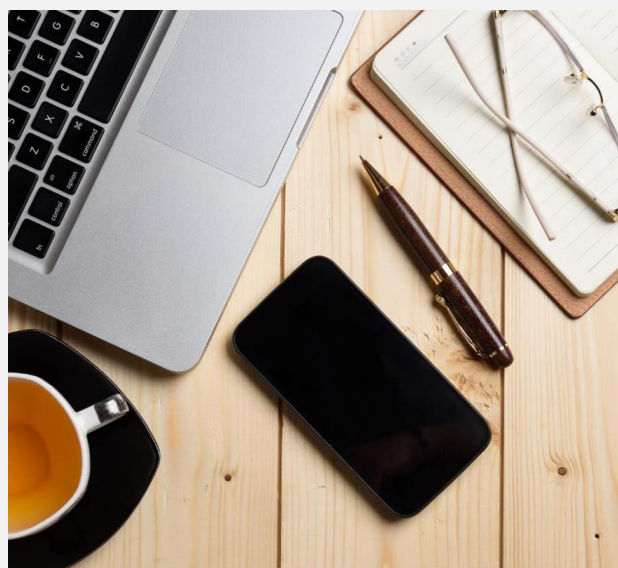




Green Products: Next Step for Insurers on Climate Change

Introduction

In recent times, the insurance industry in particular has shown significant interest in sustainability. This is as a result of the impact that climate change, amongst other socio-economic issues, will have on the insurance industry especially with regards to underwriting and profitability. Due to this interest, it is no surprise that the need to write green/sustainable insurance products is on the rise. A projected shift from the traditional insurance products to green products in order to provide environmental, social and economic benefits, while protecting public health and the environment as a whole is expected in the next couple of years.



A Survey of Green Products by Insurers

Green products are products that not only protect policyholders in the event of damage caused or injury suffered but also protect and promote an eco-friendly environment. Globally, countries are beginning to transition into low carbon economies and there has been the need for insurers to begin to offer products that will support this long-term objective. Green Products which are also known as Green Insurances will definitely foster a quick transitioning if insurers engage on time.

There are a couple of Green products that are already being written by some insurers around the world and we have highlighted some of these below. However, it is equally important for insurers in Nigeria to conduct surveys in order to know the most suitable and marketable green products that will consider the peculiarities of the Nigerian system and its environment.

- **Green Motor Vehicles Insurance:** These are insurance incentives that are offered on motor vehicles that help to enhance an eco-friendly environment by reducing the amount of greenhouse gases being emitted into the environment. Common examples of Green motor vehicle insurance are : pay as you drive (PAYD) , alternative fuel premium discounts, hybrid vehicle premium discounts, endorsements that allow hybrid replacement.
- **Green Insurance for Homes:** These are products that facilitate the use of renewable materials or energies in homes or buildings and alternative building practices. This is quite different from a conventional home insurance. The transition process into a low carbon environment means that there is a movement away from fossil fuel to renewable energies. Examples of the products are: eco-friendly replacement materials endorsements, broad coverage for alternative energy sources and premium discounts for Leadership in Energy and Environmental Design (LEEDs) certified homes (issued by the U.S. Green Building Council).

Green Insurance for Businesses: These are green commercial property insurance products. Businesses that use alternative materials and energies in their buildings and surroundings should have access to insurance that incentivize them and encourage them to keep enhancing an eco-friendly environment. Examples include coverage for installing “green” building systems and materials, coverage for “green certified” rebuilding in cases or events of total loss, green endorsement for green material and equipment as well as green construction and related costs.

All these are some of the green policies or products that insurers in Nigeria can begin to consider. Initiating one of these in the smallest way can be the starting point of enhancing a low-carbon economy strategy which the Nigerian government is already pursuing. For instance, Pay as You Drive policies or products could be a consideration to start with. Also, there can be a consideration for homes or buildings using renewable energy and materials. Therefore, insurers are encouraged to put their product development team together so as to come up with the design of a marketable product.

Direct Benefit of Offering Green Products

Insurance companies may enjoy certain direct benefits as a result of a shift in writing the traditional insurance product to offering sustainable and green insurance products. The following benefits could help create a competitive advantage over other insurers;

Expansion into a new business and market: The shift to green and sustainable products by insurers will help expand their product offerings as well as appeal to a different set of customers who are sustainable oriented. Insurers who move to this market early enough will harvest the reward of such a niche market.

Market share growth: The expansion by insurers into a new market/business will enable the penetration into new business areas. This will help grow the market share of insurers as the world in general is going “green”. For instance, the introduction of electric vehicles by the automobile industry will bring about the need for insuring such automobiles which will be different from the traditional insurance of automobiles. As a result of the need to insure a green product, the market share of insurers who write green products will be on the rise.

Adverse selection: Policyholders who are environmentally and sustainability conscious are more likely to preserve their assets and prevent the insurable event from happening than policyholders who are not. This is because a policyholder that is environmentally conscious will be more mindful with the way they drive their vehicles or the security and safety features they place in their homes. This is because not doing so may impact the environment negatively and therefore they represent a better risk for insurability.



Other Benefits of Offering Green Products

There are other benefits that are highlighted below when green products are offered by insurers.

- There will likely be a reduction in damage to the environment as insurers will incentivize policyholders who contribute very minimal carbon and use eco-friendly materials.
- Policyholders' property will be protected from being damaged or destroyed due to future weather-related events.
- Individuals and businesses will be enthusiastic about saving on insurance since they will enjoy various discounts for contributing to an eco-friendly environment.
- Policyholders' will enjoy the opportunity of being reimbursed for replacement of the cost of green alternatives in the event of total damage.
- The society at large will be encouraged to lead responsible and healthy lifestyles by using eco-friendly materials.
- Global investors who are looking for alternative investment opportunities will be attracted to consider them as viable investments in line with their ESG strategic goals.
- Nigeria as a nation will be seen by the world as taking responsibility in positively responding to the threat posed by climate change.

Conclusion

Going "green" is an important step to making a positive impact on the society and those who do not align with the current shift away from high carbon emissions might miss out in the long run. Nigerian insurers are encouraged to have a mix of green products with their conventional or traditional products as a way of responding and preparing themselves for future climate change.



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