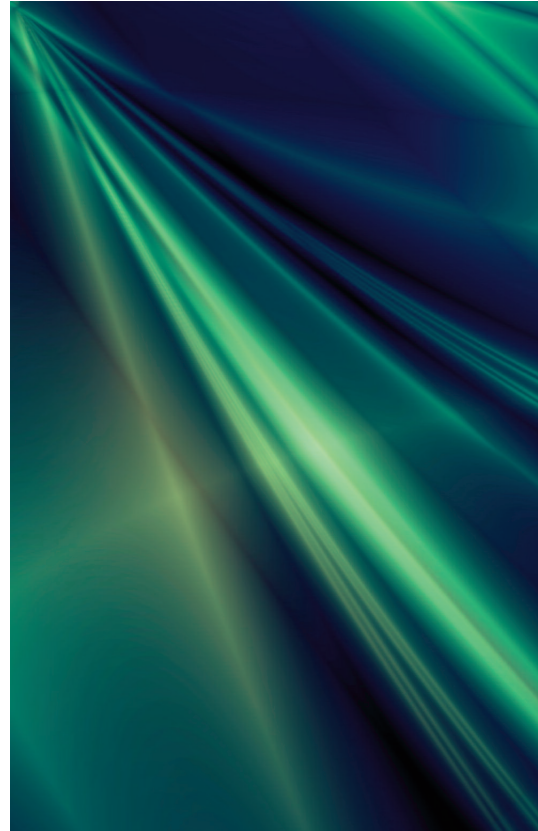


THE SURETY CHALLENGE FOR ENVIRONMENTAL CLEANUP

For many years, it wasn't easy for environmental contracting firms to find adequate surety capacity. Recently, with improvements in environmental assessment and cleanup technologies and the mainstreaming of environmental projects, surety credit is increasingly available for many types of environmental work. Challenges remain, however, because of the varying appetites at the sureties and the varying exposures that environmental work creates.

While some sureties are growing more comfortable with environmental risks, certain types of environmental work still carry the unappetizing potential for long-tail exposures. Highly hazardous classes of work, such as nuclear remediation and remediation work on Superfund sites, remain outside the bounds of what sureties consider acceptable risk. On the other hand, less onerous projects – standard soil remediation, underground tank removal and some straight forward hazardous material cleanup work – can be readily bonded in today's market.

Bottom line: several surety writers are currently active in the environmental surety marketplace, some with very solid financial ratings. Underwriting requirements differ for each, as do the levels of single project and aggregate surety capacity they offer. For some types of work, single bonds as high as \$50 million are available.



UNDERWRITING ISSUES

Along with the commonly required financial information, backlog and detailed scope of work, contractors seeking environmental surety bonds should be prepared to provide underwriters with:

- Copies of contract documents
- Their environmental business plan
- Details of their work experience
- Coverages available under their environmental insurance program

In addition, contractors can expect surety support to include a collateral component. This will vary according to the financial strength of the contractor and the type of contract. Collateral requirements are most likely an issue where a long, post-construction exposure exists.

Environmental cleanup is a growth industry. The federal government is leading the charge with plans for increased enforcement and environmental spending featured in the recently passed federal stimulus legislation. States and local communities are also devoting resources to the environmental sector. As the economy recovers, increased private and commercial development should further elevate demand for environmental services. Companies will need surety support to meet this surge, and the resulting increase in surety demand will impact the marketplace – though no one is exactly sure how.

To help companies handle the increasing complexities of environmental surety, the Willis Construction and Environmental Practices collaborated to form our Environmental Surety Working Group. This group brings together experienced surety and environmental practitioners across North America. We remain in constant contact with the environmental surety markets, both at headquarters and in underwriting offices. We understand their appetites and capabilities. We are ideally prepared to provide surety buyers the up-to-date information they will need to navigate the environmental surety market.

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