Chapter 9

Green Insurance and Sustainability Driving Risk Management for a Resilient Future

Vikas Garg
https://orcid.org/0000-0002-1421-5980
Symbiosis Institute of Business Management, Noida, India & Symbiosis International University, Pune, India

Pooja Tiwari
https://orcid.org/0000-0003-2269-7083
Sharda School of Business Studies, Sharda University, Greater Noida, India

ABSTRACT

This chapter will discuss the phenomenon of green insurance, emerging trends and will examine the various stakeholders involved in fostering sustainable development via risk mitigation. Green insurance has become an essential tool for managing environmental risks and promoting sustainability efforts in the 21st century. The present study aims to explore the active participation of the insurance sector in promoting sustainability and resilience. This study mainly focuses on exploring the correlation between green insurance, SDGs, and focuses on the following: Climate Action (Goal 13) and Affordable and clean Energy (Goal 7). The study takes a multi-disciplinary perspective of sustainability studies, insurance economics and environmental science. The analysis incorporates a literature review of the academic research and industry reports, case studies of green insurance successes, expert interviews, and analysis of climate risk data and its financial implications.

DOI: 10.4018/979-8-3373-1882-0.ch009

INTRODUCTION

Definition and Importance of Sustainability in the Insurance Sector

Increasing awareness of climate change, resource depletion, and environmental degradation means sustainability is a fundamental pillar of modern economic, environmental, and social policy. In its broadest sense, sustainability ensures that we meet needs in the present without putting the ability of future generations to meet their own at risk (Brundtland, 1987). The insurance sector is an essential component of sustainable development, helping to reduce environmental risks and drive responsible investment in green projects. It allows entities to support sustainable financing by specifying financial risks in the company's activities affected by climate change (Brockett & Golden, 2020).

Overview of Green Insurance: Concept and Evolution

Green insurance is a policy created to protect businesses and individuals against environmental risks and encourage people to act sustainably. These include, for example, renewable energy insurance, carbon credit insurance, climate parametric insurance, and pollution liability insurance (Zhang & Wei, 2023). Green insurance emerged as a response to increasing climate-related risks and regulatory pressures for sustainable finance solutions. In the 1990s, insurers started to include environmental factors in their risk assessments because of growing awareness of climate change and natural disaster consequences (Mills, 2005).

Over the past few years, sustainable finance has gained more attention, and innovative insurance products have explicitly emerged for climate adaptation and resilience (United Nations Environment Programme Finance Initiative [UNEP FI], 2021). Technology, policy changes, and stakeholder demands for environmental accountability have driven the evolution of green insurance (Lutz et al., 2022).

The Role of Insurance in Environmental Risk Management

Insurance is a crucial financial tool to hedge against climate change, pollution, and disasters. Insurers guarantee financial protection against unforeseen losses by underwriting risks of environmental hazards (Swiss Re, 2022). Green insurance products reward organizations for sustainable practices with reduced premiums for environmentally friendly operations (Michel-Kerjan & Morlaye, 2021). For example, insurers providing renewable energy coverage mitigate investment-related risks and spur the transition to solar and wind energy solutions (Zhao et al., 2022). Allianz