

***Green Insurance Report 2***

***The Implementation of Environmental Liability Insurance for Hazardous Waste Companies is Worrying***

## **1. Background**

With the rapid development of industry and the diversification of the industrial structure, the amount of hazardous waste generated is increasing and the types are becoming more and more complex. Hazardous waste has many characteristics such as toxicity, flammability, explosivity, chemical reactivity, and corrosiveness. If hazardous waste is improperly handled, it will not degrade in the natural environment, and will damage the ecological system, affect human health, and hamper sustainable development.

On March 21, 2019, an incident of hazardous waste spontaneous combustion and explosion occurred in Jiangsu Tianjiayi Chemical Co., Ltd. due to long-term illegal storage of dangerous materials. The accident not only caused nearly 800 casualties, but also affected the quality of surrounding water. On the 31<sup>st</sup> March of the same year, another explosion erupted in Kunshan Handing Precision Metal Co., Ltd. due to failure to store magnesium alloy scraps in accordance with regulations, resulting in 12 casualties. Both accidents were caused by improper storage and disposal of hazardous waste, which not only caused casualties, but also harmed the environment. If the companies purchased environmental pollution liability insurance before the accidents occur, comprehensive environmental risk assessment would be conducted by insurance companies on the insured companies, risk prevention measures would be implemented. These measures could systematically reduce the probability of environmental safety accidents to a certain extent. Therefore, hazardous waste implicated enterprises should not only do due diligence on their hazardous waste management process, but also actively seek environmental pollution liability insurance.

In order to make enterprises pay more attention to their own environmental responsibilities, the government has strengthened multi-party supervision and vigorously promoted environmental liability insurance for hazardous waste enterprises. In 2013, the Ministry of Environmental Protection (Previous name, now called the Ministry of Ecology and Environment) and the China Insurance Regulatory Commission jointly issued the "Guiding Opinions on Carrying out the Pilot Work of Environmental Pollution Compulsory Liability Insurance" (Huanfa [2013] No. 10) to clarify the scope of pilot enterprises for compulsory environmental pollution liability insurance, insurance clauses, and guarantee mechanisms, etc. This indicates that environmental pollution liability insurance has begun mandatory trials in environmentally high-risk industries, including companies that generate, collect, store, transport, utilize, and dispose of hazardous waste. Article 99 of the newly revised "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes", which came into effect on September 2020, stipulates that "Enterprises that collect, store, transport, utilize, and dispose of hazardous wastes shall, in accordance with relevant national regulations, purchase environmental protection pollution liability insurance". This is also the first time that compulsory environmental pollution liability insurance has been enacted into law.

In order to understand the current situation of hazardous waste companies' implementation status of environmental liability insurance, and to help insurance companies identify major environmental compensation risks caused by the environmental liabilities of hazardous waste companies, Lvse Jiangnan actively writes to and communicates with insurance companies operating environmental liability insurance in various regions.

## **2. Enterprise Overview**

This report is in cooperation with the Institute of Public & Environmental Affairs (IPE), and is supported by the Blue Map Environmental Database ([www.ipe.org.cn](http://www.ipe.org.cn)). Lvse Jiangnan selected 151 hazardous waste companies with records of environmental violations from 2019 to the beginning of 2021. By referring to the environmental risk assessment guidelines issued by individual provinces and cities, such as the "Environmental Pollution Liability Insurance Risk Assessment Guidelines (Trial)" formulated by Guizhou Province in 2019, and the "Environmental Risk Assessment and Grades of Shenzhen Hazardous Waste Management Enterprises" formulated by Shenzhen in 2015 Technical Specifications for Division, etc., this report focuses on the environmental risk indicators of

administrative penalties (fines, rectification within a time limit, seizures, etc.), environment-related supervision and examination, and abnormal online monitoring data.

### ***2.1 Distribution of companies***

The 151 hazardous waste enterprises involved in this report locate in 11 provinces and cities, most of which are under the jurisdiction of Jiangsu Province, with a total of 41 hazardous waste enterprises. These companies are distributed in 7 cities including Changzhou, Suzhou and Wuxi. This is then followed by Zhejiang Province with a total of 23 companies located in 4 cities, Taizhou, Wenzhou, Hangzhou, and Ningbo. The distribution of hazardous waste enterprises in Henan and Anhui provinces is relatively concentrated. They are located in Jiyuan and Hefei respectively, and the number of enterprises involved is relatively small, with 6 and 3 enterprises respectively.

### ***2.2 Environmental violations of the enterprise***

As mentioned above, the environmental risk indicators of hazardous waste enterprises in this report include administrative punishment, environment supervision, and abnormal online monitoring data. Among them, enterprises that only received administrative penalties accounted for the largest proportion, as high as 87%, only one enterprise had been supervised and examined.

