

News Release

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The Willis Index: 2006 Environmental Claims – The Tip of The Iceberg?

London, UK, July 31, 2006 – Environmental claims are increasing in terms of both frequency and magnitude of loss and this trend looks set to continue, according to insurers surveyed in the latest Willis Index for Environmental Insurance. Respondents to the Index for the second quarter of 2006 indicated that the pace of claims seen recently is higher than in previous years due to the rapidly changing environmental legislation and the increasing public awareness of environmental issues.

The Willis Index provides a quarterly update on a range of issues affecting the London underwriting market, based on a survey of insurers within various specialty lines, including environmental.

Insurers report that the vast majority of recent claims have been successful, perhaps largely due to the specialist nature of the cover. Where claims did not succeed, this was typically a result of the (often innocent) non-disclosure of “known” contamination issues prior to binding the policy, as well as other policy exclusions. Both issues highlight the need to use a specialist broker such as Willis who is familiar with policy wording and disclosure requirements.

The payment of valid claims is of course a fundamental aspect of the environmental insurance market. In Willis’ experience, the tight drafting of policy wordings and good understanding of the technical, legal and commercial issues are essential ingredients in the negotiation of an effective environmental insurance placement and the subsequent payment of claims. Environmental insurers recognise that effective and fair claims management is important in demonstrating the value of environmental insurance, one insurer commenting: “We simply cannot afford to be seen as an industry that does not pay claims.”

There seems little doubt that claims are on the increase, and that this looks set to continue. Increased public awareness of environmental issues brings with it increased potential for litigation action – a trend that has been evident in the US for some years but which is now starting to be seen elsewhere as well. Even if such litigation ultimately fails, the cost of defending the claim can be substantial. Indeed, the provision of legal defence costs was considered by environmental insurers to be one of the main exposures they face, but also one of the benefits they can bring to an insured. One environmental insurer commented, “The coverage for legal defence expenses under our policies is often overlooked by clients, but it can add real value to their risk management programme, irrespective of whether a third party claim or regulatory action succeeds.”

While the premium rating procedures of environmental insurers have traditionally been based largely on US claims statistics, most insurers interviewed confirmed that the procedures are increasingly tailored to the European claims experience and regulatory

framework. This, in combination with the increasing competition throughout the environmental insurance industry, may have had a hand in driving premiums down recently.

But what does the future hold? The claims seen so far are almost certainly the tip of the iceberg, particularly in view of the rapid pace of environmental legislation, coupled with increasing public awareness of environmental issues. Insurers obviously need to continue to offer attractive cover to clients, but also ensure that such cover is based on sound underwriting practice. Balancing these objectives is likely to present an increasing challenge to environmental insurers in the future, particularly as the competitive nature of the environmental insurance market shows no sign of abating.

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