

THE NEW NORMAL

Fall is here and as always it brings changes in the temperature, the color of the leaves and where children spend their days. But not in the current soft insurance market.

In a *National Underwriter Online News Service* article October 6, 2010, Alastair Swift, Willis North America Chief Placement Officer, stated, "...a lot of capacity came into the marketplace with the expectation that some insurers such as American International Group and XL Group would go by the wayside and that would open up some opportunities. When that failed to happen, insurers were forced to find other places to deploy their capital. The result is the current market condition."¹

In addition to the continuing soft market, described in Market Trends below, this issue of *Views* continues to offer quality and actionable information: "Understanding Health Care Reform (or the 1099 form attack)," "The Bed Bug Epidemic" and "Providing Your Lender Proof of Insurance (the new world of insurance certificates/binders)."

We also address the uptick in Hotel Industry Privacy Risks for Property Managers, Building Valuation Issues, Cat Modeling and Construction Defect Liability Exposures for Bank REO and distressed asset investors. We hope you find this issue useful. Let us know what you would like to see in upcoming issues.

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MARKET TRENDS

As we go to print the hurricane season, with the attendant possibility of depleting the abundant surplus the industry currently has, is unofficially over. The official end is December 1 but, historically, the vast majority of storms have occurred between August 1 and October 30. This is the fifth consecutive year of relatively moderate activity during the hurricane season contributing to the substantial increase in policyholder surplus over this period.

continued on page 2

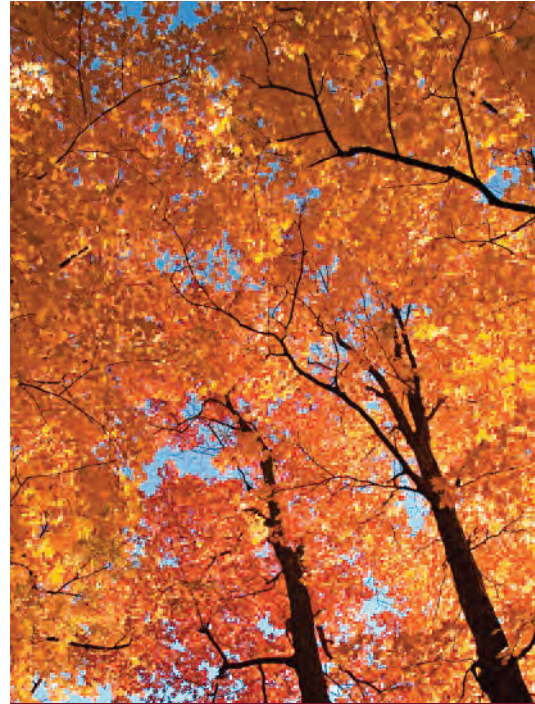


TABLE OF CONTENTS

- The New Normal 1**
- Market Trends 1**
- The Hotel Industry: Signs Of Recovery - Yes. How Much Depends on Where You Sit. . . . 2**
- Understanding Health Care Reform 3**
- Valuation for Buildings 4**
- Property Managers - What if What's Private Doesn't Remain Private? 6**
- Bed Bugs - A New Epidemic? . . . 7**
- Providing Your Lender Proof of Insurance Coverage 8**
- Bank Reo and Distressed Asset Investors Face Construction Defect Liability Exposures . . . 10**
- Cat Modeling Data Accuracy . . . 11**
- Contacts 12**

Market Scout reports that the composite rate for P&C placements in August was down an average of 4%, with GL risks seeing an average of a 6% decline. Other lines saw decreases from 1-6%, with all lines of coverage seeing declines in rates. These figures confirm the continued softness in the market.

For the first half of 2010, net income for P&C companies more than doubled, year over year, to \$16.5 billion compared to \$5.9 billion as of June 2009. Policyholder surplus continues to grow and is now at \$530 billion. Much of the gain in net income was attributed to a \$13.3 billion increase in net investment gains. The combined ratio actually increased slightly to 101.7 from 100.8, indicating that carriers are losing money on underwriting, but we do not believe the combined ratio at this level will cause a market hardening.