## ***3. Responses from insurance companies***

Based on the letter sent to 151 hazardous waste enterprises located in 27 cities under the jurisdiction of 11 provinces and cities, according to the previous review of insurance companies, 81 letters were issued to local branches of 14 insurance companies in 27 cities. According to the letter, up to now, a total of 5 insurance companies involving 8 local branches have taken the initiative to call Lvse Jiangnan to respond and communicate. The communication includes the current insurance status of hazardous waste enterprises, difficulties encountered, and the development of environmental risk assessment.

In addition, 73 local branches did not actively communicate on the content mentioned in the letter, and 29 local branches did not reply in the duration of the two reporting periods. Lvse Jiangnan hopes that these insurance companies can break their silence, actively respond to public suggestions, strengthen interaction, and promote the real implementation of environmental liability insurance in the hazardous waste industry.

## ***4. Current status and difficulties of hazardous waste enterprises in responding to purchasing environmental liability insurance***

Through the communication with these insurance companies, Lvse Jiangnan learned that although the new Solid Waste Law requires hazardous waste companies to buy environmental liability insurance, most companies are still on the sidelines. The following are the current status and difficulties of hazardous waste enterprises in implementing environmental liability insurance.

### ***4.1 Because of differences in local policies, the situation after the implementation of environmental liability insurance is different***

Environmental liability insurance is implemented by territorial jurisdiction, so there are differences in environmental liability insurance policies in various regions. In addition, the market guidance is not uniform, resulting in uneven development of environmental liability insurance in the localities.

China Pacific Property Insurance Co., Ltd. Jiyuan Center Branch stated that Jiyuan started to promote environmental liability insurance in 2018. The government has issued encouraging policies, such as granting corresponding bonus items after companies purchase environmental liability insurance. As a result, many companies actively apply for insurance, but the incentive policy only lasted for one year.

After there is no corresponding bonus item in 2019, the enthusiasm of enterprises to apply for insurance has decreased. However, after the introduction of the new solid waste law, the government has restarted the incentives, and many hazardous wastes Enterprises responded positively.

The Shanghai Branch of the People's Insurance Company of China stated that the Shanghai government has not issued corresponding incentive policies for environmental liability insurance, so whether it is hazardous waste enterprises or other industries, the enthusiasm for insurance is not high. In 2019, Jiangsu Province promulgated the "Detailed Rules for the Implementation of Jiangsu Province Environmental Pollution Liability Insurance Premium Subsidy Policy (for Trial Implementation)", which provides subsidies to companies in Jiangsu Province that have purchased environmental liability insurance, this promotes the enterprise enthusiasm for insurance accordingly. As such, the insurance coverage of enterprises varies from province to province.

Therefore, although China is vigorously promoting environmental liability insurance, for environmental liability insurance to be truly implemented, it is necessary for the local government to issue corresponding promotion policies, and introduce corresponding incentive measures to stimulate the motivation of enterprises to purchase insurance.

#### ***4.2 The lack of professional teams in the environmental protection field restricts the development of environmental liability insurance***

Environmental liability insurance is an insurance specially set up to deal with environmental pollution accidents. It requires high professional ability. Whether it is to carry out environmental risk assessment or organize environmental training, professionals in the environmental field are required to make a better effect.

Jiangtai Insurance Brokers Co., Ltd. Yangzhou Branch stated that in the near future, the company would like to cooperate with the government to organize relevant training for enterprises to improve the professional capabilities of their team, and hope that Lvse Jiangnan could share some experience in environmental liability insurance. When it comes to the Shanghai branch of China Pacific Property Insurance Co., Ltd., they said that although the company has set up a risk assessment department within the company, it basically only pays attention to environmental protection engineering projects, such as environmental protection facilities, when conducting environmental risk assessments on the enterprise site, and does not know much about other matters.

Therefore, from the perspective of current communication with insurance companies, insurance companies generally lack professionals in the environmental field, which makes it very likely that insurance companies will have problems in distinguishing safety accidents from environmental accidents and accurately defining the scope of compensation in the future. It will also directly affect the service capabilities of insurance companies, make enterprises lack confidence in insurance companies, and hinder the development of environmental liability insurance.

#### ***4.3 Untimely access to environmental liability insurance policy information***

In recent years, with the frequent occurrence of environmental pollution accidents, China has paid more and more attention to the development of environmental liability insurance, and has continuously guided and supported environmental liability insurance at the policy level. Under the guidance of national policies, local governments have also introduced measures in accordance with local conditions. Many policies support the development of environmental liability insurance. As a related party of environmental liability insurance, insurance companies cannot fully grasp and understand these policy guidelines in a timely manner.

