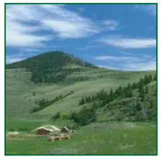
Environmental

Property transaction – Seller's position



The seller's principal objective in any property transaction will be to maximise the sale price, whilst retaining no environmental liabilities. Inevitably, this is not always possible, as the buyer is unlikely to be willing to accept liabilities without a sizeable price reduction. Environmental insurance can offer a solution to the seller, by transferring liabilities without compromising the seller's ability to obtain a market price for the asset. An added advantage is that neither party is dependent on the finances of the other for managing the implications of long term environmental liabilities.

Case Study 1- Indemnity Cover

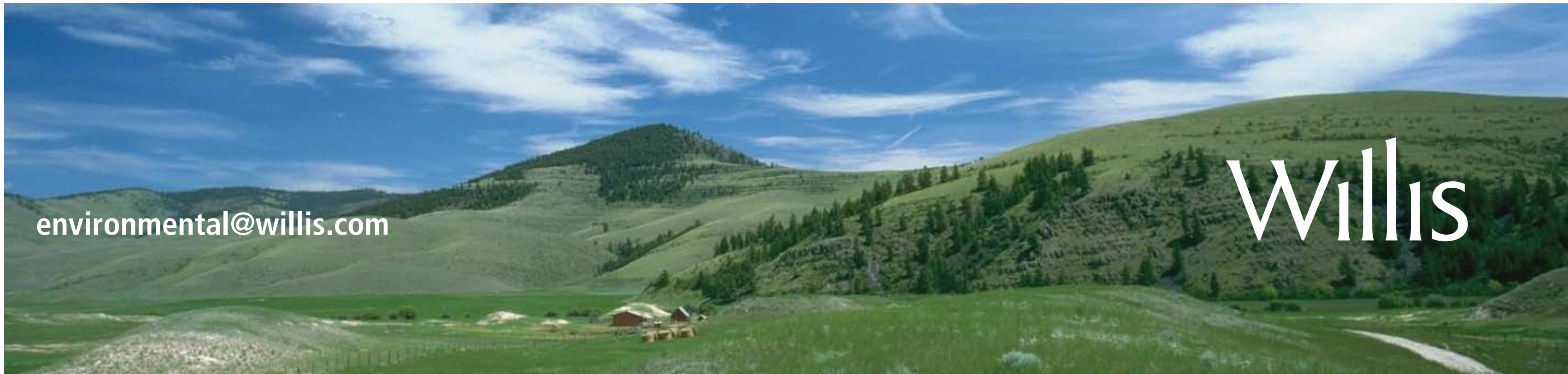
A company had sold a number of timber yards from its portfiolio. Upon selling the sites, it provided an indemnity to the purchaser for environmental liabilities that could arise within seven years of sale. The seller was concerned that potential contamination issues at a number of the sites could present significant liabilities within this period. The seller benefited from an environmental liability indemnity when it bought the sites several years earlier. However, the limit and period of this indemnity were not as extensive as the indemnity it subsequently provided to the new purchaser.

Willis structured an insurance policy to transfer this residual risk, with a variable policy limit to match the residual exposure over the duration of the indemnity provided to the purchaser. With compatible policy and indemnity wording, the seller gained certainty that a future claim under the indemnity would be fully covered.

Case Study 2- Contingency Cover

A global manufacturing company undergoing restructuring was seeking to relocate its operations from its UK headquarters, from which it had operated over a period of some 100 years. The company's majority shareholder, a private equity firm, required a 'clean exit' from the site sale, however the purchaser did not provide an environmental indemnity. As original polluter, the seller therefore retained principal liability for losses that could occur as a result of historic contamination.

Although limited environmental data was available, it was considered inevitable that ground contamination would be present beneath the site, given the long period of industrial activity there. The seller was concerned that it could also become liable for funding the clean-up of the site during redevelopment works planned following their vacation, for example if the purchaser was unable fully to fund such works. Willis succeeded in placing a



10 year insurance policy to cover the seller's contingent exposure, providing it with a cleaner exit from the site sale.

Case Study 3: Housing Stock Transfer

A local authority was to provide an environmental warranty to a housing association upon transfer of its remaining stock of some 4000 houses and associated land. The warranty, which covered a period of 20 years, comprised a typical format used in stock transfers, stating that the council had complied with all applicable environmental laws and obtained all necessary approvals, that none of the properties were listed on a Contaminated Land register, and that there were no dangerous substances present on or under the properties, or any current or pending environmental claims.

Working closely with the council and their legal advisors, Willis was successful in placing coverage for the properties for an initial period of 12 years, with an option to extend the policy period annually for the full 20 year warranty period. Despite the limited nature of environmental data, typical of housing stock transfer surveys, Willis was able to secure extensive coverage within a tight timescale and well within budget, by focusing policy negotiations within insurers on perceived 'high risk' sites.

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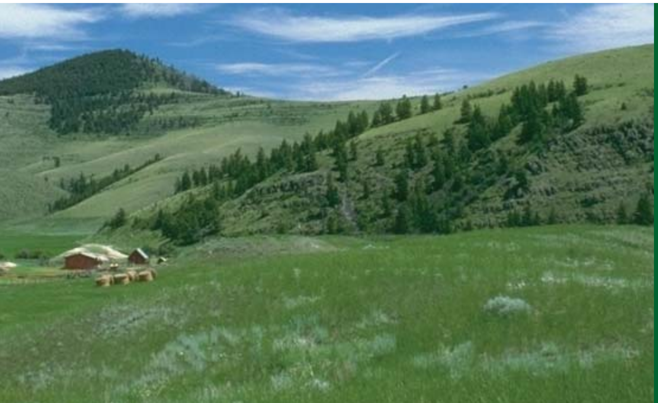

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