

Sustainable/Green Insurance Products

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To achieve marketplace success, many insurers focus constantly on their growth, increasing their market share and retaining better risks. Insurers should always look for new ways to differentiate themselves from their competitors. Developing and offering new products related to potential climate change and the corresponding sustainability/green movement can be the answer.

“Just as the industry has historically asserted its leadership to minimize risks from building fires and earthquakes, insurers have a huge opportunity today to develop creative loss-prevention solutions and products that will reduce climate change-related losses for consumers, government, and themselves.”

– E. Mills, Ph.D., CERES “From Risk to Opportunity Insurer Responses to Climate Change”¹

Changes in climate put an emphasis on limited resources and volatility in weather patterns, among other effects, which drive the need for sustainable products and behaviors. Our discussion of the impact of climate change on underwriting is comprised of sustainable and green products currently offered by insurers and reinsurers. Some products discussed were developed by insurers to respond to the potential impacts of climate change and other products promote sustainability or green behaviors which are, in turn, expected to help combat climate change. Our discussion is organized into the following sections:

- Defining Sustainable/Green Products
- A Survey of Sustainable/Green Products Currently Offered
- Direct Benefits of Offering Sustainable/Green Products
- Future Trends for Sustainable/Green Products

DEFINING SUSTAINABLE/GREEN PRODUCTS

Sustainable products are those products that provide environmental, social and economic benefits while protecting public health and the environment over their whole life cycle, from the extraction of raw materials used to produce the product until their final disposal.²

Similarly, sustainable and green insurance products are those that cover the design, production and use of these sustainable products, or the liability associated with their production and use. They also indemnify against the environmental consequence of potential climate change decisions (or

indecisions) made by executives in Directors & Officers coverage. Also broadly covered in this definition of sustainable/green products would be policies where certain features promote sustainable or green behavior.

Therefore, sustainable and green insurance products include a large spectrum of insurance products which we will describe in more details in the next section.

A SURVEY OF SUSTAINABLE/GREEN PRODUCTS CURRENTLY OFFERED

Based on insurance company websites and papers research³, we are aware of the following sustainable and green insurance products currently available in the market.

Personal Lines

1. Green Property Rebuilding

In general, after a covered loss, this type of coverage pays for the use of:

- Environmentally friendly or more energy-efficient materials when making repairs
- More energy efficient equipment or appliances.

For those policyholders who are already green, discounts are sometimes offered on their insurance premiums.

2. Property Renewable Energy Reimbursement

This type of coverage protects a homeowner who uses an alternative-energy system in the case of a power outage. It may provide indemnification for:

- Loss of income generated from selling surplus energy to the local energy company
- Extra costs to purchase replacement electricity
- Utility or governmental fees for inspections, re-connections or permits when the homeowner's alternative energy system is brought back online.

3. Property Loss Mitigation Device Discount

Premium credits are offered to homeowners who install mitigation devices or choose storm-resistant construction techniques in catastrophe-prone areas. An example is window shutters to protect homes during severe storms.

4. Pay As You Drive/Low Mileage Discount

Pay-as-you-drive automobile insurance products inherently give incentives to drive less which

leads to less pollution that may be contributing to global warming. These programs provide a customer with personalized automobile insurance rates (and hence savings) based on how well and how much they drive.

5. Fuel Efficient/Low Emission Vehicle Discount

Many insurers provide discounts for hybrid or electric passenger vehicles.

Commercial Lines

6. Upgrade to Green Commercial Fleets

This type of product offers an option to upgrade the company's fleet to hybrid vehicles for new vehicle replacement as part of an endorsement to the policy.

7. Insurance for Renewable Energy Projects

These products provide coverage for companies in the renewable industry (ex. solar, wind, hydraulic...) to help them in managing risk, defending against lawsuits and protecting assets. These insurance products and services are designed to cover all stages of a project from design to distribution.

8. Insurance for Renewable Energy Property, Equipment and Loss of Use

In order to keep up with the rapid technological change of the renewable energy field, this type of policy provides replacement cost coverage for equipment with more efficient equivalents. Equipment currently in operation, under construction or newly purchased can be added to the policy. Green roofs are examples of what would be covered.

9. Insurance for Green Building

As part of this coverage, insurers offer help to customers to build sustainably by evaluating designs and specifications for new structures and suggesting ways to ensure high-quality construction and exceptional loss prevention. Similar to the Personal Lines green property policy, these products also cover green materials and construction following a covered loss.

10. Energy Savings Insurance

Energy savings insurance policies can provide a backstop for energy savings guarantees given by energy service companies. An insurer pays any shortfall in energy savings below a pre-agreed baseline over the term of the policy, typically in the 5-10 year range.

11. Insurance for Carbon Capture & Storage/ Emission Reduction Projects

Insurance products and services are offered to organizations involved in the capture and storage of large volumes of carbon dioxide and other greenhouse gases. These emission reduction projects

typically occur at large point-sources of these gases, such as power plants, before they can have a harmful effect on the environment.

