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News Release

THE WILLIS COMMENTARY ON…

ENVIRONMENTAL INSURANCE

New York, NY, May 18, 2004 – After more than a decade of rapid growth, environmental insurance remains one of the fastest growing areas of risk management and the need for it touches on an increasingly wide range of activities. For an industrial operator or a business which stores, uses or handles hazardous materials, the risks may be obvious. For a business buying land for development, undertaking construction or acquiring a company, the risks may be unknown. And there are many businesses that may be doing very little that appears to create environmental exposures, but may still be seriously at risk due to their, or their predecessors', legacy operations. Regardless of the specifics, organizations have never faced a greater threat to their financial health from environmental risks and toxic tort liabilities.

The Sarbanes-Oxley Act and some newly defined requirements for financial reporting and disclosure have expanded the accountability for "environmental reporting" beyond risk and environmental managers, to now include CFOs, CEOs and General Counsels. Similarly, shareholders, regulators, investors, lenders, financial analysts and other stakeholders are now asking questions and demanding answers about the long-term liabilities associated with environmental exposures, insisting that companies demonstrate adequate risk control measures. What might have been a footnote in the annual report a few years ago can quickly turn into a major bottom-line issue today.

That doesn't need to be the case, however. Insurance products are available to address a myriad of corporate environmental liabilities. For true protection, as defined by today's corporate governance standards, companies need a well thought-out, comprehensive environmental liability management strategy that appropriately blends physical, engineered and financial risk controls – including insurance and alternative risk transfer solutions – to eliminate, control or mitigate exposures and their financial consequences.

The evolution of the environmental insurance market has also led to the development of innovative risk finance programs that have facilitated business opportunities which, in the past, may have been viewed as too risky. For example, environmental insurance has played a central role in the growing trend towards brownfield redevelopment in the US and it is increasingly being used to remove or transfer liabilities that previously were viewed as overwhelming impediments to such endeavors.

Environmental insurance is now playing a similar role in unlocking corporate transactions that previously might have stalled or fallen through due to concerns associated with environmental liability. There is an increasing demand for creative risk transfer solutions in this area as the economic recovery begins to stimulate renewed mergers and acquisitions activity.

The role of liability transfer and guaranteed fixed price remediation programs in the management of legacy liabilities has also escalated as companies seek to present clear and credible evidence that these liabilities are being efficiently managed, funded and transferred.

Toxic mold continues to command headlines while mold exclusions to liability and property policies have become a fact of life. All major environmental markets now offer some form of mold coverage under pollution liability forms and, again, demand is brisk.

The key environmental insurers are expanding their presence and new capacity is entering the market. Capacity remains strong and this risk sector has largely avoided the substantial premium increases experienced by other insurance product lines. Loss experience has, however, led to increased underwriting scrutiny on certain products such as Cost Cap insurance, which insures remediation projects against cost overruns.

Risk managers should review their environmental risk financing strategies to ensure they are taking full advantage of the opportunities and protection available from this dynamic market segment. Given the focus on environmental exposures today, they can't afford not to.

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