. At that time, AIA also had another 4.0% in conglomerates bonds which may also include some exposure to thermal power. Without granularity on exact bond holdings, it seems reasonable to assume at least 5% of AIA's corporate credit at the time of listing had exposure to coal and coal-fired power.

However, AIA's corporate credit profile at that time did not include state-owned enterprises or quasi government entities that might also issue debt to finance coal mining and coal generation capacity. At the time of listing, AIA's government agency debt made up around 12% of its overall investment portfolio, about in line with what it does now. However, AIA provided no visibility into that portfolio at that time. Given the nature of mining and especially utilities, AIA's government agency debt holdings likely have a higher proportion of coal exposure than does its corporate credit portfolio.

AIA's investment dilemma has been the lack of long-dated options around Asia. In fact, the Asian local currency issuance calendar has likely been steering AIA into

<sup>29</sup> AIA IPO Prospectus. Page 221. October 2010.

coal-fired power generation purely because of their rare long duration. Using a sample of AsiaBondsOnline data<sup>30</sup>, AIA appears to have faced Asian issuance that skews mostly to short-term and intermediate-term debt below five years maturity. Only China, Singapore, and Malay markets have credit markets with substantial offerings above five years (see below).

In Indonesia, for instance, the vast majority of debt issuance has maturity shorter than five years. While we estimate Indonesia has around 6% of issuance related to coal and coal-fired power, AIA's need to buy long duration likely raised the importance of that issuance to a far higher percentage (ie. for AIA, 6% relative to just 18% may have looked more like one in every three). The same applies to Thailand, where our estimated 2% of issuance related to coal (mostly Banpu) was likely more important to AIA as they picked through the 40% of credit with expiry beyond five years (ie. 2% likely felt more like 5-6%). Even in China, where more than 50% of its local bonds come out with maturities greater than 5 years, AIA's preference for duration likely made a 5% issuance seem almost like one out of every ten.

**Table 4: AIA Insurers One of Every Hundred People in its Austral/Asian Markets**

	Est % Local FX Bonds in Coal Interests	Est % Local FX Bonds with 5yr+ maturity
Hong Kong	2%	42%
China	5%	53%
Thailand	2%	38%
Singapore	2%	53%
Malaysia	6%	68%
Indonesia	6%	18%
Korea	2%	30%
Philippines	11%	39%
Vietnam	3%	29%

Source: IEEFA, AsiaBondsOnline.

Note, Table 4 doesn't include issuance from carbon-heavy Australia, Cambodia, India, and Myanmar, where AIA also has business.<sup>31</sup> We would expect those markets to have issuance profiles that similarly skew towards coal and coal-fired power utilities.

Given this background on equities, corporate, and government agency/SOE credit,

<sup>30</sup> We sampled December 2019 and December 2015 market summary data from the nine markets listed above from AsiaBondsOnline. We also used data on market structure across Asia from that source. To estimate local bonds with coal interests, we had access only to the top 30 issuers with bonds outstanding in that data, and based our estimates on issuers within those top 30 with substantial coal interests.

<sup>31</sup> AsiaBondsOnline lacks coverage or detail in those markets.

we can estimate AIA's exposure to coal mining and coal-power assets by making some assumptions about holdings:

- **EQUITIES:** AIA probably holds USD100m of Tenaga alone, so a 1% position in its overall equity portfolio of over USD26b, or around USD260m exposed to coal and coal-fired power appears reasonable as a base case assumption. A more conservative assumption could be 0.75%, or USD200m.
- **CORPORATE CREDIT:** AIA likely was a captive to the issuance calendar, but private corporate issuance was likely lighter than from government agencies. We used 4.5% as a base case (USD3.97b), and just 3.0% (USD2.65b) as a conservative case.
- **GOVERNMENT AGENCY AND SOE CREDIT:** The nature of power utilities likely resulted in a higher investment of coal-fired power as a percent of AIA's quasi government portfolio. We assume 6.0% or USD1.6b as our base case, and 4.5%/USD1.2b as our conservative estimate.

**Table 5: AIA Asset Allocation – Estimated Coal Exposure (USDM)**

	2019	Base Case		Conservative Case	
		Est %	Est USD	Est %	Est USD
Equities	26,221	1.00%	260	0.75%	200
Corporate Credit	88,321	4.50%	3,970	3.00%	2,650
Govt Agency & SOE	26,701	6.00%	1,600	4.50%	1,200
<b>TOTAL ESTIMATED COAL EXPOSURE</b>			<b>5,830</b>		<b>4,050</b>

Source: IEEFA.