Those who suggest a harder market is imminent point to two factors. First, the rate of return of 7.5% is, in their opinion, inadequate for the risks assumed. In addition, Workers' Compensation, the single largest line for commercial insurers, continues to suffer from the economic downturn. According to the *National Underwriter* "the ongoing recession has hit Workers' Compensation carriers hard, causing nearly a quarter of the market's premiums to evaporate and cutting profitability by as much as half in the past two years."²

In the absence of a significant surplus-depleting event or event risk, we agree with the view expressed by Morgan Stanley: "With capacity abundant and insurers still with billions in redundant reserves, a market hardening might not occur until 2013."³ The recession has reduced the demand for insurance, yet the supply – policyholder surplus – continues to grow.

The degree of softness in rates depends on several factors, including loss experience, exposure to catastrophe perils, completeness of the submission, size of account, industry and the underwriter's appetite for the specific class of business. We have found wide differences in pricing among carriers who respond to a given risk. It is particularly important to know the market, provide a complete submission with as much detail as possible and engage the client in the underwriting and pricing process in order to achieve the optimal result in this competitive marketplace.

THE HOTEL INDUSTRY: SIGNS OF RECOVERY – YES. HOW MUCH DEPENDS ON WHERE YOU SIT.

The hotel industry, which just went through one of its most severe and longest downturns, is beginning to show signs of recovery. The degree of recovery, however, varies markedly from market to market, with cities such as New York and Boston seeing particularly robust growth. RevPar in NYC is up 15% and in Boston, 4%.⁴

Nationally, approximately 190 million room nights were sold in the first half of this year, up 19% from the 160 million room nights sold in the first half of 2009.⁵ Smith Travel Research is currently forecasting a RevPar gain of 3.0% in 2010 and a better than 6% RevPar gain in 2011. Colliers PFK Hospitality Research is forecasting an average increase of 2.3% in net operating income for this year. This follows a decline of 37.8% for the 2007 to 2009 period.⁶

Demand growth is fueling the recovery. Obviously this is directly related to the economy, which is growing more slowly than hoped for. A jobless recovery is a long-term concern for hoteliers and the nation.

Business and leisure travel is improving and the room development

continued on page 3



The Hotel Industry – continued from page 2

pipeline is down to 700,000 rooms. Mark Woodworth of PKF Hospitality Research stated, “Meaningful development is not expected to occur until 2013.”⁷⁷ Many believe this recovery will be aided by the relatively small increase in room supply over the past few years.

Average Daily Room Rate (ADR) is not improving at the same rate as occupancy and demand. ADR has declined 6.6% in 2010 according to Mark Lomano of Smith Travel Research. He believes it will take “four to six years to get ADRs back to where they used to be.”⁷⁸ Hoteliers simply do not have the pricing power one might expect at this stage of the cycle.

Hoteliers will continue to face challenges as they navigate through what we all hope is a sustained and robust recovery. Such issues as The Health Care Reform Act, immigration reform, the need to control operating expenses and the overall health of the economy keep many hoteliers awake at night.

We can help our hotel clients survive and thrive during these turbulent and uncertain times by managing and reducing the cost of their insurance programs. That begins by designing the right insurance program and getting the best coverage and price from carriers who understand the hotel business, and then getting claims paid promptly and fairly.

We have also undertaken a program to share with our clients and prospects our knowledge about and view of the Healthcare Reform Act. We attended the Hotel Asset Managers Association (HAMA) Annual Conference in Palm Beach Gardens, Florida on October 6-8 and led a panel discussion on the Act. We know the importance of this legislation to the hotel industry.

