

UK Environmental Market Update

Environmental Impairment Liability insurance (environmental insurance) is a growing line of cover, where companies see a need to protect themselves from environmental liabilities for a wide range of reasons, including merger and acquisition (M&A) deals, development projects, contract compliance, regulatory requirements, operational management, and sustainability concerns.

While other lines of insurance have seen significant changes in the last year, both in terms of premium cost and cover, the environmental insurance market continues to be considered stable and benefits from strong insurer and reinsurer support with a capacity and appetite to expand. Currently, 13 insurers offer the cover in the UK.

Rate Changes

Over the last five years, premium rates have remained stable at around 0.6% rate-on-line, as shown in Figure 1.

Environmental insurance is commonly purchased for varying policy periods, ranging from short 6-month policies for bespoke contract insurances to 10-year policies for long-tail historic environmental liabilities commonly placed during merger and acquisition negotiations. Premiums are usually payable at inception for the entire policy period. It is therefore best to refrain from labelling 2019 a year of a significant premium decrease, and instead a year of extraordinary insurer competition, which may not repeat in 2020.



FIGURE 1

Rate on-line.

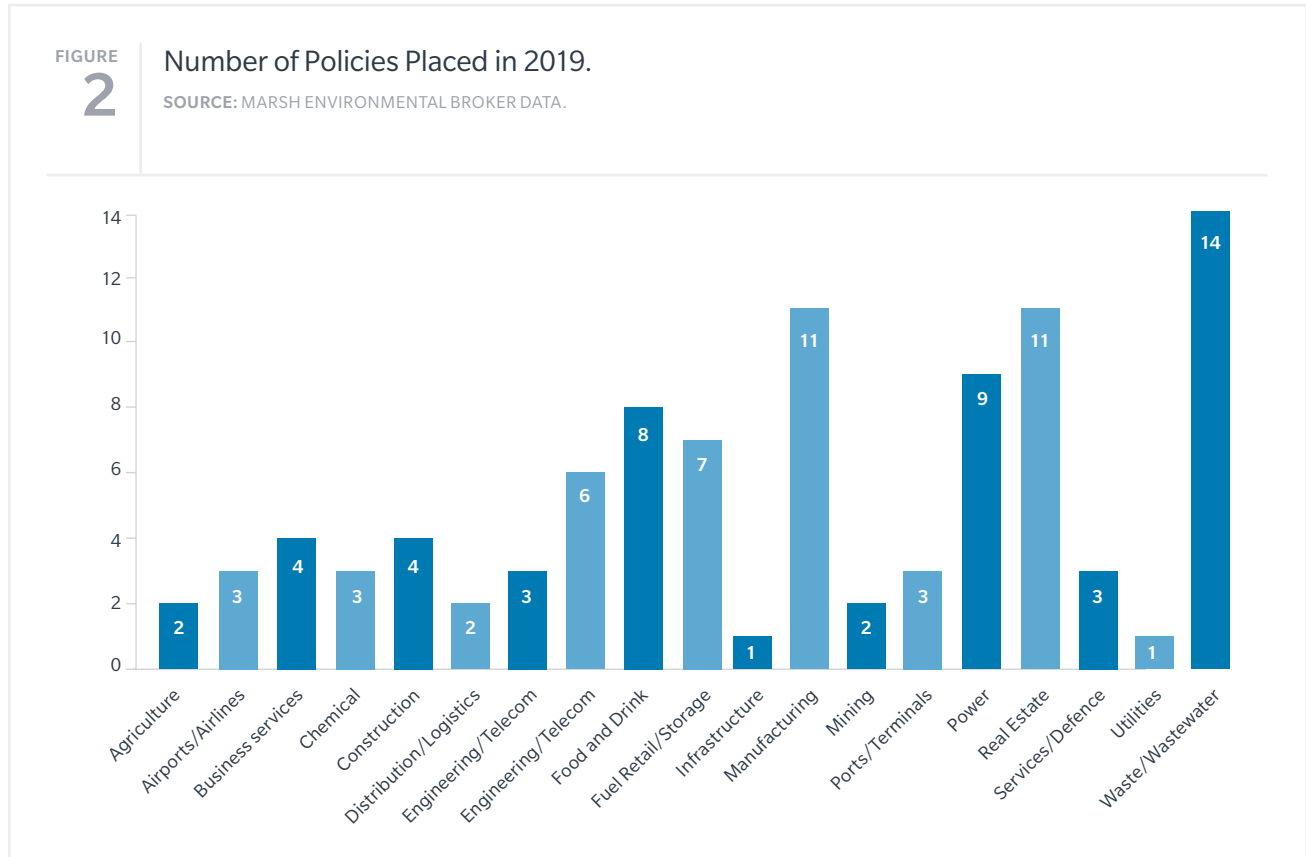
SOURCE: MARSH ENVIRONMENTAL BROKER DATA



Industry Sectors

Environmental risk considerations have resulted in a wide variety of industry sectors opting for environmental insurance, as shown in Figure 2. The waste and wastewater sector; the construction and real estate sector; and manufacturing are the most frequent

buyers of environmental insurance in the last five years, though there are no clear trends of certain industry sectors growing or reducing the uptake of the insurance.



Triggers

Environmental risks are a growing concern, as clearly illustrated in the [2020 Global Risks Report](#).

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60%



60% of policies were placed to assist businesses with their ongoing risk management, out of which around three quarters were renewals of existing policyholders, and a quarter for clients that had not opted for environmental cover before.

40%



40% of policies were placed to satisfy a contractual obligation, such as compulsory environmental insurance in certain countries; landlord stipulations; customer requirements; or during land transaction where there is concern over the transfer of historic pollution conditions.



GLOBAL RISKS REPORT 2020

The Global Risks Report, published by the World Economic Forum with support from Marsh & McLennan, provides a rich perspective on the major threats that may impact global prosperity in 2020 and over the next decade. Unprecedented confluence of climate and ecological breakdown dominate the report this year.

For the first time in the history of the Global Risks Perception Survey, environmental concerns are the top long-term risks by likelihood among members of the World Economic Forum's multi-stakeholder community; three of the top five risks by impact are also environmental.