China Pacific Property Insurance Co., Ltd. Jiyuan Branch Center told Lvse Jiangnan that they don't know much about the environmental liability insurance policies mentioned in the letter, and hope that Lvse Jiangnan will share relevant policy information. Moreover, Jiyuan City has not issued a

corresponding environmental risk assessment guidance document, and hopes that they can better communicate with government departments after understanding these policies.

As the underwriters of environmental liability insurance, insurance companies should have a good understanding of relevant policies. However, as far as the current communication is concerned, insurance companies' grasp of relevant policies on environmental liability insurance is not satisfactory. This will not only make insurance companies more passive when communicating with companies, but also make companies doubtful about the insurance company's business capabilities, thereby reducing the competitiveness of insurance companies in the market.

#### ***4.4 Unreasonable allocation of internal resources of insurance companies***

With the progress of society, resource sharing is crucial to the development of insurance companies. Not only can it increase work efficiency, improve customer service standards, but also enhance the external competitiveness of insurance companies. However, insurance companies still have shortcomings in resource sharing.

The Lianyungang branch of People's Insurance Company of China stated that it has not carried out environmental risk assessment work for insured companies. Because environmental liability insurance has not yet formed a scale, there are not many companies insured, and the premiums are not high. There is a lack of budget to hire experts to conduct environmental risk assessments on companies. However, the Shanghai Branch of the People's Insurance Company of China stated that the environmental risk assessment is carried out by a team at the headquarters or by a third-party organization.

It can be seen that there are large differences in the evaluation standards and implementation of corporate environmental liability insurance by insurance companies in various regions, and there are also certain unreasonable phenomena in the allocation of resources. Generally, if resources can be allocated relatively reasonably, economic benefits will be significantly improved, and the economy will be full of vitality. Otherwise, the economic benefits will be significantly lower, and economic development will be hindered. Therefore, unreasonable resource allocation will not only affect the economic benefits of insurance companies, but also restrict the development of insurance companies. Insurance companies should take this as a warning.

#### ***4.5 Excellent case sharing***

Although the response to the letter to the insurance company this time is not satisfactory, there are some local insurance companies that have a strong sense of responsibility. AI and big data sharing are also being used to conduct due diligence. The main evaluation basis includes: 1. The company's historical compensation data. 2. The company's environmental performance or pollution (this data source comes from an internal system shared by insurance companies and local government departments). 3. Industry concerns. Some industries that involve more environmental safety accidents may increase insurance premiums, such as chemical industries. It also stated that the basis is only a reference, and the underwriting will be determined according to the specific circumstances of the enterprise, and the implementation criteria may be different. Under this model, 30% of companies are denied insurance. At the end of the reply, the insurance company also said that it welcomes Lvse Jiangnan to cooperate and communicate, as well as data sharing.

### **5. Responses of the China Banking and Insurance Regulatory Bureau**

In view of the replies of the insurance companies in this period, Lvse Jiangnan sent a letter to 11 provincial and municipal banking and insurance regulatory bureaus on April 8, 2021, hoping to understand the insurance status of the companies mentioned in the letter, and urge the insurance companies that did not respond to respond in a timely manner. At the same time, verify whether these insurance companies carry out environmental risk assessments on insured companies in accordance with national requirements in the process of underwriting environmental pollution

liability insurance. So far, Lvse Jiangnan has received responses from 5 banking and insurance regulatory bureaus.

The Beijing and Shanghai Banking and Insurance Regulatory Bureaus did not explain the insurance coverage of the hazardous waste enterprises mentioned in the letter, but both stated that they would urge insurance companies to respond in a timely manner, while the Guangdong Banking and Insurance Regulatory Bureau stated that it is not a matter of public complaints and proposal of the Banking and Insurance Regulatory Bureau.

The Henan Banking and Insurance Regulatory Bureau stated that there are no requirements for environmental risk assessment, and the company's insurance situation involves the commercial information of insurance institutions, and it is recommended to get in touch with relevant companies. Six banking and insurance regulatory bureaus including Guangxi and Jiangsu have yet to respond. And under the supervision of the Shanghai Banking and Insurance Regulatory Bureau, Ping An Property & Casualty Insurance Co., Ltd. Shanghai Branch has contacted Lvse Jiangnan, stating that the Shanghai branch has not yet launched environmental liability insurance.

Lvse Jiangnan believes that the China Banking and Insurance Regulatory Bureau, as the supervisory authority of insurance companies, should urge insurance companies to respond to public concerns in a timely manner. At the same time, as a functional department for environmental pollution liability insurance supervision and services, it should also actively cooperate with other relevant parties (including other departments, enterprises, financial insurance institutions, social organizations, etc.) to jointly promote the construction and improvement of the environmental pollution liability insurance system.