UNDERSTANDING HEALTH CARE REFORM

FORM 1099 REPORTING REQUIREMENTS MODIFIED BY PPACA

Under § 6041 of the Internal Revenue Code (IRC), persons engaged in a trade or business who make payments totaling at least \$600 to another person in a single year are required to file an information return (typically a Form 1099) with the Internal Revenue Service (IRS) and provide the payee with a copy. However, a provision in the Patient Protection and Affordable Care Act (PPACA § 9006) greatly expands this information reporting. The new mandate will require businesses to use Form 1099 to report to the IRS all payments to “persons engaged in a trade or business” in excess of \$600 for goods and services. For purposes of this provision, a “person” is deemed to include any corporation that is not an organization exempt from tax under IRC § 501(a). This new reporting requirement is applicable to any payments made after December 31, 2011. According to the Joint Committee on Taxation, the provision would raise \$17.1 billion in revenue through 2019.

Prior to the enactment of PPACA, many corporations were exempt from this reporting as it only applied to certain financial transactions and amounts paid to unincorporated businesses. Under the amended provision, however, most payments to corporations will no longer be exempt from reporting. The types of payments that can trigger the reporting requirement will include gross proceeds and amounts



received by a payee in consideration for property. The categories of payments that can give rise to the information reporting requirements, which were previously not subject to reporting, include payments for merchandise, telegrams, telephone, freight and storage.

Failure of a payer to file a timely and accurate information return with the IRS can result in monetary fines; willful failure may also result in criminal sanctions. Payers may be

continued on page 4

Health Care Reform – continued from page 3

penalized for failing to provide a timely and accurate copy of an information return to their payees.

This new reporting requirement will likely place an expensive paperwork burden on small businesses and possibly further curtail revenue as clients of small businesses will consider consolidating purchases. Already, several bills and amendments have been introduced that would repeal the modifications made to IRC § 6041 by PPACA § 9006. Two such bills were introduced in the Senate but failed to garner sufficient votes. Senator Mike Johanns’s (R-Neb)

amendment, Senate Amendment 4596, would have repealed the provision. Johanns’s amendment failed on a vote of 46-52. Senator Bill Nelson’s (D-Fla) amendment, Senate Amendment 4595, which had the support of the Administration, would have scaled back the requirement to cumulative purchases of \$5,000 per year and excluded companies with fewer than 25 employees. Nelson’s amendment failed on a vote of 56-42, just four votes short of the 60 needed to be included in **HR 5297, the Small Business Jobs and Credit Act** bill.

The Willis Human Capital Practice offers a broad array of Health Care Reform-related tools, publications and presentations. We invite you to **click here** to review the archive of available information.

Our site will be updated regularly as new developments occur and new guidance published, so please check back often.

VALUATION FOR BUILDINGS

The following reviews current thinking on various policy valuation issues for buildings and structures.

Replacement cost coverage is the most common valuation we see nowadays. The wording is usually written as “replacement cost new” or replacement cost “like kind and quality.” To get indemnified on a replacement cost basis following a loss you must spend at least the agreed repair or replacement cost of the damages to receive a settlement based on the replacement cost value. If you do not repair or replace, you are entitled only to the “actual cash value” of the damaged property.

Some policies will allow you to rebuild on a site different from the site that sustained the loss. From a practical point of view, even if a policy does not have “same or different site” wording, many insurance companies will allow you to rebuild on a different site as long as the cost does not exceed the cost to rebuild on the original damaged site, but this needs to be discussed and agreed to by the insurer up front. Any payment for business interruption

– continued on page 5





Valuation for Buildings – continued from page 4

or lost rents would be based on the period of time to repair or replace at the original site.

Many insureds choose to change the building or upgrade the building following a loss. Again, most insurers will have no issue with that, but their liability is limited to what replacement of the original would have been, and the time for business interruption or lost rents is the time to repair or replace the property as was. The challenge with rebuilding with a complete redesign, or even upgrades and improvements, is that the settlement will be based on the hypothetical cost to rebuild as was and the hypothetical period of time to rebuild. This is the stuff disagreements are made of.