## It's Time for AIA To Prove Climate Credentials

From our estimates, AIA has investments in coal ranging from USD4.1b up to USD6.0b. Our methods of getting to those numbers are crude, but AIA's lack of transparency leaves IEEFA and other stakeholders to make educated guesses rather than data-driven calculations. Having said that, we believe our estimates are reasonable as they put AIA's stake in coal and coal-fired power at just between 2-3% of its more than USD210b shareholder and policyholder investment portfolio. For an insurer looking for long-duration assets in largely short-duration financing markets, it would be unusual for AIA to hold much less than 2-3% of its portfolio in these assets.

**Table 6: AIA Estimates for Coal Exposure (USDB)**

	Base Case	Conservative Case
Infrastructure	USD6.0B	USD4.5B
By Asset Class	USD5.8B	USD4.1B

Source: IEEFA.

While 2-3% of AIA's massive portfolio may not seem like a lot, USD 4-6 billion is still a large number. In 2019 AIA earned about USD8b in profit before tax. If even 10% of USD 4-6 billion becomes stranded and has to be written down, the hit to earnings would be significant and AIA's investment management competence would come into question. AIA would be unlikely to take write downs in the 10s or even 100s of USD millions unnoticed, so this would also have an impact on AIA's share price and potentially its insurance brand value as well.

For this reason, IEEFA prefers that AIA prove us wrong. AIA needs to move beyond the generalities of its statements to the media, provide transparency on its holdings, and clarify its coal and coal-fired power divestment schedule and investment exclusion going forward.

AIA should be transparent about the magnitude of its coal and coal-fired power holdings. Its statement to The Guardian that AIA has "reduced the carbon intensity of its portfolio in recent years" is only meaningful in context of the size of what's left. AIA can assure investors by pledging, like its peers, to divest its fixed income coal assets by a date certain while providing a commitment to decarbonize its overall portfolio. AIA could put out a strict financing exclusion policy toward coal and coal-fired power assets that separates them from free riders and puts them in the vanguard of other globally significant asset owners who have signed on to the TCFD, PRI, and CA100.

All of this may be relatively easy for AIA to achieve. AIA has already made strides toward a healthier infrastructure portfolio and AIA CIO Mark Konyn appears to understand the rising risks from stranded assets including massive shareholder wealth destruction. AIA's CEO Lee Yuan Siong may only need to formalize practices already in place.

From the perspective of infrastructure, AIA has appointed HSBC Global Asset Management as its advisor to identify and provide access to infrastructure debt opportunities across Asia-Pacific.<sup>32</sup> AIA will rely on HSBC to find either USD or local currency assets, with 10-15 year maturities, in sectors including renewable energy, conventional energy, utilities, and energy infrastructure. HSBC Global Asset Management already has a coal-exclusion policy, and AIA could easily clarify that it will invest in line with HSBC's policies.

From the perspective of asset allocation, AIA CIO Mark Konyn has voiced support for using the COVID-19 pandemic as a chance to better push ESG and sustainability-friendly investments. On a Bloomberg Webinar in May<sup>33</sup>, Konyn admitted that ESG adoption has been slower than he'd thought but contended that the increasing potential for stranded assets should be foremost in asset managers' minds. The longer asset managers waited to get out of these assets, Konyn believed the worse that asset manager's performance as the assets fail to find a price.

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<sup>32</sup> AIA Press Release. [AIA Group Appoints HSBC Global Asset Management as Infrastructure Debt Investment Advisor](#). AIA.Com. 9 April 2019.

<sup>33</sup> [The Role of ESG in a Decade of Disruption](#). Bloomberg. 21 May 2020.

## Conclusion

AIA's new CEO Lee Yuan Siong has an historic opportunity to move AIA into the vanguard of the energy transition by being transparent. If AIA can improve transparency of its investments and outline clear commitments for coal holdings and coal investments going forward, Mr. Lee would move AIA toward the top of Asia's asset owners in the global trend of restricting finance for coal from investment portfolios. As it stands, AIA remains a laggard in its lack of a commitment to the global energy transition and lacking a clear policy toward coal investments, divestments, and exclusion.

## About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. [www.ieefa.org](http://www.ieefa.org)

## About the Author

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