12. Green Building Coverage Against Adverse Publicity

This reputation coverage provides protection when a green building experiences adverse publicity. Funds are made available to employ crisis management specialists to manage adverse publicity; guide and counsel key company personnel; and provide other services to assist in restoring a company's reputation.

13. Perishable Food Reduction Products

These products encourage the use of devices that can be used to reduce the amount of produce lost and improve the overall quality of produce during the distribution process from the grower to the retailer. Technology devices continuously monitor the temperature and condition of produce as it travels, estimating the remaining shelf life. This information is used to route products to maximize quality, salability and reduce unnecessary perishable waste.

14. Global Weather Insurance

This product is used to bridge the gaps left by traditional insurance coverage within general property damage policies. Insureds are covered against unpredictable weather conditions and climate change. This may be beneficial for event promoters who want to hedge against a defined weather variable such as rain/wind exceeding a defined threshold during the hours of coverage.

15. Political Risk Insurance for Carbon-Trading

Interested parties such as project sponsors, investors, and lenders are given financial protection from risks arising from governmental interference, embargo, license cancellation, war and political violence which could interrupt the production, certification and delivery of carbon credits.

Specialty Lines

Given the media attention to global warming and the potential for new lawsuits or governmental actions against entities that may be potentially contributing to climate change, additional specialty insurance products such as the following may be needed in the normal course of business:

16. Insurance for Pollution/Environmental Liability

This coverage has implications for a broad range of risks and industries. Examples include commercial general liability, pollution legal liability, and environmental responsibilities stemming from legislation and court rulings. Losses can arise from different hazards or activities and can have impacts on large corporations to small subcontractors in construction.

17. Directors & Officers Insurance

It has been noted that there is increasing litigation occurring against companies that are believed to be contributing to climate change. Even a company's inaction to disclose, assess or implement adaptation strategies could leave the door open to future litigation. Some insurers now offer directors and officers policies with optional global warming litigation protection.

Other specialty lines encouraging more green behavior include:

18. Architects & Engineering Professional Liability Insurance Discount for Building Commissioning

Some insurers believe that there is a correlation between sustainable practices such as energy-efficiency and a low-risk profile. Building commissioning is the process of verifying that all of the subsystems (electrical, plumbing, HVAC,...) are working effectively, efficiently and as designed. Not only is this good for the environment, it also reduces the likelihood of professional liability claims. As such, architects and engineering firms implementing building commissioning as part of the construction process are given insurance premium credits.

19. Professional Liability insurance for Raters and Home Energy Survey Professionals

Suitable insurance coverage is often lacking for many specialist professionals who provide energy-efficiency services. Certain qualified raters and home energy survey professionals are offered professional liability, general liability, and property coverage in order to protect themselves from accidents and potential lawsuits that may occur as a result of business operation.

DIRECT BENEFITS OF OFFERING SUSTAINABLE/GREEN PRODUCTS

There are indirect benefits from insurance companies offering sustainable/green products such as encouraging environmentally friendly behaviors or by providing risk protection for a new green technology or project. The direct benefit to an insurer offering sustainable and green insurance products is that they can create competitive advantages over their peers. Examples include:

- Increased market share: For example, by providing discounts on hybrid/electric vehicles, insurers can increase their penetration on this expanding sector of the automobile insurance market.
- Expansion into new/niche businesses: Given the government incentives, the renewable energy sector is booming. Due to its innovative and technologically intensive nature, insurance can likely play a big part in each of these projects. Insurers who get into this sector earlier may be able to harvest the rewards of these new/niche businesses.

- “Positive” adverse selection: It may be argued that customers who are environmental/sustainability-conscious are more mindful of the way they drive their vehicles or the security and safety features they place in their homes, hence they represent the better risks for insurability.
- Building green brand name: An insurer who is proactive in offering innovative sustainable/green products is seen as environmental-friendly, corporate responsible and thinking ahead of others. This can certainly help in its brand building and marketing strategies.

FUTURE TRENDS FOR SUSTAINABLE/GREEN PRODUCTS

The sustainable/green products and its associated need for green insurance products are growing at a remarkable rate. Given the available government incentives and the cultural shift of a growing environmentally-conscious population, the future market for green insurance markets are optimistic. There are still a lot of coverage gaps insurers can make efforts on, as well as the advancing of green technologies which provide enormous opportunities for those who are bold enough to take them.

Some potential sustainable/green products as suggested by CERES’ report “From Risk to Opportunity Insurer Responses to Climate Change”⁴ include:

- Warranty and Service contracts for green technology
- Insurance in relation to carbon offsetting projects
- Insurance in relation to carbon trading projects
- Green crop insurance
- Green insurance discount applying to workers compensation
- Professional Liability for energy auditing professionals

Developing new sustainable/green products and mastering climate change and green technologies do not happen in a day. Hence those insurers who are willing to invest earlier on will likely reap a promising harvest. It takes time and experience to build up the expertise in this innovative and ever-changing new field, and now should be the time to act before it becomes too late.

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End Notes

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