The only exception to the strict adherence to repair or rebuild as was is when compliance with the code in force at the time of loss requires a change or upgrade. Your policy must have a “demolition and increased cost” or “code compliance” clause to afford this coverage.

Actual cash value (ACV) is usually defined as replacement cost less depreciation. Although the depreciation is calculated on a physical depreciation basis, many factors, such as use or maintenance, could affect the depreciated amount. Although there are various guides (e.g., Marshall Swift and others), calculation of depreciation remains a subjective process. A loss settlement on ACV can be on a different basis than the reported value, if the policy does not have a replacement cost feature and ACV values were reported. For example, values might be reported at 75% of the replacement cost before the loss yet after the loss the insurer might calculate the depreciation at 50%.

Some states allow use of the “broad evidence rule” in calculating the ACV of a damaged property, which allows the insurer to bring other factors such as market value and selling price into the calculation.

When considering proper valuation for a property that was purchased for or is earmarked for demolition in the near or far future, insuring at replacement cost is problematic because of the potential “moral hazard.” Insuring at ACV is feasible, but remember: the ACV for a property about to be demolished is minimal at best. We have seen, however, properties of this kind insured for debris removal only. The policy might respond to any costs above the normal costs that the removal of water damaged or fire damaged property could cost. We seldom see property of this nature insured in a policy.

For more information contact your Willis representative.

PROPERTY MANAGERS - WHAT IF WHAT'S PRIVATE DOESN'T REMAIN PRIVATE

The risks surrounding private and confidential information continue to evolve in every industry. Property management is not immune. Property managers must collect, process, store and share information in the regular course of business. All organizations should have policies and procedures surrounding this practice as legal, regulatory and contractual requirements have multiplied the inherent risks.

Personally Identifiable Information (PII) generally means a person's name along with other identifying information, such as:

- Social Security/government numbers
- Drivers license number
- Debit/credit card or bank information
- Credit reports
- Background checks
- Employee/applicant records
- Other sensitive or confidential information

In the U.S. and around the world, personal privacy has become a very sensitive issue. Identity theft, financial fraud, violations of privacy/publicity, improper sharing of marketing information and disclosure of private facts now commonly create expenses, liabilities, regulatory and contractual issues.

Your organization must have a sound Privacy Policy, which describes your collection, disclosure and confidentiality of the information you maintain. Typically, it should at least describe:

- What information is collected
- How the information is used
- How it is disclosed and/or shared with affiliated or third parties
- How your organization protects information
- Individuals' rights and abilities to 'opt out'

The way in which PII is collected, handled, stored, backed up, transferred, shared and destroyed can also be regulated by law. Nearly every state has a "Privacy Breach Notification Law." You must notify these state residents if you have had an unauthorized disclosure or an event that *could lead* to a disclosure. If data includes health care information (such as some employee or injury information), a federal law (HITECH) may also require you to notify the individuals affected. Furthermore, many states are enacting protection requirements, fines/penalties and imposing liabilities on organizations that breach sensitive data.

Property managers may have additional contractual obligations regarding privacy. As you share tenant and employee data with



others, you should understand the liability and indemnification provisions of the contract, just as your tenants may look to hold you accountable for disclosures.

A recent privacy breach by a property manager exposed more than 1,300 records. The names, addresses and Social Security numbers that were breached make the residents vulnerable to future identity theft and fraud issues. Typically, notification and credit monitoring alone can cost \$15-\$50 per person. Liabilities, forensics, regulators and other expenses can increase these costs.

In addition to policies, procedures and other sound risk mitigating steps, specialized insurance may offer some risk management benefits. In general, traditional General Liability, Property, Crime and Errors & Omissions policies will not afford coverage for many types of privacy breach events. Privacy insurance (aka Cyber insurance) can respond to these risks, including the expenses (required privacy notifications, credit monitoring and forensic investigations) and liabilities (defense costs, settlements and regulatory investigations) that are created when you or a third party suffers a breach of your sensitive information.

