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Insurance Goes Green

By Anne Tergesen

The insurance industry is jumping on the eco-bandwagon. After consumers drink their shade-grown coffee, slip on organic-cotton clothing, and stock up on environmentally friendly household products, they can now buy "green" policies that cover the house itself—and the car in the driveway. New policies will pay to rebuild a home using green materials after it's destroyed by fire or other disaster, and offer discounts if you buy a hybrid car or limit driving. So far, only a handful of policies is available, and most are sold only in selected states. By yearend, insurers say they'll have a range of such policies on sale nationwide.

Green purchasers tend to be upscale, and that's part of the lure for insurers. But the industry is also looking at safety data. The discounts they're tacking on to auto policies flow from lower costs, since there's a "strong link between behavior that reduces greenhouse gas emissions and behavior that reduces the risks of accidents and damage," such as driving less, says Andrew Logan, director of the insurance program at Ceres, a nonprofit coalition of investors and environmentalists.

Auto insurers' eco-offerings come in a few varieties. One gives discounts to owners of hybrids. Travelers (TRV), Farmers, and others cut up to 10% off the price of a standard policy. "Customers who buy hybrids tend to have a more conscientious profile" when it comes to driving and maintaining vehicles, says Evan Mills, a scientist at Lawrence Berkeley National Laboratory and author of a Ceres report on insurers' responses to climate change. Allstate's green policy offers a 2% discount for paperless billing, and donates $30 to pollution-reducing projects for each new policy. You can buy the Allstate (ALL) policy in Colorado and Ohio; the company expects a version to go nationwide this year.

More prevalent are "pay-as-you-drive" policies. Insurers have long offered some savings to those who drive less, but the new green discounts can be "very steep," says J. Robert Hunter, director of insurance for the nonprofit Consumer Federation of America. At Progressive (PGR) and GMAC (GM) Insurance, for example, customers save up to 25% and 54%, respectively, by keeping mileage below certain thresholds. GMAC customers who drive less than 15,000 miles a year but more than 12,501 save 13%, on average. Those who log less than 2,500 miles save about 54%. "I don't consider myself a 'greenie,'" says Robert Panczak, a controller at Guardian Metal Sales and resident of Schaumburg, Ill. Panczak saves some 18% a year on his GMAC premium for a Saturn VUE, a third car his family drives about 7,000 miles a year. "I chose the policy due to premium savings, but gas prices have motivated us to limit driving."

How can an insurer track your miles? Vehicles are outfitted with a GPS or other mileage-tracking device. In GMAC's case, data transmission occurs automatically, though the technology is only on GM (GM) vehicles. Progressive, which offers its program in Minnesota, Michigan, and Oregon, requires data collected by a device that plugs into a port on the steering column to be sent via computer every six months. Farmers expects a pilot program in Arizona to go nationwide within 18 months.

The homeowners' policies are just rolling out. Lexington Insurance, an AIG (AIG) subsidiary, launched its "Upgrade to Green Residential" program in Northeast states in January and plans to go nationwide in March. After a loss, policyholders can rebuild using sustainable materials, such as bamboo, and replace appliances with energy-efficient ones rated by the federal Energy Star program. The upgrade adds 3% to the cost of insurance. (The U.S. Green Building Council, a nonprofit that certifies homes and commercial buildings as green, says an eco-friendly home, made of materials that aren't mass-produced, typically costs 3% to 5% more to build.) Hunter, of the Consumer Federation of America, thinks homeowners would do better to spend the money on green upgrades: "Rather than pay an extra 3% for something that may never happen, why not buy better insulation?" Insurers say the policy's extra cost is insignificant compared with the cost of upgrading or fully rebuilding.

Some policies cater to those who generate their own energy. Lexington's LexElite Eco-Homeowner option targets the estimated 250,000 households that generate their own solar, wind, or geothermal energy. If the systems fail, an added premium of about 2% will cover the cost to purchase power elsewhere and get permits and inspections to bring systems back online, among other expenses. And after letting clients who lost homes in last October's Southern California wildfires rebuild green at no extra cost (options included replacing plants with hard-to-ignite ones such as Jacaranda trees), Fireman's Fund is also going nationwide with a policy.Consumers will pay an extra premium expected to be in the 2% range. Fireman's also plans to offer owners of existing green homes a discount of some 5%.
