

Pool Español de Riesgos Medioambientales: environmental insurance accessible for everybody

Santiago Martín Pérez - Chairman of the Pool Español de Riesgos Medioambientales (Spanish Environmental Risks Pool)

José Luis Heras Herraiz - Managing Director

Miguel Ángel de la Calle Agudo - Technical Manager

May saw the twenty-fifth anniversary of the signing of the deed of incorporation of the *Pool Español de Riesgos Medioambientales* (Spanish Environmental Risks Pool). Considering that now is a good time to offer a brief review about why this pool was organised, if it is meeting its commended tasks and, if these are proving useful for member companies of the Pool, for their customers and for the insurance industry in general.



In the first half of the 90s, there was a clearly discernible demand, albeit still fledgling yet on the rise, for cover against pollution risk on the part of the most exposed sectors in Spanish industry. The response from the insurance market was meek and unsatisfactory at the time, so, to overcome this situation, a group of companies opted to sign up to a co-reinsurance agreement, specifically for this type of cover, and to set up an organisation, the Pool, to take care of this and import the experience that was already making strides in France, Italy and, to a lesser extent, in the Netherlands.

The agreement

The agreement was signed and the Pool was effectively set up at the same event, on 16 May 1994. The Pool took on an independent legal personality in the form of an E.I.G. (Economic Interest Grouping), maintained to this day. The original seven founding companies were very soon joined by a good number of insurers and re-insurers which, following the series of mergers which the Spanish market has experienced, have produced today's twenty-five members: seventeen direct insurance companies and eight re-insurers. Among the second ones, we find the *Consorcio de Compensación de Seguros* (CCS) who, aside from its input of added capacity for the co-reinsurance framework, contributes to via an enriching outlook as regards the needs and circumstances of the insurance market that complements that of the other members.

In the Pool, the Spanish market has had a reference point for the environmental insurance on offer, which it has kept stable, solvent and attractive over the years. Large, medium and small companies all have access to its subject to the same technical conditions.

It still retains the trust of all of its member firms thanks to its fully transparent and neutral *modus operandi*, together with strict confidentiality in processing the information that is passed to it by each member.

The underwriting results after the first three years since it was started up have held up in increasingly positive figures and they are backed up by a prudent provision allowance.

The team at the Pool is the unit that has the most experience in this type of insurance in Spain, both in terms of underwriting and claims handling.



The Pool, moreover, offers a reinsurance capability and a subscription service for several non-member companies with whom it has come to the relevant agreements.

Under this agreement, every transaction brought in by any of the insuring members is completely re-insured by the signatory companies, including the business provider company itself. The interest of each member is established according to a pre-agreed system of a share in the results.

Given that the agreement is for co-reinsurance, only the technical premium for each transaction is assigned, while any expense, cost or commission that the companies have to add remains outside its control. These are freely set by each member as part of their decision in a freely competitive market.

The aims

The idea, which brought this about, was to manage to place Spain within the small group (as it was then and still is today) of European countries that have their own substantial product on offer as regards this kind of insurance, without having to depend indefinitely on imported insurance experiences and conditions, but instead reaching the position where, on the contrary, those companies taking part might together become able to generate their own culture minding the Spanish regulatory framework and industry that would be tailored to the market and serve Spanish insurers.

As a result, its basic goals were established right from the very beginning:

- To unite and pool sufficient financial capacity to provide an immediate solution for the sums assured being demanded.
- To devise products that are up to the task of insuring environmental risks and to keep them up-to-date, evolving in line with the needs of the customers of member firms.
- To centralise the underwriting and handling of losses by building up and concentrating experience within a specialist unit.
- To carry out underwriting that is consistent with underwriting policy and flexible like the market.
- To combine steady improvement with stability on the part of what is on offer, by avoiding drastic portfolio streamlining, the bringing in of new limits or sharply resetting technical premiums.

Strategy: collaborating

Very soon, it became apparent that these aims produced clear synergies with other parties concerned, with whom it would be easy to connect and cooperate, meaning that the strategy for achieving the goals would have to entail very close collaboration work. Here are just a few examples of this:

- The devising within AENOR of a single standard for assessing environmental risk in industrial activities (UNE 150008).
- The collaboration with UNESPA (the Spanish Association of Insurers and Reinsurers) in technical meetings with the Environment Ministry, under its successive official names, in relation to the various different aspects of environmental insurance regulation.
- The participation, on behalf of UNESPA, in the working group of the European Insurance Committee (now Insurance Europe), which has been taking part in drafting the EU Environmental Liability Directive and its subsequent implementation since 1995, as well as other European regulations.
- Collaboration with the Environment Ministry and a substantial number of the regional government bodies on drawing up the Spanish environmental liability law and implementing regulations.