For more information, contact your Willis Client Advocate®.

BED BUGS - A NEW EPIDEMIC?

It seems that a day does not go by without a report of a bed bug infestation in an apartment building, college dorm, hotel, office building, movie theatre or retail establishment. The costs often cited to eradicate these infestations have been substantial, although the potential loss of revenue related to the associated negative impact on a property's reputation generally goes unreported.

There has, in fact, been a resurgence of bed bug infestations worldwide. After World War II, bed bugs were nearly

eradicated in the U.S. through the use of DDT, which was later banned because of its toxic impact on the environment. The lack of an effective replacement pesticide and an increase in international travel are often cited as reasons for the recent explosion in the bed bug population.

The bed bug (*cimex lectularius*) is a parasite that feeds on human blood. Adult bed bugs are usually no more than a quarter-inch in length and one-eighth inch wide. They are mostly nocturnal and like to hide in dark concealed places. They can survive up to one year without a food source. They are highly mobile and can be transported by attaching themselves to clothing, luggage or upholstery. A single female bed bug can lay up to five eggs a day (500 eggs in her lifetime) which can result in a rapid infestation. Bed bugs are usually found within 10 to 20 feet of where a human host sleeps. If there is a bright side to the bed bug, it is that it

has yet to be found to transmit any diseases to human hosts.

The increase in bed bugs has also resulted in an increase in lawsuits against owners and managers of hotels and apartments. Hoteliers and landlords generally owe their guest or tenant a living space that is free from pest infestations. This duty is commonly referred to as the "implied warranty of habitability" and varies by state. As in most third-party liability actions, damages increase if the guest or tenant can prove that the property owner knew of the infestation but did not take reasonable steps to protect the claimant. For example, a Chicago woman is currently suing a New York hotel for \$20 million after she woke up in her bed with more than 600 bed bug bites.⁹ These suits often allege mental anguish, embarrassment and humiliation in addition to bodily injury,

which may actually be minor. An Indiana family was recently awarded \$22.3 million for pesticide poisoning that resulted in the brain damage of their two children from the improper application of pesticides by the employees of an apartment management company.¹⁰ Although this suit does not specifically relate to bed bugs, it does point out the need to properly apply pesticides.

It is recommended professional pest control services be provided by a licensed contractor with appropriate Commercial General Liability and Environmental Liability coverages. Owners and managers of real estate that contract for these services should also consider the purchase of Environmental Liability insurance to address their contingent exposure for third-party liability that may arise from these contracted services.

Any damage to real or personal business property, the cost of treatment or any resulting business interruption that may arise from a bed bug infestation will not normally be covered under Property insurance policies due to the vermin exclusion, which includes animals or pests. These exposures are generally viewed by insurers as a property maintenance issue. However, General Liability policies should provide coverage for third-party liability claims, as no exclusion currently exists.

The National Multi-Housing Association has posted "**What's Working for Bed Bug Control in Multifamily Housing (March 2010)**," which provides options on bed bug prevention, control and remediation and the cost associated with each option and is available to non-members. The American Hotel and Lodging Association has also posted information to their **website** concerning various alternatives for controlling bed bugs for its membership.

The Willis Strategic Outcomes Practice is creating a task force that comprises company loss prevention, claim and insurance coverage experts to draft best practices to assist our real estate and hotel clients in addressing this difficult problem.

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PROVIDING YOUR LENDER PROOF OF INSURANCE COVERAGE

When real estate is financed, the lending institution will normally insist upon evidence of commercial property insurance in accordance with requirements in the loan agreements. While the insurance policy provides such evidence, it is rarely available by the time of the closing of the loan. As a result, evidence of insurance is often provided by a binder (also known as the ACORD 75) or Evidence of Commercial Property Insurance form (ACORD 28).