"Failure of climate change mitigation and adaption" is the number one risk by impact and number two by likelihood over the next 10 years, according to our survey.

The Forum's multi-stakeholder network rate "biodiversity loss" as the second most impactful and third most likely risk for the next decade. The current rate of extinction is tens to hundreds of times higher than the average over the past 10 million years — and it is accelerating.

Claims

Insurers reportedly see the majority of claims arise from fuel spills — from either above-ground or underground storage tanks or associated pipework — and from the waste and wastewater industry. Such claims have been on the higher frequency radar for many years.

A more recent development is the "landlord liability" claim, where landlords become responsible for pollution left behind when tenants are no longer able to respond to claims, for example after bankruptcy. Landlords are often unaware of the types and quantities of hazardous materials present on site.

Depending on the policy design, environmental insurance can respond to pollution and environmental damage claims that happened in the past (legacy cover) or that may happen in the future (operational cover). Insurers see more claims frequency on operational policies compared to legacy cover, particularly in the UK.

Market Developments

Although premium rates are still competitive, cover scope and availability does change:

- The number of insurers that can offer 10-year policy periods for legacy (historic) pollution conditions has reduced over the years, with currently around half of the insurers being able to offer 10 years, and half offering five years maximum.
- The maximum policy period for operational risks was usually five years, but for higher risk operations, Marsh sees appetite reducing to three years maximum.
- It is becoming more common for legacy cover to be available without soil and groundwater investigation reports.
- Certain insurers developed bespoke offerings for warranty and indemnity triggered pollution claims, for both redevelopment sites and for real estate portfolios, and insurers continue to be supportive of captive wordings and Marsh's suggested wordings.
- Certain insurers now decline offering insurance for the coal industry. Tailings ponds within the mining industry can expect a low insurer appetite.
- Some insurers are presenting broad exclusions for per- and polyfluorinated alkyl substances (PFAS), the two most well known of which are perfluorooctanoic acid (PFOA) and perfluorooctane sulfonic acid (PFOS). A good broker can usually avoid such exclusions being added for clients.

Conclusion

Whereas many other lines of insurance have been going through a price and risk adjustment process in 2019, premiums for environmental cover have remained flat on average and capacity and appetite to underwrite environmental risks in the London market is still high.

For further information, please contact your local Marsh office or visit our website at [marsh.com](https://www.marsh.com).

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