Cost of Environmental Risks in the Chemical Sector need not be crippling

Environmental insurance programmes and sophisticated alternate risk management mechanisms are increasingly being used to allow chemical companies to free up substantial cash reserves and gain increased security against contamination and pollution risks.

Environmental liabilities can materially affect a company's financial stability and most chemical companies have established substantial balance sheet provisions to pay for known clean-up obligations. However, the risks of pollution or land contamination are impossible to predict and this, coupled with tightening regulation and stricter enforcement, may introduce extra liabilities that make the reserves inadequate.

The market for environmental insurance has evolved and now offers significant capacity and policies, which are now realistically and competitively priced, can be written for periods up to 20 years. In addition, there is sufficient flexibility in the market to allow policies to be designed to suit individual circumstances.

Properly constructed environmental insurance and alternative risk transfer programmes can provide chemical companies with:

- 'sleep easy' catastrophe protection for uninsured losses when incorporated within risk management strategies.
- a means of removing the uncertainties that may hinder the sale or redevelopment of a site or business.
- balance sheet protection that can cap the cost of 'known' remediation obligations, and hedge the risks of unknown issues.

Current accounting standards require publicly quoted companies to disclose their environmental liabilities in their financial statements. Structured solutions, which blend policies incorporating some self funding and risk transfer, can be used to remove or offset environmental liability provisions from the balance sheet and ease volatility in earnings.

Such programmes can help companies within the chemical industry free up credit capacity and reduce borrowing. At the same time they are able to enhance shareholder value by releasing reserves while better managing cash flow and exploiting tax advantages.

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