ACORD 28 CHANGES

| 10/2003 VERSION | 7/2006 VERSION | 12/2009 VERSION |
|--|---|--|
| <p><i>Verbiage at top of page reads:</i> This is evidence that insurance as identified below has been issued, is in force, and conveys all of the rights and privileges afforded under the policy.</p> | <p><i>Verbiage at top of page reads:</i> This evidence of Property Insurance is issued as a matter of information only and confers no rights upon the additional interest named below. This Evidence of Property Insurance does not amend, extend or alter the coverage afforded by the policies below.</p> | <p><i>Verbiage at top of page changed to read:</i> This Evidence of Property Insurance is issued as a matter of information only and confers no rights upon the additional interest named below. This Evidence does not affirmatively or negatively amend, extend or alter the coverage afforded by the policies below. This Evidence of Insurance does not constitute a contract between the issuing insurer(s), authorized representative or producer, and the additional interest.</p> |
| <p><i>Cancellation verbiage reads:</i> The policy is subject to the premiums, forms and rules in effect for each policy period. Should the policy be terminated, the company will give the additional interest identified below ___ days written notice, and will send notification of any changes to the policy that would affect that interest, in accordance with the policy provisions or as required by law.</p> | <p><i>Cancellation verbiage reads:</i> Should any of the above described policies be cancelled before the expiration date thereof, the issuing insurer will endeavor to mail ___ days written notice to the certificate holder named to the left, but failure to do so shall impose no obligation or liability of any kind upon the insurer, its agents or representatives.</p> | <p><i>Cancellation verbiage changed to read:</i> Should any of the above described policies be cancelled before the expiration date thereof, notice will be delivered in accordance with the policy provisions.</p> |

On October 11, 2010, a new version of the ACORD 28 went into effect. The table above compares the key language contained in the 2009/12 version of the ACORD 28 to the 2006/07 and 2003/10 versions.

Space does not permit us to go through all of the reasons for the ACORD 28 language modifications that have occurred, starting with the 2003 version. We believe the 2009

– continued on page 9

version attempts to achieve what has always been intended with respect to insurance certificates – that they represent a summary of the basic coverages, terms and conditions contained in the underlying insurance policy and that they were never meant to be a substitute for the actual policy or amend the underlying coverage or notification provisions in any way.

Starting with the issuance of the 2006 edition of the ACORD 28, a number of national lenders insisted that the 2003 edition of this form be provided. As your broker, we are unable to provide the prior editions for the following important reasons:

First, the older editions of these forms inappropriately suggested that the form recipients were being provided conveyed certain rights under their insurance policy, and the forms were revised because they were not in compliance with the laws and legal requirements of most states. The current editions of these forms now include statements clarifying that the forms are for informational purposes only and confer no rights to their recipients. Under the insurance laws of most states, only insurance policies and binders can confer policy rights – and those documents must be filed with state insurance regulators. The Independent Insurance Agents and Brokers of America [website](#) references a number of state regulations that prohibit the use of the older forms.

Second, any agent or insurance company that provides a lender with a document purporting to extend policy rights could be in violation of state insurance laws if it is not filed as a policy form, and the ACORD 28 is not filed as a policy form.

Third, these forms are created, published and owned by the ACORD Corporation. According to the licensing agreement that allows us to issue their forms, a prior edition of a form cannot be used beyond one year after the date of publication of a new version of the form. Therefore, the licensing agreement bars use of the previous editions of the ACORD 28.

Insurance binders (ACORD 75) are often provided to lenders as proof of coverage, and the insurance laws of most states require lenders to accept binders for this purpose in lieu of the actual policy. The ACORD 28 form is, in contrast, provided simply as a courtesy to the lender to summarize more policy detail than is included in the binder. However, **only the binder or policy** actually grants policy rights sought by lenders.

