INTERNATIONAL
ALERT
February 2009 – Issue 32
www.willis.com

CHINA INTRODUCES COMPULSORY GREEN INSURANCE

The Chinese may have been late in developing Western-style insurance, but they are among the early adopters of mandatory environmental insurance requirements, as the government seeks answers to the serious pollution that has accompanied the nation's stunning industrial rise.

China's national environmental watchdog recently announced the introduction of a Green Insurance System, a compulsory program that is expected to extend to all industries with high polluting potential. Combined with the recent introduction of the nation's Green Credits program, the new system marks a shift from regulatory enforcement to market instruments as the key tool for combating environmental problems.

The impetus for the action is clear. Rapid economic development in China has led to many environmental pollution accidents. Government figures show (source: SEPA) that over 80% of the country's largest chemical plants are located in environmentally sensitive spots – densely populated or watershed areas.

At the moment, if a serious pollution release occurs, the company responsible usually resorts to bankruptcy to avoid paying huge compensation and remediation expenses. There is no mechanism to ensure that companies fulfill their responsibility to compensate victims and restore the environment after an incident.

The new environmental insurance system is designed to ensure that companies have adequate financial resources to address their environmental liabilities and obligations. The program will be implemented in phases, starting with the industries at highest risk, such as the chemical and hazardous waste sectors. It is expected to take full effect by 2015.

In order to convey a greater sense of urgency, the Chinese central government recently promoted the State Environmental Protection Administration (SEPA) to full-fledged ministry status as the Ministry of Environmental Protection (MEP). This upgrade gives the new agency more regulatory clout, which should expedite implementation of the program.

The new ministry recently introduced a Green Credits program, which allows Chinese banks to retract financial support to major polluters and offer credits to those who comply with certain environmental requirements.

To launch the Green Insurance System, the ministry will work closely with the Chinese Insurance Regulatory Commission (CIRC) to develop Environmental Liability insurance products and set standards for the coverage. The program is in the early stages of development and may be subject to considerable change and also significant variation between the Chinese provinces. Officials have selected two provinces, Guangdong and Jiangsu, to run pilot programs this year.

THE INSURANCE ENVIRONMENT IN CHINA

China is an admitted market, meaning that all insurance policies must be written by a locally licensed insurer. Environmental Liability is usually excluded from standard Liability insurance policies, so those in search of Environmental Liability insurance turn to a number of international and domestic insurers in China.

International insurers offering Environmental insurance in China include AIU, ACE, Chubb and Liberty International Underwriters (LIU). Many of these insurers have been actively engaged with SEPA (now MEP) and CIRC in the development of the compulsory scheme,although not all of the international insurers are approved in each Chinese province. Some international insurers are partnering with local companies. ACE, for example, is approved in all provinces through its strategic partner, Huatai, and offers its Premises Pollution Liability policy in Chinese. The policy covers new conditions and unknown preexisting conditions with limits of liability up to RMB 300 million ($40 million).

Among domestic insurers, PICC Property and Casualty Company Limited, Ping An Property & Casualty Insurance Company of China Limited and China Continent Insurance Company (CCIC) have filed their Environmental policies with CIRC. Excess cover can be obtained through the international markets; however, the 20/80 rule applies (i.e., at least 20% must be retained locally with the ceding company).

Willis Environmental experts can advise companies on the selection of appropriate insurers and the negotiation of appropriate coverage in anticipation of the implementation of this new system.

CONTACT

Koney Hoi
Willis Insurance Brokers Co., Ltd.
10th Floor, UC Tower
500 Fushan Road
Pudong New Area
Shanghai, PRC 200122
+ 86 21 3887 9988, ext. 188
hoik@willis.com