The results

We can objectively assert that the Pool is beyond meeting the ends for which it was created.

In the Pool, the Spanish market has had a reference point for the environmental insurance on offer, which it has kept stable, solvent and attractive over the years. Large, medium and small companies all have access to its subject to the same technical conditions.

It still retains the trust of all of its member firms thanks to its fully transparent and neutral modus operandi, together with strict confidentiality in processing the information that is passed to it by each member.

The underwriting results after the first three years since it was started up have held up in increasingly positive figures and they are backed up by a prudent provision allowance.

The team at the Pool is the unit that has the most experience in this type of insurance in Spain, both in terms of underwriting and claims handling.

Represented by UNESPA, the insurance industry has been backed up by technical support from the Pool in all activities where it expresses its opinion in relation to draft legislation regarding environmental liability and insuring this.



The outlook going forward

Environmental risks cannot evade the frenetic changes that are being experienced in the activities pursued in all sectors and in the ways of insuring them.

The spiral of digitisation and connection, the progressive internationalisation of SMEs and the recent and future package of legislation wrapped within the context of ecological transition will force the Pool to step up its innovative activity, redesigning its technical and service approach, so as to continue to accomplish its mission.

Key factors in managing the pool these past 25 years

As has already been noted, the Pool has steered unswervingly through a period in which the economy in general and the industry in particular have been shaken by drastic transformations, some of which have been deliberate and others have come to pass unexpectedly. It can be said that the circumstances in which the Pool began serve are very dissimilar to or nothing like those pertaining today, and it would not be overly adventurous to suppose that the speed of change is not likely to let up in the future.

It can prove interesting to look back over the elements that have allowed the Pool to stay its course in such circumstances, at all times remaining focussed on and achieving its objectives. In fact, everything boils down to identifying and bearing in mind this set of values:

- **Deserving trust:** it should be remembered that the members of the Pool collaborate within this agreement and are in competition with each other at the same time. As a result, keeping their complete trust in the Pool is key, through adhering to a way of working that is fully transparent, ensuring that the Pool is totally objective and neutral, while guaranteeing absolute confidentiality in handling the information which each member furnishes. All of them are aware that under no circumstances will their information be used to another member's advantage. On the other hand, each company retains control over transactions at all times.
- **Demonstrate sound governance:** speaking of members' trust, the Pool must not allow any member to be able to point to their association with the Pool as a weak link in terms of the consistency of its increasingly demanding standards of sound corporate governance. As a result, it has provided itself with its own code of acting, which has

been approved by the Board and is regularly reviewed to keep it up-to-date. Every year, the Pool conducts an in-house audit to verify effective compliance with these standards, as well as to identify room for improvement.

- **Respecting free competition:** to be precise, combining collaboration among member companies with upholding the right conditions of freedom to compete, both among themselves and with the rest of the market. This constitutes one of the fundamental strands to its approach, which is supplemented with achieving a more efficient working mechanism which both members and the insured benefit from even-handedly.
- **Prioritising service:** providing a service for members, and, through them, for their customers is the permanent core of our activity throughout the phases of underwriting, which must be swift and effective: claims-handling, educating and disseminating information.
- **Protecting stability:** Stability and the attractiveness of what is on offer as a goal has been already discussed. To achieve this, the active involvement by the members on the Underwriting Committee is vital. This Committee is composed by expert professionals from a good number of member insurers and re-insurers. Each decision on improvement taken is weighed up trying to balance between considerations concerning opportunity and demand and those that relate to prudence and a long term outlook. The elements of innovation and improving cover, which are generated on the committee, are then made available to the members so that they can add them to their respective sets of conditions.
- **Promoting the prevention and improvement of environmental risk:** this objective, fleshed out further on, allows us to work side by side with stakeholders, whether closely related or completely removed, with both industry and the NGOs, with both government bodies and those governed by them, since they all share these interests.

As compensation the Pool gains a privileged overview of needs, potential solutions and synergies to adopt.

How the pool serves its members and their insured

Over these last 25 years, the technical challenges which the *Pool Español de Riesgos Medioambientales* has had to face have not been few in number. Challenges that have not been without problems, though neither without a sense of motivation and excitement about making inroads into them. And all of this has been with the sole objective of providing the best, swiftest and most neutral service possible for our member firms.