While binders provide sufficient proof of coverage to lenders, it should be noted that insurance industry representatives recently spent over a year discussing the potential development of an expanded binder form for use by the lending community. The proposed expanded binder would have extended rights as only a binder or policy can, while also incorporating additional policy details of interest to lenders. The insurance industry's offer was unfortunately declined by some lenders who continue to request certain documents that insurers and agents are simply unable to provide due to legal restrictions.

Our clients can choose from three options to document their compliance with their lender agreements:

- Provide the current ACORD 28 evidence of commercial property insurance form (2009/12) with the standard Mortgageholders policy wording or a Lenders Loss Payee Endorsement (CP 12 18 06 07) attached. These require that the insurance company notify the lender of any cancellation (10 days for nonpayment of premium and 30 days for any other reason, which may be subject to further negotiation). Also, the lender's interests are protected even if the insured's claim is denied for noncompliance with the policy conditions, provided the mortgage holder pays any premium due, submits a proof of loss within 60 days if the insured fails to do so and notifies the insurer of any change in ownership, occupancy or hazard of which it has knowledge.
- Provide the current ACORD 75 insurance binder form (2010/04) or its equivalent signed by an authorized representative of the insurance carrier with a maximum term allowed under applicable state law. As discussed above, a specimen policy containing a standard mortgage holder's clause or sample Lenders Loss Payee Endorsement, with all applicable financial interests, should be attached to the ACORD 75 to document any mortgage holder's interest and the cancellation notification time provisions, as discussed above, that would apply. Since a binder's term may be limited in certain states, an Acord 28 evidence of commercial property insurance form as discussed above may have to be issued until the actual policy is received.

– continued on page 10

- Provide a copy of the actual policy or policies when they are delivered by the insurance carrier. It is important to note that the mortgage holder's interest still needs to be identified on the Declarations page of the policy or by endorsement to ensure that all coverage and notification rights are in force. Some loan documents specify that certified copies of policies shall be delivered to the lender. This will require the insurance carrier or carriers provide certified copies of the applicable policy or policies, which may take additional time to deliver to a lender; especially for complex shared and layered programs written on a blanket basis, which could include the interests of many different lenders. The expense associated with the annual production of copies, mailing and storage of policy documents, either in paper or electronic form, expended by all parties would be substantial.

State insurance laws and contractual licensing restrictions prevent us from providing our clients or their lenders with

certain outdated forms. We hope that lenders will become more comfortable with the new ACORD 28 form, as they are accurate representations of the coverages available under the property policy. An applicable property policy endorsement(s) depicts a mortgage holder's actual policy rights with respect to loss payment and cancellation notice provisions. In the short run, all parties will, unfortunately, have to deal with a number of unintended consequences arising from the recent changes in the ACORD forms. As your broker, we will be working with your insurance carriers and lenders to make this new process as efficient and cost-effective as possible.

For more information contact your Willis representative.

BANK REO AND DISTRESSED ASSET INVESTORS FACE CONSTRUCTION DEFECT LIABILITY EXPOSURES

Banks, investors and builders that have acquired distressed finished and unfinished new home or commercial real estate assets may find themselves in a new world order. The acquisition and placement of these assets into the stream of commerce may expose these new owners to potential liability claims arising from construction defects. Often the previous owner or general contractor no longer has the financial resources to address these claims; thus, the new owner becomes the responsible party (and an inviting deep pocket). Builders and developers have long known about construction defect and premises liability exposures (and property and builders risk issues). Risk management processes and insurance coverages are available to proactively deal with these issues. Implied warranty laws in each state place the seller into a TORT environment, which can be avoided if proactive measures are taken to ring fence exposures into CONTRACT. In the spring of 2010, the American Bankers

Association published a legal white paper, authored by Insurance Specialty Group's professionals, on this subject (available upon request). The white paper outlines 12 actual cases involving lenders, cites seven actual construction defect cases and discusses the liabilities that banks and investors face in this new environment.

