

Action In Response: *The Perspective from the Insurance Sector*

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Contents

- **Regulating environmental liability:
a pan-European challenge**
- **Environmental risk
from the insurance point of view**
- **Insuring environmental liability in Greece**
- **The big picture: Sustainability**
- **Concluding remarks**

The new pan-European Environmental Liability Framework



- Still one of the most complex regulatory challenges today due to the varying legal, institutional and regulatory traditions all across Europe
- Its wide scope requires a solid, transparent and efficient administrative backbone mechanism
- Its ‘open’ character presupposes proactive and responsible conduct from all stakeholders involved (operators, administration, risk carriers, society)
- The implementation of the environmental impairment liability framework demands serious preparation from potentially liable operators and risk carriers in business



Regulating environmental liability: a pan-European challenge

- Adequate financial guarantee frameworks currently exist only in the E.U. Member States that have achieved ... all of the above



Environmental risk from the insurance point of view

- Environmental risk, because of its nature, still remains one of the most complicated risks to understand, manage and regulate, as ecosystems interactions remain complex.
- The financial implications of environmental damage are multiple, long-term, poorly researched and documented. Further, they can be catastrophic.
- There is a dramatic lack of structured data to document environmental impairment and remedial action costs in Europe. This means that a major investment is desperately required in research and professional capital from all stakeholders.
- It is easier to make a law than calculating the financial implications of environmental risk. However, insurers being pressured from clients, society, competition etc. have developed varying products that respond to the urge of provision of financial security with special caution.



Environmental risk from the insurance point of view

- By definition, Insurers are risk managers, risk carriers and institutional investors. Insurers provide financial cover to clients that meet acceptable insurability criteria.
- Insurance is not only a risk transfer mechanism to compensate financial losses, but primarily a risk management mechanism because insurers impose loss prevention and loss mitigation measures in their daily business practice.
- The insurance industry is a private market mechanism with world premium volume exceeding USD 4.2 trillion (2008) and global assets under management of USD 19.8 trillion (2007).
- In contrast to other financial risk management professions, insurers focus cautiously on the nature and probability of occurrence of the insured peril under the Law. Their expertise can be extremely useful to the administration and their clients as well.

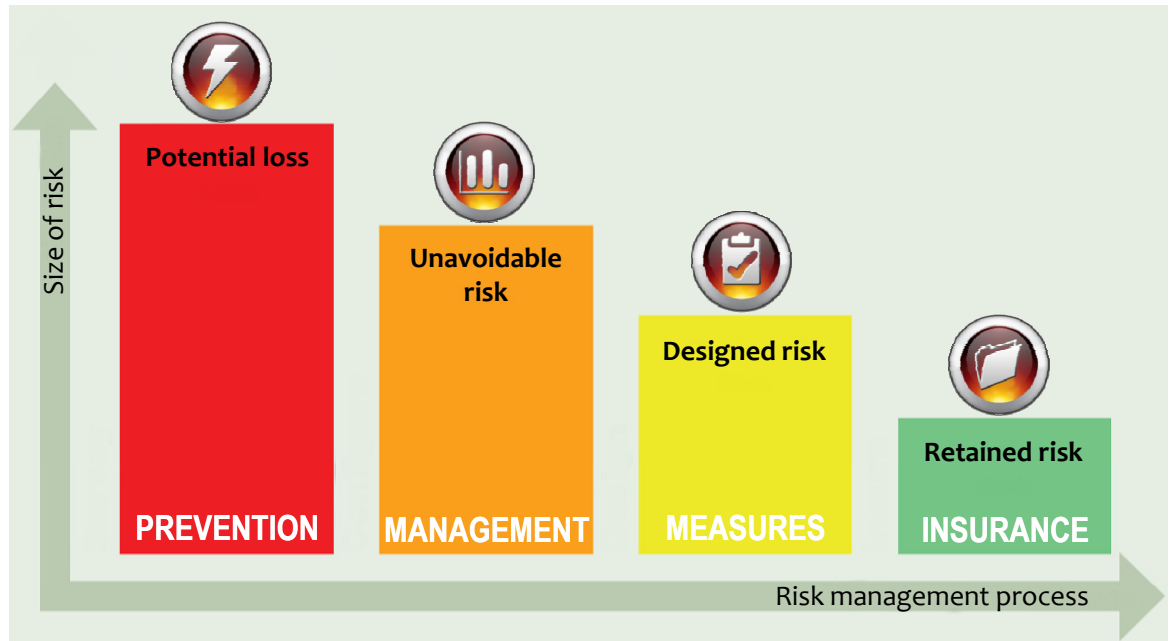


Environmental risk from the insurance point of view

- Environmental risk & liability unfolds a complex array of interrelated exposures, such as:
 - ecosystem remediation
 - first & third party liabilities
 - operational risks
 - technological risks
 - financial risks
 - legal risks
 - business & reputational risks
 - social risks
- The share of financial risk associated with environmental damage that insurers could assume, must be allocated within the scope of Article 14 of the ELD which prescribes the availability of various types of financial guarantee / security mechanisms for potentially liable operators and **NOT** just insurance.
- Environmental risk remains globally, a business challenge to insurers.