First of these challenges was to establish the **terms of coverage** that could be offered, while striving for these to be sufficiently flexible to allow them to be broadened, modified and adapted to new knowledge and demands and to legislative requirements.

Second was to tackle the structure of a **premium rate** that had to include some specific cases, such as adding to the classical vision of business facilities their potential hazards for the natural elements in their surroundings, which, in turn, were going to be the main components that stood to be harmed in the event of losses and which, therefore, ought to be factored into the rate. Moreover, this rate should be sufficiently adaptable to take account of the know-how and experience that might, over the course of time, be acquired.

Another significant challenge was to gain a better understanding of industrial activities, to which end a **set of questionnaires were prepared** to allow our member firms to gather, in a straightforward and reliable manner, all the information required to acquire a more complete knowledge of the environmental facets of every industrial facility, so as to be in a position to offer them better insurance coverage. One of the major challenges in these questionnaires was to make them as simple and specific as possible, with the intention of making them as easy as possible to complete for the insured.

Even so, there were more complex business activities that, in behalf of understanding them better, the questionnaires proved insufficient. This led us to write **adjustment guides** and to implement a **system of accreditations for the loss adjusters of our associate firms** that might allow us a good understanding of the facilities and their surroundings and, based on this, offer re-insurance premiums and cover that was better suited, incorporating a system of discounts and surcharges depending on the special nature of each facility and the environmental risk management that was implemented there. This system has produced accreditation for over 300 loss adjusters, who have put together more than 4,000 reports in which over 5,000 recommendations have been made aimed at helping the insured to improve and prevent the environmental risks associated with their facilities.

Desires of advance in analysing risk took us to adopt a leading role in promoting and elaboration, within AENOR, of a standard for analysing environmental risks that we thought could be of benefit to all the stakeholders involved: insurers, banks, government bodies, social groups and, above all, industrialists themselves. This is how we decided to take a leading role in the drafting and the wording of both the experimental version of **UNE standard 150008** as well as the final version. This standard was subsequently included in the **Environmental Liability legislation**, wherein it was taken into account as the bases for individual and sector Analyses of Environmental Risks (MIRATs), Sector Guides and Rate Tables, all focussed on establishing the limit on financial cover to be taken out.

Regarding the MIRATs and the Sector Guides, the Pool also collaborated with the CEOE (Spanish Confederation of Employers' Organizations) in the preliminary advisory work for a large number of them.

Nevertheless, the usefulness of UNE 150008 does not end there, as its purpose is to be a basic tool to prevent environmental risks and implement a system that allows them to be managed properly.

Environmental losses are also part of our daily work, because, although we are re-insurers, we intervene directly, by delegation on the part of the associate companies, and take on the technical management of them. These losses have certain special properties as compared to those of another kind that make that handling claims for them presents special features and requirements. They, therefore, tend to **be high-profile** when happening and it is often the case that the media report them. Nonetheless, it is usual for the SEPRONA (the *Guardia Civil* Nature Protection Service) to take part and for more than one government body to be involved, for which reason the **necessary dialogue** requires a high level of technical knowledge to allow a fluent degree of communication.

On the other hand, with this kind of loss, according to article 9 of the Environmental Liability Law and the implementing regulation thereof, as opposed to what happens with losses of other kinds, the insured **is under an obligation to report the loss or threat of loss immediately** to the competent authority. This practice runs counter to the norm in the case of liability insurance claims.

Another especially important aspect is **defining the loss**, which is often complicated and costly and requires specialist knowledge and sophisticated resources.

The obligation to redress the environmental damage caused, which rules out the possibility of the insurer providing a solution for claims via financial compensation, is another feature of it.

Lastly, it should be remarked that these tend to be **long-tail claims**, which typically remain open cases for several years, given that correcting them requires a lot of time and a period of surveillance and monitoring to check that they have actually been put to rights properly.

To deal with such losses and give proper assistance to the member firms in handling them, the Pool has specialised and qualified technical staff allowing it to take charge of claims and manage them until they are satisfactorily resolved in the full sense, both with respect to the member firms and the insured, as well as the various government bodies and the interest groups involved.

Then, last but not least, **educational efforts** for the underwriters, specialist staff and salespersons in our member firms should be pointed out. Not to mention the **communications and disseminating** work carried out for public and private organisations, university master's degrees, the media, etc., in attempts to increase awareness of the need to combat these risks and do our little bit to protect and preserve one of the most valued assets that we have been blessed with: our environment.

Yet, after all, the most important thing that we have learned over these years is that, going forward, we still have a fascinating task to perform.