

Insurance and Going Green

What to Know About Green Commercial Building Insurance

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Read the news lately and it feels like everything — from cars to grocery bags — has gone green. While recent events, such as 2009's Copenhagen Climate Change Conference, have focused increased public attention on global warming, and as "going green" becomes more mainstream, a number of important changes are taking place on various fronts, making it easier and more strategic for businesses to expand their commitment to the environment.

One of those innovations takes the form of green commercial building insurance, which is rapidly facilitating increased green construction and development for businesses, homes and on campuses across the U.S. According to McGraw-Hill Construction, spending on green building construction is projected to reach \$96 billion in 2013, up from \$36 billion in 2008.

At first, the connection between the insurance industry and the promotion of green building may not be obvious. Given the rising incidence of hurricanes, floods, droughts and wild fires at least partly

attributed to climate change, given the fact that the insurance industry is committed to environmental protection, green building and sustainability begins to make sense. The insurance industry sees a connection between green and sustainable practices and reduced risk, and in the last few years has become an environmental champion.

Taking a leadership role in the move toward more energy and resource efficient construction, the industry has been taking proactive steps to make green building easier for institutions and individuals. Partly due to their efforts and the efforts of many others in the environmental movement, green building has taken off all over the country with over 100 U.S. cities passing green building ordinances, requiring new buildings to meet environmental standards.

In addition, the recent stimulus package allocated \$6.3 billion for energy efficiency and conservation grants, providing even greater incentive for organizations to build new green buildings and upgrade their current buildings to green standards. The rise of the green movement, combined with

the formation of the United States Green Building Council's Leadership in Energy & Environmental Design (LEED) green building standards, growing demand for green buildings and a significant improvement in the variety and quality of green building materials available, mean that going green today is more than an environmental decision — it's an economic one as well.

Consider the following statistics:

- Green buildings increase a building's value by an average of 7.5 percent and improve return on investment by 6.6 percent while decreasing operating costs by 8 to 9 percent, according to McGraw-Hill's Smart Market Report.
- McGraw-Hill also found that green buildings generate higher revenue due to higher rents and occupancy rates.
- Green buildings generate lower operating costs by reducing waste output and energy consumption. According to the Environmental Protection Agency (EPA), green buildings with a focus on recycling can reduce waste output by 90 percent and use 30 percent less energy, equating to a 5 percent increase in net operating income.
- Green buildings also provide better insurance risk. On average, green buildings suffer fewer losses and are safer to insure due to the extensive commissioning process required to become LEED certified.

The Greening of Coverage

Each property owner that makes a commitment to going green does so for its own unique reasons. Some want to reduce energy and operating costs. Others want to attract tenants that are committed to sustainability. Regardless of how they get there many find themselves facing new challenges when it comes to green building development, including finding the appropriate green insurance coverage.

Here's how it works: In the event of a loss, green upgrade insurance enables poli-

cyholders to replace traditional systems and materials (flooring, paint, carpeting, etc.) with green, environmentally friendly materials in accordance with the LEED standards. If the entire building is destroyed, green insurance often will pay for the replacement with a green certified building.

For property that has already been green-certified, some insurance companies now offer reduced rates as well as providing coverage for vegetated roofs, alternative water systems, and green power generation equipment in the event of a loss. Coverage often includes the hiring of an accredited professional to help manage the repair process and coverage for loss of income until the green power generation equipment is replaced.

In addition to providing green insurance, many insurers also provide green risk management consulting to help organizations select the most prudent and proven options in a very crowded and competitive marketplace. With these programs, risk management and loss control experts help policyholders identify workable solutions to reduce energy costs, decrease carbon emissions, increase profitability, improve indoor air quality and reduce risk and losses.

Insurers have found that in addition to helping improve the bottom line and better attract and retain tenants, going green can be a powerful risk reduction tool as well.

Fireman's Fund has found that the number one cause of loss in commercial buildings is electrical fires, followed by plumbing leaks and heating and air conditioning malfunctions resulting in a fire. The loss ratio for green buildings is significantly lower when compared to traditional buildings.

Insurance companies have also determined that going through the process of becoming LEED certified enables organizations to better identify and reduce risk, making them better candidates for insurance. In the building commissioning process, specially trained engineers review the building plans and monitor construction to make sure that building systems, including lighting, heating and air conditioning and life safety systems are installed and operating correctly, are green and are safe.

Getting Started

Upon deciding to go green, property owners face an overload of decisions regarding

priorities, strategies, funding and timing. EPA Energy Star is a great resource for getting started as they have a page devoted to higher education at www.energystar.gov/index.cfm?c=higher_ed.bus_highereducation. The following action items provide suggestions on how to begin putting an environmental commitment into action:

Establish clear, measurable goals. The first step is to decide exactly what's desired when it comes to going green, and to develop a clearly defined vision of success.

Conduct a baseline analysis of current practices. To effectively measure the economic impact of going green, having a baseline measurement for comparison purposes is essential. Conducting an Environmental Protection Agency (EPA) Energy Star assessment can help an organization see how well or how poorly their energy management practices compare with their peers.

Identify low hanging fruit. When a business first begins its commitment to green operations, often there are a number of high-impact changes that can make it greener and more sustainable without requiring major capital investments. Many of those changes are located in building operations, including implementing green cleaning programs, making sure that cleaning materials are stored appropriately in ventilated spaces, and beginning an integrated pest management program, in which green alternatives to poison are used to keep pests at bay.

Other low-cost/high-impact changes include:

- Implement recycling and waste management programs.
 - Build sustainability into curriculum.
- The United States Green Building Council (USGBC) offers a wealth of case studies and resources.
- Consider LED lighting solutions. The payback period is a little longer than CFL retrofit projects but LEDs don't have the disposal and mercury problems of CFLs.

Consider Retro-Commissioning Older Buildings. Just as the commissioning process creates safer, more efficient new buildings, retro-commissioning is a process in which an existing building is brought up to the LEED Existing Building Operations and Maintenance standard through energy-saving and air quality improvements. Retro-commissioning often begins with a complete building audit, in which all building systems

are evaluated. The process is especially helpful in prioritizing improvements and identifying areas of potential risk, resulting in cost savings and greater efficiency.

Invest in Operations Training. If an organization goes to the trouble to install the latest energy-efficient systems, it's important that the staff running the facilities fully understand the technology involved

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and how to use it. A building can have a cutting-edge system, but if the individual running the operations of the building is not fully trained to use the system, the expected benefits may not be realized. Creating an Integrated Design Process (IDP) helps ensure that everyone involved with the building — from the architect to the contractor to the building manager — is fully briefed on the technology and the systems involved.

Review Goals and Determine Funding and Scheduling. Once goals are established, the next step is to prioritize changes and determine which changes will require additional funding.

Identify Available Resources. Through the federal stimulus package, the government is currently offering billions of dollars to businesses to upgrade their facilities and make them greener. Most property owners have buildings targeted for renovation, and it's important to identify the criteria that need to be met to qualify for funding.

An Ongoing Commitment

Far from a passing trend, green insurance is at the intersection of the need for environmental protection for the sake of the planet and strategic business practice. The future is certainly green, and as more technology, innovation and research are released, the industry should expect the current boom in green construction and remodeling to continue to expand. ■

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