Environmental risk from the insurance point of view

The role of insurance in the risk management process



From “Insuring for Sustainability – Why and how leaders are doing it”, UNEPFI 2007

Insuring environmental liability in Greece

- Article 23 (Insurance of environmental damage) of Law 2496/1997 stipulates that insurance indemnification is paid only if environmental damage has occurred as a result of a sudden and unexpected event.
- Presidential Decree 148/2009 stipulates a rather complicated and potentially slow in response administrative system to allocate liability. We need to learn how the new liability framework will be applied.
- No primary data publicly available whatsoever (e.g. permit categorisation by industry type & by location, pollution events, remedial costs borne by the state, state of the environment by Prefecture). No secondary data publicly disclosed (e.g. research reports, statistics, GIS information).
- Mandatory vs. voluntary insurance: a challenge that nobody is ready to currently deal with.
- Generalities in the existing mandatory financial security framework (Min. Decrees 13588/725/2006 & 8668/2007).

Insuring environmental liability in Greece

- Inconsistencies in the existing mandatory framework with regard to the amount of financial security required vis-à-vis the size of the operator and the site location.
- Property & Casualty & Third Party Liability insurance has been inadequately used in Greece as a financial risk transfer tool. This has been aggravated by the financial crisis. As a consequence, there is no: a) ‘insurance base’, b) a notable ‘business opportunity’ as seen by mainstream insurers and c) a reluctance to invest in learning and developing insurance solutions.
- The provision of insurance cover under the ELD framework requires maturity from the part of the insurer in understanding the legal, administrative and technical specificities in Greece.
- There is serious concern among insurers on the readiness of the state administration to efficiently implement the ELD framework.
- Recent initiative taken by the Ministry of the Environment to engage in wide stakeholder discussion on the enactment of the ELD in Greece is most welcome!

Insuring environmental liability in Greece

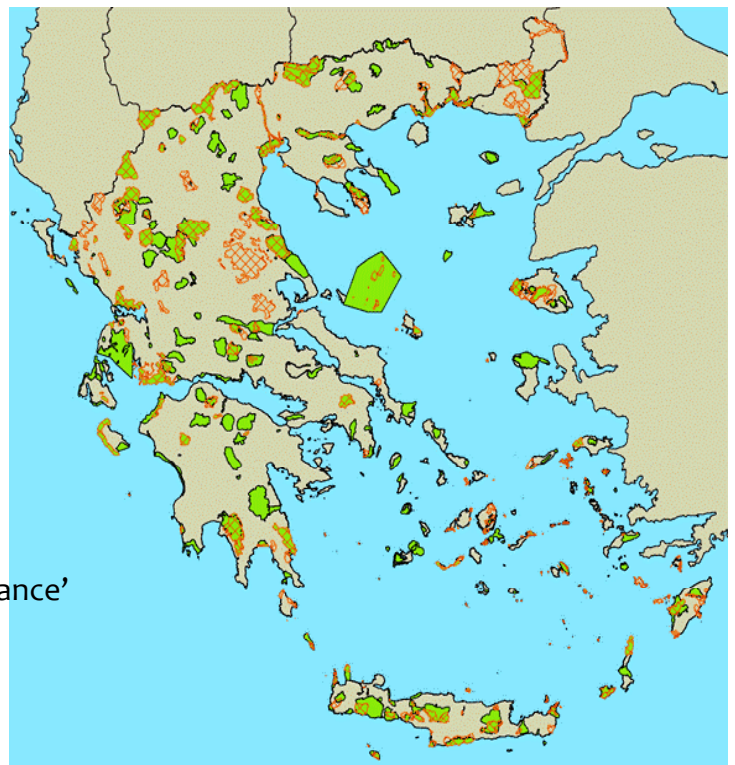


“Natura 2000” Protected Areas:

239 ‘Sites of Community Importance’

163 ‘Special Protection Zones’

24% of the national land cover



Υπόμνημα

- Τόποι Κοινωνικής Σημασίας (ΤΚΣ)
Sites of Community Importance (SCI)
- Ζώνες Ειδικής Προστασίας (ΖΕΠ)
Special Protection Areas (SPA)
- Περιοχές αλληλεπικαλύψεων

source:



