



INSURANCE AND POLLUTION PREVENTION

How to Reduce Insurance Costs Through Pollution Prevention

Getting reductions in insurance costs as a result of pollution prevention (P2) demands a firm take aggressive action. This is true for both reductions in costs of conventional property and workers' compensation insurance and for reductions in the cost of insurance for potential environmental damages and liabilities. (See [Case Studies, Publication #99-437](#)).

A large majority of firms which have reduced their potential environmental damages and liabilities through implementation of P2 measures have failed to request or demand corresponding reductions in insurance costs. As a consequence, insurers have not developed good data to document the risk reductions attributable to specific P2 measures.

In most larger firms, responsibility for environmental is separated from responsibility for financial affairs. Interviews with environmental managers suggest that few have any involvement in negotiating insurance and few have any detailed knowledge of their actual insurance coverages and costs. Consequently, the link to insurance reductions from reducing risk through pollution prevention measures is seldom made.

In the face of these obstacles, firms using hazardous materials should consider the following risk management steps.

1. Determine What Your Current Insurance Covers.

Property Insurance: Covers conventional damages to owned property - fire, explosion, theft. In most cases, it specifically excludes any damages resulting from pollution, including obligations to clean up a contaminated site or building and any interruption in business as a result of such contamination.

Determine whether your property insurance contains a pollution exclusion.

Comprehensive General Liability : Covers off-site damages and liabilities. Most policies specifically exclude any liabilities for property and bodily injury resulting from pollution. This includes pollution resulting from accidents resulting in release of hazardous materials.

Determine whether your general liability insurance contains a pollution exclusion.

Environmental Insurance: Covers damages and liabilities excluded from conventional property and liability coverages.

Determine whether your firm carries environmental insurance. If so, determine whether it covers on-site (owned property) as well as off-site (third party) liability.

2. Estimate Your Environmental Exposure

Environmental Exposure: Describes potential environmental damage and liability at your facility. Such an estimate is important if your firm does not currently carry environmental insurance and is determining the need for such coverage. It is also useful if your firm has environmental insurance but wishes to determine if the rates and coverages are appropriate to the actual exposure.

You may wish to contact a trade association familiar with your industrial or commercial activity to assist in such an estimate. Independent insurance brokers, environmental auditors, or risk management professionals can also help with estimates.

This estimate should clearly identify and incorporate all actions and investments by your firm in environmental management and pollution prevention which distinguish it from otherwise comparable firms in the same industrial or commercial sector.

3. Document Improvements in Environmental Management

Document the adoption of environmental policies and all investments in improved environmental management since the current insurance was purchased. Distinguish between improved management of hazardous materials and reductions in the use of hazardous materials.

Estimate the reduction in environmental risks as a result of these policies and investments. If reductions in risk are difficult to calculate, consider contracting an independent broker or a risk management consultant.

4. Consider Professional Help To Reduce Your Risk

Independent risk management consultants provide risk identification and risk reduction services. Many insurers providing environmental coverage also provide risk identification and management services. These services include risk identification and risk reduction through pollution prevention.

Local and state governments provide pollution prevention technical assistance to firms generating or using hazardous materials. These services are funded in part by annual fees paid by all firms using or generating hazardous materials. There is no direct or additional cost to firms which take advantage of this technical assistance.

5. Determine Basis for Insurance Costs

Determine whether your current insurance rates and any quoted rates are based exclusively on general standards for your industry or whether they reflect specific risks at the facility being insured. Determine how your facility differs from other facilities in the same general category.

If you feel your facility has a reduced risk as a result of good environmental management and pollution prevention measures, request an on-site evaluation by the insurer and emphasize reductions in risk.

6. Work as a Team

Talk with your management team about the benefits of adequate and appropriate insurance coverage. Be sure they are informed of the investments that have been made in environmental management and pollution prevention and the resulting reductions in risk. Include your environmental manager in the insurance negotiating team!.

7. Consider the Use of a Broker in Negotiating Insurance Coverage

Insurance can be expensive and complex. A broker familiar with environmental insurance may be a valuable aid in negotiating appropriate coverage at a good cost.

8. Emphasize Good Environmental Management

Make sure your broker and prospective underwriters are aware of the extent of your environmental management and your P2 implementation. Do not hesitate to emphasize that an aggressive environmental management system and P2 effort is evidence of good overall management. This should be reflected in reduced accidents and other liabilities and should qualify the firm for an overall reduction in insurance costs.

9. Negotiate

The cost both conventional property insurance and environmental insurance reflects the return on investments made by insurers as much as the specific risk exposure at your facility. In some financial markets, insurers may be willing to lower rates below expected losses in anticipation of the return on invested capital. If a client wants a broad coverage, the insurer may reduce the cost of environmental coverage below the actuarial or estimated risk in order to get the deal. Awareness of the overall insurance market can improve your ability to negotiate a favorable rate for your environmental coverage.

Comparing rates for environmental coverage is difficult because of the often differing coverages provided. One way to be sure you are comparing apples with apples is to distribute a bid specification to potential insurers, listing details of your desired coverage.

If good environmental management and pollution prevention have reduced the environmental exposure of your firm, your rates should reflect this.

For these reasons, **always shop around and negotiate.** If possible, make potential insurers aware of competing bids.

10. Don't Forget Workers' Compensation

In Washington, the state Department of Labor and Industry controls workers' compensation. While some large firms self-insure, negotiation and competition among insurers are not part of the scheme. However, some firms have achieved a reduction in rates as a result of good claims records. These good records may reflect environmental management and pollution prevention. Discuss with the Department of Labor and Industries how your firm's workers' compensation rates are set and under what conditions rates are revised or refunds are granted.

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

Jerry Parker
Hazardous Waste and Toxic Reduction Program
Washington State Department of Ecology
360-407-6750
JEPA461@ECY.WA.GOV

The Department of Ecology is an Equal Opportunity and Affirmative Action employer and shall not discriminate on the basis of race, creed, color, national origin, sex, marital status, sexual orientation, age, religion or disability as defined by applicable state and/or federal regulations or statutes. If you have special accommodation needs or want more information, please contact the Hazardous Waste and Toxics Reduction Program at (360) 407-6700 (Voice) or (360) 407-6006 (TDD).

printed on recycled paper



Reduce Waste