

This is one of a suite of case studies of NEIRF funded projects, to highlight efforts to protect and enhance the natural environment, while generating revenue from ecosystem services.



River Ouse, East Sussex

HILL STONE WOOD: GENERATING FUNDS FOR NATURAL FLOOD MANAGEMENT

HIGH LEVEL SUMMARY OF PROJECT



Habitats and geographical location

-  Rivers and flood plains
-  Ouse and Adur rivers in East and West Sussex



PROJECT OVERVIEW

Hill Stone Wood (HSW) is a green financial services company aiming to create a new home insurance brokerage service to reinvest 80% of profits into nature-based solutions.

HSW will be presented to homeowners via distribution partners such as nature-based charities and water companies as a green insurance brokerage that puts its profits into services that improve green amenities, helping to tackle environmental climate and nature-related challenges. Revenues from HSW home insurance will pay for environmental benefits initially in landmark NbS projects closest to policyholders' landscape catchment area. As the model expands, the proximity of funded NbS projects to policyholders' homes will increase.

The NEIRF grant was used to create a home insurance product linked to an investment model supporting NbS projects. HSW will introduce homeowners to insurance underwriters, and 80% of profits from the introduction will be invested in NbS. Underwriters will also contribute a percentage of their returns.

Using a catchment system, the resulting funds will be released to NbS programmes near to the homeowners who have purchased insurance. HSW will ultimately work with each catchment partnership and the insurance distribution partners to prioritise the NbS services that the funds from the insurance product must go towards, and to take into account Local Nature Partnerships (LNP) goals and Local Nature Recovery Plans (LNRP) in the area, to help to achieve maximum benefits for NbS and for homeowners.

The grant also funded the development of a decision making and impact monitoring tool using Rapid Assessment of Wetland Ecosystem Services (RAWES), a cost-effective internationally standardised balanced scorecard method to assess ecosystem services provided in the catchment. Monitoring data will be used to encourage coordinated investment across catchments, to support the collective goals of their nature-dependent entities such as insurance and water companies, landowners, farmers, highways, rail, local councils and other public and private entities.

GOVERNMENT ENVIRONMENTAL GOALS

 <p>Clean and plentiful water</p>	<p>NbS such as natural flood management (NFM) activities like promoting swales, permeable surfaces and rain gardens will help to capture, filter and store water surface run off. Connected landscape recovery corridors could lead to the removal of infrastructure such as dams and weirs, enabling joined up waterways.</p>
 <p>Thriving plants and wildlife</p>	<p>NbS such as NFM will create more wetlands providing habitat for plants, amphibians, breeding birds and terrestrial wildlife. It will also allow wildlife to move more easily across the landscape, improving connectivity.</p>
 <p>Reducing the risks of harm from environmental hazards</p>	<p>Current grey infrastructure reduces the risk to specific buildings and properties. NbS like NFM aggregates risk and redistributes it across a catchment area.</p>
 <p>Mitigating and adapting to climate change</p>	<p>Investment in NbS such as NFM will allow management of the increased risk of flooding at a lower carbon cost than grey infrastructure. A range of NbS/NFM interventions such as managing woody material in watercourses to slow down flood flows will increase surface water storage including during warmer periods.</p>

OPERATING MODEL

Initially, while the volume of insurance sales is low and the model is in its early stages (Stage 1), HSW will allocate funds to individual nature charities' projects, where NbS objectives for the use of the funds have been agreed.

Proposed governance process: Stage 1 – Low insurance volumes/landmark projects



Monies directed to key landmark projects across the country with funds targeted to project nearest to purchaser of HSW home insurance. Monies held in Escrow until all HSW criteria met.

Monies transferred to bank account of lead organisation.

Clean beaches	Beavers	Wyre	Nature North	
✓	✗	✓	✓	Nominated lead organisation
✓	✗	✓	✓	Ecosystem services prioritised
✗	✗	✓	✓	Investment readiness toolkit utilised
✓	✗	✓	✗	Tracking set-up

As HSW's model expands and insurance sales increase, HSW will set up catchment-level partnerships. Rather than funding regional charity projects, in Stage 2 multiple nature charities within a given ecosystem area will work together to use HSW funding towards achieving collectively agreed NbS goals.

Proposed governance process: Stage 2 – High insurance volumes/catchment partnerships



Monies directed to catchment partnership linked to household postcode, but only if criteria for funding is met by catchment partnership. Where the catchment partnership is not meeting criteria monies will either be held in Escrow (if partnership on way to meeting criteria) OR diverted to nearest partnership meeting criteria (if partnership meets no criteria).

Monies transferred to catchment partnership bank account OR in absence of formalised catchment partnership the same account that DEFRA 15k funds are transferred to.

Ancholme	Dorset Stour	Ouse and Adur	Wyre Waters	
✓	✗	✓	✓	Agreed 25 year strategy
✓	✗	✓	✓	Project portfolio and lead organisation
✗	✗	✓	✓	Ecosystem services prioritised
✓	✗	✓	✗	Investment readiness toolkit utilised
✗	✗	✓	✗	Tracking set-up

Initially HSW will act 'an introducer' whilst waiting for approval by the Financial Conduct Authority to sell financial products. Over time, the monthly release of funds from home insurance payments will provide a secure and stable revenue stream to catchment partnership initiatives that fit with the RAWES scoring criteria and that are of interest to the distribution partners sustaining their 25-50 year goals. The long-term sustainability of the funding is based on high business retention levels (75%+) in the insurance industry, with home insurance typically operating in 25-50 year cycles. Once released, funds will be used to improving landscape management and increase biodiversity at catchment level. The model will be scaled up over time.

INNOVATION

A key innovation for Hill Stone Wood is to use revenue from selling home insurance to customers for NbS, and to ensure funds go to the nearest catchment-based project to the postcode of the home purchasing the insurance. It allows homeowners to fund NbS within their area, enhancing their local green amenities and providing valued ecosystem services. The catchment system will also allow homeowners to support a range of causes simultaneously.

HSW also seeks to change consumers' relationships with home insurance, through showcasing the value of their investment into NbS by providing local amenities using the RAWES method, as described above.



LEARNING POINTS

- Engage with buyers as early as possible to understand their motivations so that buyer needs can be considered and accounted for within project shaping and development.
- Build a stakeholder map and focus on engaging with communities that are most interested in the programme and its goals
- There is a focus on credit markets, but this should not crowd out other options that could be either complimentary or competitive. Other revenue and financial models should be further developed and tested, beyond the sale of environmental services in the form of credits.
- Catchment partnerships are a viable way to go beyond novelty or siloed projects, and to focus on whole-area ecosystems to maximise NbS outcomes.
- It needs to be a collective effort to fill the gaps that exist between buyers, sellers, investors, policymakers and data, and to build the role of intermediaries in natural capital markets.

WOULD YOU LIKE TO KNOW MORE?

If you would like to learn more about Hill, Stone and Wood, please get in touch with Nigel Greenhill, Director, Hill Stone Wood Nigel@insta-associates.com. For questions regarding NEIRF, please contact NEIRF@environment-agency.gov.uk.

This case study was produced by Ecorys.