## **6. suggestions**

### **6.1 It is recommended that all localities establish a reward and punishment mechanism in light of local conditions**

Environmental liability insurance is provided by the market, guided by the government, and purchased by enterprises, among which government guidance plays a pivotal role. At present, China's environmental liability insurance is still in its infancy, and market recognition is not high. To promote the development of environmental liability insurance, it is inseparable from the guidance and support of the government.

On March 3, 2020, the "Guiding Opinions on Building a Modern Environmental Governance System" issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council mentioned: perfecting the working mechanism of central coordination, provincial responsibility, and city and county implementation. It can be seen that to implement various national policies and measures, local governments are duty-bound. Therefore, in the context of the country's vigorous promotion of environmental liability insurance, local governments also need to introduce corresponding measures to enable environmental liability insurance to be truly implemented.

In addition, there are large geographic differences between regions in China, and there are also differences in local economic development. It is necessary for local governments to establish a scientific and reasonable reward and punishment mechanism based on actual conditions, combined with economic conditions, industrial institutions, and regional characteristics, so as to increase the enthusiasm of enterprises to purchase insurance. Of course, with the support of the new solid waste law promulgated by the state, local governments can also formulate mandatory policy documents to require hazardous waste enterprises to take out environmental liability insurance. As a directly related party of environmental liability insurance, insurance companies have a better understanding of the problems and difficulties encountered in the implementation of environmental liability insurance, and should actively interact with government departments to exchange information about

what is needed to make environmental liability insurance policies more scientific and reasonable and easier to implement.

### ***6.2 Actively cooperate with third parties to improve the professional level of insurance companies in environmental liability insurance***

The original intention of the government to introduce environmental liability insurance is not to compensate, but to prevent risks in advance. Companies choose to purchase environmental liability insurance, on the one hand, hoping to diversify their own environmental risks, on the other hand, they also hope to obtain related services from insurance companies, such as environmental risk assessment services, environmental protection training services, environmental protection laws and technical consulting services, etc.

Environmental liability insurance requires high professional capabilities and insurance companies lack relevant professionals. Therefore, insurance companies can use market-oriented means to actively cooperate with third parties and purchase corporate-related environmental protection services provided by third parties to realize the value of environmental liability insurance.

### ***6.3 Establish an environmental liability insurance service platform for publicizing environmental liability insurance related policy information***

In recent years, the national and local governments have issued many policies to support the development of green insurance, but these policies are basically scattered on the websites of government departments, and insurance companies cannot obtain the latest policies in time.

As far as Lvse Jiangnan know, there are mainly the following four websites that contain policies related to environmental liability insurance, but they also have shortcomings. The official website set up by the China Banking and Insurance Regulatory Commission contains many and complicated contents, not only covering environmental liability insurance, so it is impossible to obtain environmental liability insurance related policies intuitively. Although the "China Green Finance Policy Database" created by SynTao Green Finance (an organization initiated by the China Responsible Investment Forum) includes policies on environmental liability insurance, the content is only updated to January 2019. In the "Environmental Pollution Compulsory Liability Insurance Promotion Center" approved by China Environmental News, the record under the environmental liability insurance policy column shows 0.

Therefore, the government should establish a special environmental liability insurance service platform for publicizing environmental liability insurance-related policy information, so that insurance companies and the public or other relevant parties can obtain relevant policy information in a timely manner.

In addition, in the case of untimely information acquisition and lack of environmental protection expertise, insurance companies should also take the initiative to obtain the latest policy information on environmental liability insurance through the Internet or other channels to understand certain environmental protection knowledge. In order to establish the environmental liability insurance market, a series of preparatory work needs to be done in the early stage. In addition to insurance knowledge, a certain understanding of environmental liability insurance-related policy information and environmental protection knowledge is required to grasp more initiative when connecting with enterprises, and to persuade enterprises to purchase environmental liability insurance with a more reasonable basis.

### ***6.4 Optimize resource allocation and enhance the competitiveness of insurance companies***

The competitiveness of an insurance company depends not only on the quantity and quality of the various resources it owns, but also on the efficiency of the allocation of all resources. The higher the degree of internal resource sharing, the higher the value it creates.

Insurance companies can organize professional knowledge training related to environmental liability insurance to improve the professional knowledge capabilities of practitioners. When insurance branches in other regions lack a professional team for environmental liability insurance, insurance companies can also coordinate and help to optimize the allocation and sharing of resources, complement each other's advantages, and cooperate with each other to enhance the competitiveness of insurance companies.

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