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National News

# Under Construction: The Green Property Insurance Market

By Andrea Ortega-Wells  
November 7, 2006

Douglas G. Hotchkiss, owner of the Dallas, Texas-based Hotchkiss Insurance Agency, hadn't thought much about building "green" or environmentally-friendly structures. But he now says, "it's a bigger deal than I thought. ? I guess I've been asleep at the wheel not thinking about it, but (this) phone call has gotten my interest."

Hotchkiss founded his insurance agency more than 28 years ago and specializes in serving the building industry and related trades, including insurance products and services for subcontractors and commercial businesses. With six locations throughout Texas and over 100 employees, HIA is no stranger to commercial building trends. Despite Hotchkiss' high level of experience in the building industry, he had yet to grab hold of the "green" building craze. After some further investigation, Hotchkiss learned that today more than 50 percent of builders are building green.

"If more than 50 percent of the builders are building green, I need to know that," he said. "This affects my commercial builders and residential builders," he added.

## Rise in green construction

The National Association of Homebuilders says inquiries into green practices are up more than 250 percent from last year. Commercial green building and development projects will increase 30 percent over the next five years, according to estimates by the National Association of Industrial and Office Properties. The organization also reports that more than half of the world's 500 largest corporations issuing sustainability reports in 2005 say that they want to build and occupy real estate that reflects their values ? which includes green building practices.

A recent survey by McGraw-Hill Construction projected the near-term market growth in green construction for the following building sectors: Education - 65 percent; Government - 62 percent; Institutional - 54 percent; Office - 58 percent; Health care - 46 percent; Residential - 32 percent; Hospitality - 22 percent; and Retail - 20 percent.

Owners and developers of commercial and institutional properties in North America are advancing green development through state-of-the-art tools, design techniques, advanced green products and creative use of financial and regulatory incentives.

Much like Dallas agent Hotchkiss, the property insurance industry is starting to take notice of this revolution in building and how it might affect property losses, safety and risk management, with some predicting a series of new products tied to green building.

Evan Mills, Ph.D., of the Lawrence Berkley National Laboratory in Berkley, Calif., has written extensively about the insurance benefits of energy-efficiency and renewable energy options and their potential for risk management and loss reduction. He says energy efficient systems can reduce insurance losses in commercial property, as well as boiler and machinery, builder's risk, business interruption, completed operations liability,

comprehensive general liability, contractors liability, environmental liability, product liability, professional liability, service interruption, workers' compensation, health/life insurance, and homeowners insurance.

"The green building movement has really taken off, primarily due to the combined and complementary impacts of the U.S. Environmental Protection Agency and U.S. Department of Energy's ENERGY STAR program, which provides recognition for high-energy-efficiency buildings, and the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) program," Mills said. "Many thousands of buildings have participated in these programs, and the growth rate is significant."

### **Insurance appeal**

The rise in commercial green developments indicates a need for change in how the insurance industry covers green properties, says one major insurer.

Fireman's Fund Insurance Co. released new product endorsements in October specifically for certified Green Building Replacement and Green Upgrade coverages that address some of the unique risks that accompany green building practices. The carrier believes it is the only insurance company to offer such coverage for sustainable commercial buildings.

Rich Torres, an independent agent at Woodruff-Sawyer in San Francisco, Calif., has had an interest in green building design for some time, but when he began researching the availability of insurance products targeting the market he came up empty-handed.

"My goal was to find a carrier that provided a 'green' program and if I couldn't, develop one and partner with a carrier that was willing to support it," Torres said. The projections for green building growth over the next couple years suggests that there will be a definite need in the insurance market for those choosing to build green, Torres added. "Global warming, power outages and fuel supply shortages are all very real issues facing our society. More owners/developers are deciding to address the situation by implementing sustainable designs into their buildings."

Hotchkiss says that green buildings, due to their high-performance design, do pose a different kind of risk than typical commercial buildings.

"We see some very significant differences; that's why we are very willing to offer a rate to green buildings," said Steve Bushnell, product director at Fireman's Fund. Green buildings are designed with state of the art specifications for electric systems, heating and A/C systems, and plumbing systems, he said. Plus, they go through a commissioning process where a professional engineer makes absolutely sure the systems have been installed to manufacturers' expectations, he added. "That gives us a lot more confidence that these systems are going to perform, not only more energy efficiently for the insured, but more safely for us," Bushnell said. "Most of our losses for commercial property insurance come from electric fires, heating and A/C fires, and plumbing leaks. So we feel that if we have a system where these three things have been specifically engineered to be high performance systems the building is going to be a better insurance risk."

Mills believes the insurance industry could see a raft of new product offerings coming from green initiatives. "In fact, there are already some examples in other segments, such as Travelers' 10 percent discounts for drivers of hybrid cars," he said. "It should also be noted, that the addition of new products/technologies will increase the insured value of green buildings, which, of course can mean more premium volume for insurers," Mills said.

*To read the complete article, "Under Construction: The Green Property Insurance Market" see Insurance Journal magazine's Nov. 6 issue.*

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