0 37,5 75 150 225 300 km



GREEN LINE: Environmental Impairment Liability Insurance in Greece

GREEN LINE



1^ο Βραβείο
οικολογικού προϊόντος

1st GREEK PRIZE, PRODUCT AWARD FOR SUSTAINABLE DEVELOPMENT 2010

of the pan-European award scheme of the EU Commission

awarded to **GREEN LINE** of **INTERAMERICAN**

for its outstanding contribution to Sustainable Development



I N T E R A M E R I C A N • M E M B E R O F T H E E U R E K O G R O U P



The big picture: Sustainability

The Insurance Industry's ESG
Risks & Opportunities Pyramid

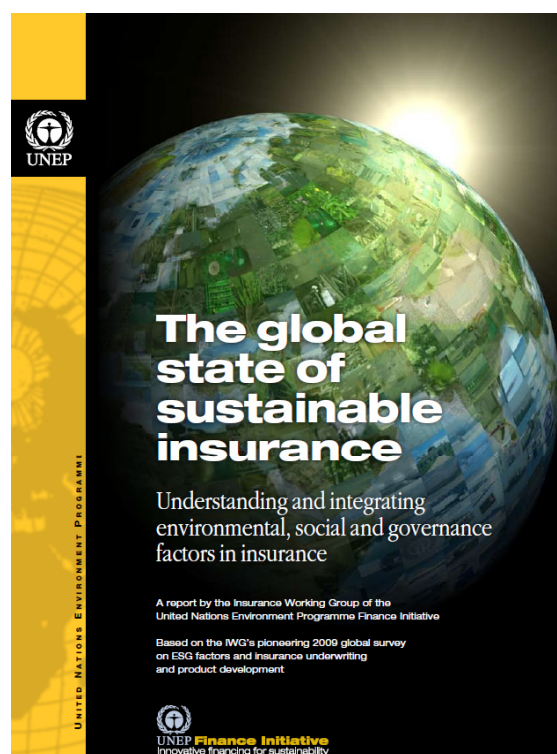
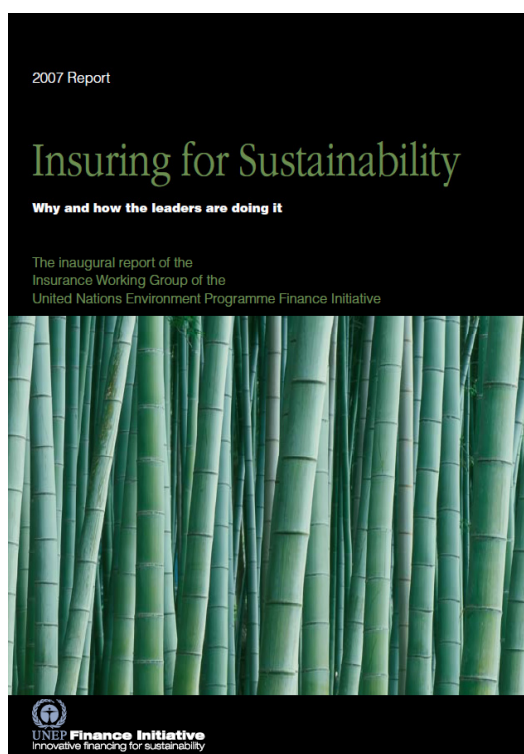


The big picture: Sustainability

New risks with unprecedented consequences:

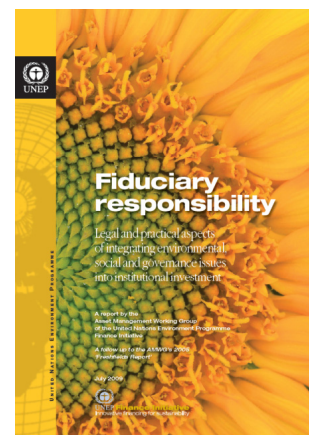
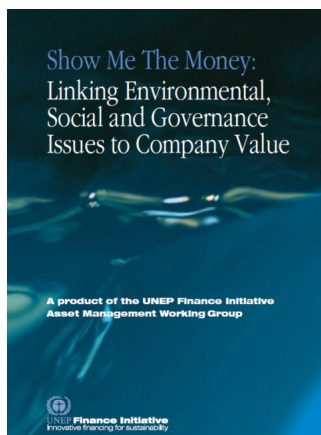
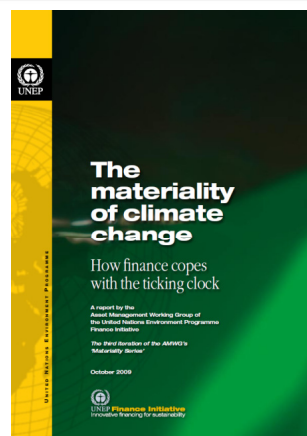
- Climate change
- Health
- Property & Casualty
- Emerging manmade risks not yet fully researched on their impacts or regulated (e.g. nanotechnology, genetically modified organisms, electromagnetic radiation, 'new age' pollutants)
- Biodiversity loss & ecosystem degradation

The big picture: Sustainability



<http://www.unepfi.org/>

The big picture: Sustainability



<http://www.unepfi.org/>

Concluding remarks

- Insurance does have a de facto role in the management of environmental risk
- Forward looking Insurers are ready to contribute their expertise in managing environmental risk
- Insurance can offer only one small part for securing the financial risks associated with environmental damage, along with other financial instruments that must become widely available
- Environmental liability is a the testing stone of responsibility sharing between all stakeholders
- The **'big picture'** is our **common sustainability challenge!** It is not a choice but the only option!



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