

News Release

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The Willis Environmental Index: Decrease in Policy Limits

London, UK, November 29, 2006 – Environmental risks are notoriously difficult to accurately quantify, verify and manage leaving clients asking the question, “How much cover should I buy?” It is therefore interesting to note that the latest trend in the UK environmental insurance market is a general rationalisation of policy limits, based on a technical and legal review of potential liabilities. This is according to the majority of insurers surveyed in the Willis Index tracking this coverage area for the third quarter of 2006.

The Willis Index – a quarterly survey of London market insurers – asks participants for their views on the underwriting market over the past three and for the next three months; each Index explores a different coverage area.

Insurers surveyed reported a maximum single policy limit of £50 million having been requested this year. However, the requirement for such a high limit is rare; the days of corporates and financiers/lenders insisting on environmental policy limits being set at the maximum available capacity seem to be over.

It is evident in the Willis Index that there is a considerable spread of policy limits selected, between less than £1 million to greater than £20 million. However, most insurers reported lower policy limits and indicated that the most common policy limit being purchased for multi-year policies was in the order of £5 million or equivalent. Annual cover is often purchased with lower limits, typically in the order of £1 million.

For some insurers the decrease in policy limits may be partially explained by an increasing uptake of annual policies, for which lower limits are typically requested. Such insurers reported that for multi-year policies there had been little or no change in the limits being requested.

Most environmental insurers are routinely able to offer aggregate policy limits of up to £20 million, which is more than adequate to satisfy the vast majority of enquiries. A total capacity in the region of US\$180 million (£100 million) is available in the London Market through the use of excess layers. However, such an approach is seldom required, with excess layers being used on less than 1% of placements according to insurers surveyed.

For certain risks, insurers may be unwilling to offer the full limit of cover requested, either because it exceeds the maximum capacity under their reinsurance treaty, or because they wish to limit their exposure to less than that of the requested limit.

However, this has not been a significant factor restricting the take up of environmental insurance.

So what do insurers predict for the future? In general, further rationalisation of policy limits seems likely. However, in high risk sectors, particularly those that are seeing increasing claims activity such as waste management, there is increasing awareness of the potential quantum of losses that can occur. In all cases, careful consideration of potential environmental exposures is required in order to select appropriate limits.

The Willis Index polls non-US insurance companies providing buyers of specific lines of coverage with an overview of the market reporting on relevant issues unique to their industry.

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