

CLIMATE POLICY: TIME FOR A “BLOOD, TOIL, TEARS AND SWEAT” SPEECH

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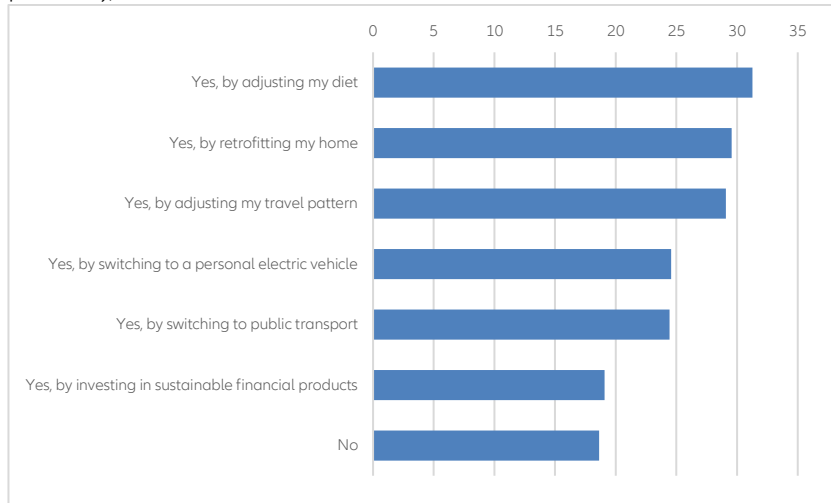
Climate change is the dominant challenge of the 21st century but combatting it will require more than just huge investments: far-reaching individual behavioral changes are also essential. Yet, our latest Allianz Pulse¹ survey reveals that just 17% of respondents in Germany, France and Italy are prepared to pay the higher price for sustainably produced goods. There are three channels of behavioral changes that could accelerate the global green transformation: First, the “moral channel”, by which insight into the unsustainability of old habits forces people to change their lifestyles; second, the “substitution channel”, by which people do not necessarily change their consumption behavior but choose green alternatives (climate-friendly products) and third, the “price channel”, by which people are “encouraged” to reduce their demand for climate-damaging products by price signals such as a carbon tax. However, the results of our representative survey show that while the “moral channel” seems to be working, with Europeans recognizing the urgency of dealing with climate change, both the “substitution channel” and the “price channel” are not.

Overall, only 19% of respondents said “No” in response to the question “Are you willing to personally tackle climate change?” (see Figure 1). The overwhelming majority is therefore quite willing to change their behavior for the good of the climate. Changes in eating habits come first – climate meets health. But the willingness to increase the energy efficiency of one's own four walls – climate meets thriftiness – and to curb wanderlust – climate meets Covid-19 – is almost as high. The fact that climate considerations are probably not the only factor in the most frequently mentioned measures does not detract from the relevance of the answers. More surprising (and disappointing) is the fact that only 19% of the respondents consider sustainable investments as a measure. This low figure is somewhat at odds with the tremendous interest this topic is currently attracting in the financial markets. This is probably due to the fact that only a small proportion of respondents are financial market-savvy to begin with.

¹ See our report [Allianz Pulse 2021: Old beliefs die hard](#).

Figure 1: Ready for behavioral change

Are you willing to personally tackle climate change? (max three answers possible), answers in %

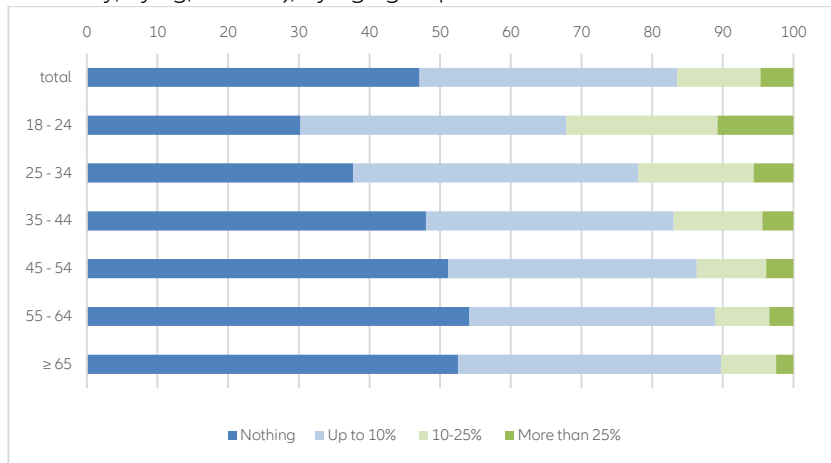


Source: Allianz Research.

