



INSURANCE AND POLLUTION PREVENTION

An Overview

Use and generation of hazardous materials creates significant risks to the environment. It also creates major potential costs and liabilities for business. Insurance provides a means to protect business from some of these costs and liabilities. Most importantly, it can create strong incentives to implement pollution prevention.

What insurance coverages might be affected by pollution prevention?

Implementation of pollution prevention can reduce a range of possible costs and liabilities resulting from use or generation of hazardous materials. As a result, the cost of insurance to protect a firm from these potential costs and liabilities may be reduced. The two insurance coverages most likely to be affected by pollution prevention implementation are **property insurance** (due to reduced risk of fire or explosion) and **environmental insurance**. Environmental insurance provides coverage for damages and liabilities related to the use or generation of hazardous materials. Coverage for these costs and liabilities is specifically excluded from conventional property and general liability insurance. In some instances, premiums for health and workers compensation insurance may be reduced as a result of implementation of pollution prevention.

How can P2 implementation affect insurance costs and coverage?

The cost of insurance reflects the risks being insured. As these risks are lowered through pollution prevention, insurers **may** either reduce the cost or expand the coverage.

How can insurance encourage pollution prevention?

Insurance can encourage pollution prevention in two ways. First, insurers evaluate potential risks and work with clients to reduce them. Second, insurers **may** reward reductions in risk with reduced rates or increased coverage.

Why are few firms aware of how pollution prevention might reduce insurance costs?

Many smaller firms may not be aware that conventional property and liability coverages specifically exclude costs and liabilities resulting from the use or generation of hazardous materials. For this reason, they may not carry environmental insurance. As a result, the potential insurance benefits of pollution prevention for most firms are limited to possible reductions in coverage for fire and explosions under property insurance.

Even when firms do carry environmental insurance, a majority of firms allocate insurance costs to overhead and do not recognize them as environmental costs. Consequently, many firms fail to recognize how investments in pollution prevention can pay off in reduced insurance costs.

Do the potential rate reductions for environmental insurance pollution result only from pollution prevention or do they also extend to compliance with regulations governing the management of hazardous and toxic materials?

Much of the material produced by insurers describing environmental insurance emphasizes compliance over prevention. This is not surprising in view of the probability that coverage may be denied if a claim for damage or liability can be shown to be the result of a violation of a regulation governing use of hazardous or toxic materials. However, many insurers appear to understand that pollution prevention can provide a preferable alternative to mere compliance. Increased contact between pollution prevention advocates and insurers could increase the industry's awareness of this fact.

How can government technical assistance programs use insurance to increase implementation of pollution prevention?

Many firms, particularly smaller firms, do not recognize their potential environmental costs and liabilities and do not, therefore, insure against them. Others may not realize that their conventional business insurance policies contain a provision which excludes any coverage for damages or liabilities related to use or generation of hazardous materials. Technical assistance programs for pollution prevention can inform firms of their financial risks and the limits of conventional insurance coverages and can suggest to them that they review their environmental risks and coverages.

If you have questions or comments on this or other insurance fact sheets, please contact:

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