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Environmental Insurance Products

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Agenda

- Environmental Insurance v.s. “Green Insurance”
- Environmental Risk and Insurance
- Emerging Environmental Risks and Products
- Questions?

“Green Insurance” – what is it?

- Two insurance categories: Life Insurance and General (Non-Life) Insurance
- Environmental Insurance (form of General Insurance) has historically been used to manage actual/potential liabilities
  - Can be extension of other coverage (e.g. Sudden & Accidental Pollution coverage on General Liability policies)
  - Or stand-alone policies created to provide coverage related to pollution claims
- “Green” insurance typically encompasses two product areas:
  - Those which allow premium differentiation on the basis of environmentally relevant characteristics/behaviour
  - Products tailored for promoting “green” activities such as the use of clean technology, brownfield redevelopment, and emissions reducing activities

Traditional General and Environmental Insurance as “Green” Financial Products

- Environmental Insurance policies can support Brownfield Redevelopment
  - Liability and cost overrun protection to owners/developers (and lenders)
- Green Building Coverage
  - Insures customer’s investments in new, energy/water-efficient homes and green renovations for existing buildings
  - In the case of property loss, insurer uses LEED accredited professionals to oversee repairs
- Auto “pay as you drive” coverage
  - Premiums tied to use

Types of Traditional Environmental Risks

- Legacy or Historical Risks
  - Past activities on a site(s) have resulted in pollution conditions
  - Ongoing legal issues (e.g. fines, suits) related to past activities
  - Joint, several and retroactive liability regimes
  - Typically an issue during transactions
- Operational Risks
  - Ongoing activities of company have inherent environmental risks
  - New Regulations can result in the need for expenditures/upgrades
- Contracting and E&O Risk
  - Contractors & consultants who perform work for others and/or on 3rd party sites
- Contractual Risk (e.g. transactions)
- Reputational Risk

What are the “Traditional” Environmental Insurance Products?

- Pollution Legal Liability (PLL) coverage
- Cleanup Cost Cap (CCC) coverage
  - Essentially cost overrun protection when dealing with known pollution conditions
- Contractors Pollution Liability (CPL) coverage
  - Coverage for insured’s operations on behalf of third parties
- Combined CGL and EIL
  - AIG’s EAGLE offering
- Combined Professional and CPL
  - Often called COPS coverage
  - Some offer to include GL as well (e.g. Propac)
- Lender Liability Policy

Traditional Environmental Insurance - “Green” Benefits?

- Environmental Insurance is one of the tools that can be used to promote/advance Brownfield redevelopment
  - Provide liability protection to owners/developers/lenders
  - Provide cost certainty which may make projects more viable
- Can provide comfort to stakeholders (e.g. regulators, local population,lenders) that funds will be available in the event of unexpected events
- Products liability coverage (e.g. EAGLE)

Emerging Risks

- Climate Change and Greenhouse Gas Reduction related projects/risks
  - Climate related risks = increases in property losses, business interruption risks,
  - GHG reduction regulations = risk to regulated industries; opportunities to those who can reduce their emissions efficiently
- Financial reporting of environmental liabilities
  - Growing area of concern for Directors &Officers
  - Can include reporting on impacts of climate change and/or GHG reduction requirements
- EU Environmental Liability Directive
  - New legislation coming for all EU members which could lead to coverage gaps

Climate Change
Insurance Questions

- Insurance industry impacts
  - e.g. Increasing weather-related losses
  - e.g. legal action against companies, and their D&Os, for weather related losses
- Re-insurers and other stakeholders (e.g. shareholders/investors) may ask insurers about potential impacts
  - On financial positions
  - On availability/cost of insurance
- Could lead to insurers asking companies about:
  - Vulnerability to climate change
  - Carbon-management policies and practices
  - Directors and officers liability

What Should Risk Managers Be Doing?

- Analysis and disclosure
- Vulnerability assessments
  - Physical effects of climate change
  - Regulatory effects
- Planning and implementing strategies for dealing with physical/regulatory effects
- Projects to reduce emissions
  - Risk management and insurance considerations
  - If in other countries (e.g. CDM/JI projects), what additional risks are there?

Insurance/Financial Solutions
Example: GHG Emission Reduction Project Risks

- Counterparty risk – credit-worthiness of project proponents
- Carbon regulatory risk – host country and international policies governing the approval and issuance of credits
- Political/country risk
- Technology performance risk
- Carbon performance risk
- Non-compliance risk
- Validation and verification risk

Traditional and Emerging Insurance Solutions

- Traditional policies are available to provide financial protection against delays, business interruption, machinery breakdown, loss, damage or liability during the fabrication, installation, construction, and operational stages of projects
- Emerging hybrid packaged product – Credit Delivery Guarantee
  - Swiss Re, AIG, and Munich Re are developing and perfecting products that provide an insurance-based guarantee that contracted emission reduction credits will be delivered as agreed
  - Based on a mix of traditional insurance and alternative risk transfer products
  - Note: Limited track record of carbon market and lack of available underwriting data make CDG very much an “emerging” product
  - Stay tuned………

Business Interruption Insurance – Use to Manage the Implications from Emissions Reduction Obligations

- Significant new risk are had been created by the volatility of carbon allowance price under the EU emission trading scheme
- Impact of plant outages on carbon emissions can result in revenue gains or losses dependant upon corporate response strategy
- Business Interruption insurance could be used to protect profit at risk from emissions trading in the event of plant failure
- No regulated/mandatory cap & trade system in NA currently but clients may be regulated at their plants in the EU
- Again….stay tuned.

Thank You!

Questions?

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