However, when asked about their willingness to switch to climate-friendly products, which implies accepting (significantly) higher prices, only 17% of respondents said they are willing to pay significantly more – i.e. at least 10% more – for these products than for their mass-produced counterparts. In fact, 47% of respondents said they would not pay a penny more and 36% only slightly more. One bright spot, however, is that willingness to pay is significantly higher among younger participants, with 32% of respondents between the ages of 18 and 24 accepting significantly higher prices (compared to only 10% of respondents of retirement age, see Figure 2).

Figure 2: Not ready for higher prices, part I

How much more would you pay for a climate-friendly product?, Answers in %, average of eight product categories (car, clothing, food, home, mobile, electricity, flying, tourism), by age group



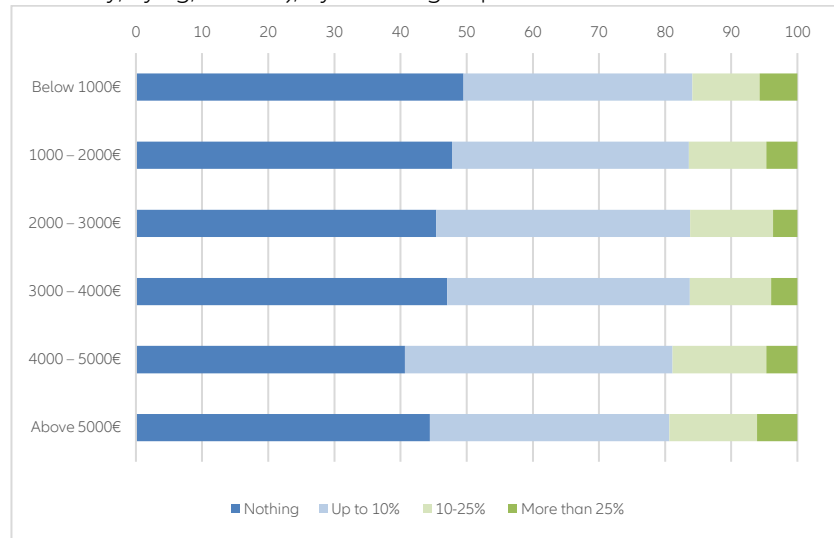
Source: Allianz Research

While these age-related differences were to be expected, given the greater climate sensitivity of the younger generation, another result of the survey is surprising: the thickness of the wallet has hardly any influence on willingness to pay. Thus, while 84% of respondents with a net income of less than EUR1,000 per month are not willing to pay significantly more for

climate-friendly products, in the group with the highest net income (over EUR5,000), the share was only slightly lower at 81% (see Figure 3). These responses therefore seem to be more about attitudes in principle and less about financial issues.

Figure 3: Not ready for higher prices, part II

How much more would you pay for a climate-friendly product?, Answers in %, average of eight product categories (car, clothing, food, home, mobile, electricity, flying, tourism), by income group