Insurance Specialty Group (ISG) has developed the Real Estate Proactive Program (REPP) to address these exposures. ISG has been in the construction area for 12 years, and has many bank and distressed asset investor clients, including one of the top 10 banks in the country. The REPP program provides the risk management and contracts required to shield businesses from losses, coupled with the insurance protections needed to address severity. ISG's REPP has teamed with Willis to proactively address the timely issues that investors now face. We can demonstrate that cost savings are significant when a proactive approach is taken by our clients.

An overview of ISG's Real Estate Proactive Program product can be found by [clicking here](#).

For more information, contact Jim Leach at 678 742 6335 or jleach@isgins.com or Brian Ruane at 212 915 7591 or brian.ruane@willis.com.

CAT MODELING DATA ACCURACY

WHAT'S IN AN ADDRESS?

The importance of a physical address cannot be overstated because catastrophe modeling software requires an accurate address to perform an analysis. The software first geo-codes the location. (Geo-coding is the process of assigning a latitude and longitude to a location.) Once this is done, various layers of information from flood zones to earthquake faults can be overlaid to determine the estimated risk exposure.

WHAT CAN YOU DO TO HELP?

First, unless your client is the U.S. post office, if you are given a P.O. box, that address is not very useful with respect to the geo-coding process.

The format in which the modeling software imports data is fixed and cannot be changed. Separate columns are used to collect the street address, city, state and zip code data. If you have any secondary address information, such as suite, building or floor number, this would be recorded in a secondary address column.

Let's start with the simplest and work our way to the more complex. First, every U.S. location has a zip code, so there is no reason not to have one listed in the schedule. There are many web-based tools to help look these up, for example, the **U.S. post office site** or **Google**, where you can enter the city name and state into the search portion. Second, all states have a two-letter identifier that can be used. Third, and a little more difficult, is the city name. These need to be spelled correctly and correspond to the zip code provided. Last, the most important but often the most difficult element to obtain is the correct street address. The street number cannot be a range of numbers – it must be a single number. Further, the complete street name needs to be spelled correctly and provide the correct suffix, such as Ave., St., Rd., Court, etc. Many cities have both a First Street and a First Avenue; at one place you could be standing on solid rock and the other in bay mud. For your foreign locations, it is best to start with a latitude and longitude.

WHAT DOES WILLIS OFFER?

Willis licenses RiskMeter, a web-based tool with many uses, one of which is geo-coding. After running a schedule of locations through RiskMeter, the results can verify that you obtained a correct match and to what level. For example, if it is a street-level match, the address is good. Any other result would result in an exception that requires getting the correct information.

WHAT DOES ALL THIS WORK GET YOU?

On a tangible level, you will more than likely get your submission looked at faster by both the underwriter and the CAT modelers, because you have made their job easier. You will certainly gain a higher degree of confidence in the accuracy of your CAT modeling projections.

For more information contact Ben Philips, Manager, CAT Modeling, at 650 349 4010 or ben.philips@willis.com.



CONTACTS

For additional information on the topics discussed in this issue, or any others for which our Real Estate & Hotel Practice might provide assistance, please visit our **website** at **willis.com**.

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¹ <http://www.property-casualty.com/News/2010/10/Pages/Soft-Market-Could-Last-Another-Year-Or-Two.aspx>

² *National Underwriter*, August 30, 2010

³ *National Underwriter*, July 19, 2010

⁴ *National Real Estate Investor*, August-September 2010.

⁵ *Hotel Business*, September 21-October 6, 2010

⁶ *Ibid.*

⁷ *Hotel Business*, August 7-20, 2010

⁸ *Ibid.*

⁹ Widely reported case: see http://www.usatoday.com/travel/hotels/2006-03-08-bedbugs-catskills_x.htm and <http://lawyersusaonline.com/>.

¹⁰ *Ebling v. Prestwick Square of New Albany Associates*; Sept. 16, 2010; Floyd County Superior Court, New Albany, Ind.; Judge Susan L. Orth.