

Environmental crime and the impact for insurers

25 November 2024

November 2024 saw the conclusion of COP16 in Columbia, the world's largest biodiversity summit. The conference saw several landmark decisions made, as well as the launch of the Environmental Crime Financial Toolkit ('Toolkit').

What is the Environmental Crime Financial Toolkit?

The Toolkit was created by both WWF and Themis, a financial crime software company, with the aim of helping firms detect and monitor illicit activity that could lead to exposure. Dickon Johnstone, CEO at Themis, explained that the *"financial sector is potentially exposed to environmental crime risks through numerous business activities, including investment, trade finance and insurance. This naturally poses a threat from an ESG and reputational perspective, but what is more, the extensive convergence between environmental crime and other financial crimes can expose firms to serious legal and regulatory risks."*

Environmental crime is the third biggest illegal activity globally and is growing by 5-7% every year. Despite this, many companies do not take adequate measures to protect themselves from breaches. For example, the 'Financial Crime and Land Conversion: Uncovering the Risk for Financial Institutions' report, published in April 2024 by WWF and Themis, found that out of the 644 financial services professionals surveyed over 60% stated that a land conversion risk policy was either non-existent or not yet in place in their firm.

According to WWF, the Toolkit will help institutions understand risks and reduce the chance of falling foul of potential sanctions for enabling illegal activity, which can carry sizeable penalties. For example, in the UK companies responsible for pollution can now face an unlimited financial penalty.

What does this mean for insurers?

When considering the risk faced by proposers, insurers should be mindful of the environmental crime risk and consider whether existing policies adequately deal with such risks one way or the other. At present many policies are silent on this issue, thereby creating uncertainty and potentially unexpected outcomes. Equally, with the growing prevalence of environmental crime, and the awareness of such crime, there is potentially a growing market for the development of specific products to address policyholders' concerns.

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