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Discussion Paper on House Bill Nos. 235 and 3279 Requiring Mandatory Environment Insurance Coverage for Environmentally-Critical Businesses

INTRODUCTION

The League of Cities of the Philippines supports the intent of House Bill Nos. 235 and 3279 requiring mandatory environment insurance coverage for environmentally-critical businesses. Further, the League would like to expound on the following comments for the Committee's consideration:

1. The bills protect local government from bearing the compensation and remediation costs of environmental damages caused in case of the perpetrating business' insolvency.

2. With systems of premiums and other policy conditions in place, businesses have further motivations to be more conscious about the environment and the community where they operate.

3. The bills effectively create demand for environment insurance by making it mandatory. The League, however, considers as equally important a complementing policy or program addressing the supply side.

4. In view of the penal provisions already present in both bills, the League sees the benefit of using incentives conjunctively.

BACKGROUND

The House Committee on Ecology is in the process of consolidating comments from the League of Cities of the Philippines (League, for brevity) and other stakeholders on House Bill Nos. 235 and 3279 that, if enacted, shall require environment insurance coverage to owners and operators of environmentally-critical businesses. Such businesses shall be those determined by the Department of Environment and Natural Resources (DENR) as "commercial and industrial establishments and enterprises, among others, that could pose serious risk to people and the environment with the potential to pollute air, water, and soil" (HB No. 235, Section 1). This objective shall be achieved by making a Mandatory Environment Insurance Coverage (MEIC) a requirement for the Environmental Compliance Certificate or Certificate of Non-Coverage, which are issued by the DENR. Both bills list local government units within a business' primary impact area as among the beneficiaries of the MEIC.

DISCUSSION

1. **The bills protect local governments from bearing the compensation and remediation costs of environmental damages in case of the perpetrating party's insolvency.**

   The League supports House Bill Nos. 235 and 3279 primarily because of their use of environment insurance to guarantee financial security of private businesses whose economic activities may cause destruction to the environment and, ultimately, to the society. If the responsible party is insolvent, the government usually bears all the remediation and compensation costs associated with the damages. Requiring mandatory environment insurance coverage to environmentally-critical businesses ensures that this will not be the usual case.

2. **With systems of premiums and other policy conditions in place, businesses have further motivations to be more conscious about the environment and the community where they operate.**

   Insurance companies conduct risk and impact assessments on companies before they offer policies. The process of securing an environment insurance itself thus mitigates environmental risks on the part of businesses because it rewards with lower premiums those who invest in risk reduction and prevention measures. Given the same context, insurance companies also act as a private monitor/regulator addressing environmental safety concerns of the society. As such, the DENR may collaborate with the insurance companies in conducting environmental risk and impact assessments and in negotiating insurance policies. Such a collaborative approach already addresses the need for a DENR environment inspector as stipulated in both bills, without incurring extra labor cost on the part of the department. Accordingly, an agreement that insurance company shall share their risk and impact assessment reports with the DENR may be part of the requisites for its accreditation.

3. **The bills effectively create demand for environment insurance by making it mandatory. The League, however, considers as equally important a complementing policy or program addressing the supply side.**

   The bills aim to ensure sufficient funding coverage for the needed restoration and compensation for the damages cost their operations. Accordingly, it is equally important to have a complementing policy or program ensuring that there will be insurance companies that are willing and able to assume the risks associated with the operation of environmentally-critical businesses. Despite several reports on the increase in market capacity and diversification of environment insurance cover, research still highlights how scarce and too costly environment insurance policies are, not to mention their limited capacity to absorb expected losses resulting from environmental accidents. Some of the challenges of ensuring availability of environment insurance coverage include—low predictability and many forms of environmental risks, massive impacts of environmental accidents, and the exorbitant amount of expected losses that creates difficulties for risk pooling.

4. **In view of the penal provisions already present in both bills, the League sees the benefit of using incentives conjunctively.**

   In both bills, non-compliant business owners and operators shall be punished with considerable amounts of fine or period of imprisonment. Given that complying with the provisions of the bills will entail cost just the same, there is a value in using incentives conjunctively. The League thus encourage the exploration of other preferential measures and financial incentives for insurance policies. For instance, a predetermined portion of the premium of insured companies can be used to offset certain taxes and other environmental fees. Businesses that have maintained good environmental record based on predetermined benchmarks can be also made eligible for a premium discount on their environment insurance renewal, paid for by the government. Choosing the most appropriate option will require further feasibility studies and cost-estimation for purposes of securing annual allocation from the General Appropriations Act.