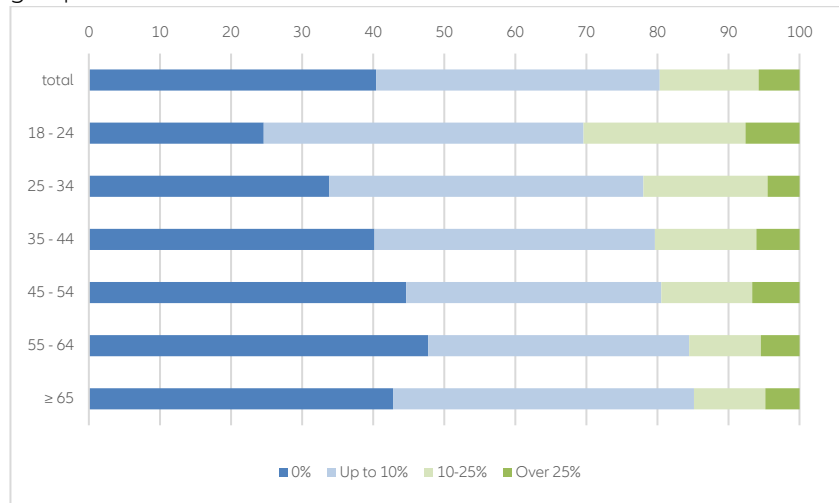


Source: Allianz Research

The vast majority of respondents are also opposed to the price increases that would come from a strong carbon tax with real steering power to reduce CO2 emissions. A sizable 40% of respondents said they would not accept any price increases and another 40% would only accept increases of up to 10%, i.e. at best a toothless carbon tax. In contrast to the willingness to pay for climate-friendly products, the differences between the generations are not as pronounced on this point. Once again, the youngest respondents are the most open-minded, but the next age cohort, 25 to 34, no longer differs so much in its attitude from the older counterparts (see Figure 4). Somewhat greater differences can be seen between the income groups: the "high-earners" are somewhat more open to a carbon tax. However, the most vehement opponents are not found in the lowest income group, but in both middle income groups, probably also because the lowest group is likely to contain many young respondents.

Figure 4 : Don't carbon tax me !, part I

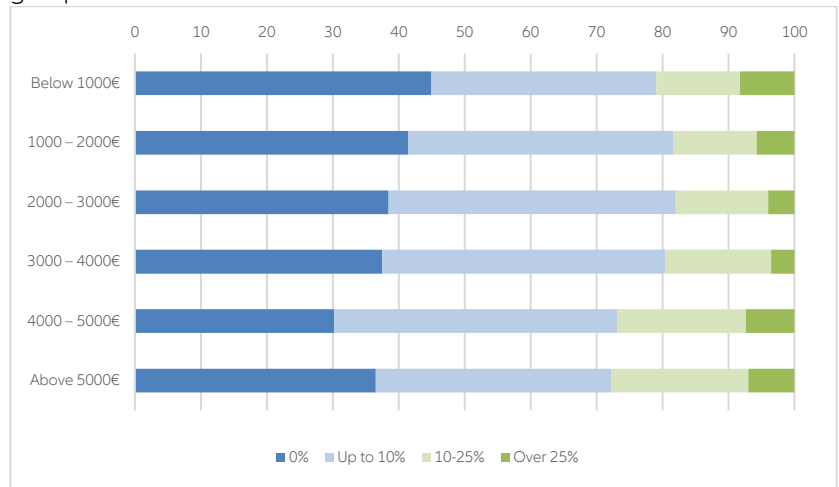
A carbon tax aims at making climate-unfriendly products more expensive in order to change consumption patterns. By how much should prices for certain products like gasoline or meat increase?, Answers in %, by age group



Source: Allianz Research.

Figure 5: Don't carbon tax me !, part II

A carbon tax aims at making climate-unfriendly products more expensive in order to change consumption patterns. By how much should prices for certain products like gasoline or meat increase?, Answers in %, by income group



Source: Allianz Research.

The results indicate that the world needs a “Climate Churchill” to deliver a "blood, toil, tears and sweat" speech to open citizens' eyes to the challenges to come. Politicians continue to say the green transformation is a great opportunity for everyone. So why make "sacrifices", why accept higher prices, if the transformation is only described positively as a great, largely painless success story? But the reality is that we have long since passed the point when a gradual and largely smooth transformation of the economy would still have been possible. Now, radical, rapid action is needed to achieve the Paris goals and keep the rise in temperature at 1.5C In other words: we need a revolution, not an evolution.

In the long run, the decarbonized economy will very likely provide as much material prosperity for all as today's fuel-based economy does; living conditions and circumstances should even be significantly better. But along the way, there will be dislocations, many workers will lose their jobs, many companies will go bust and many investments will lose their value. We are all in for a rude awakening when many citizens eventually realize the revolutionary impact of the green transition (remember the Yellow Vests). The sooner it is addressed the better.

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