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Crittenden Newsletters, Inc. ▪ P.O. Box 1150 ▪ Novato, CA 94949 ▪ (800) 421-3483

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ENVIRONMENTAL COVER WITH FINITE RISK COST CAP MAKES GAINS

Environmental cleanup coverage on a finite risk basis gains ground, as a handful of insurers who underwrite these policies see demand increase. Currently, the marketplace is typically offering protection for remediation projects that exceed $1 million, but some players can cover projects up to $100 million or more for multi-site risks that incorporate other protections. **AIG**, **The Hartford**, **Chubb** and **Kemper** are the main carriers currently working in this specialized class. Finite risk calls for the insurer to actually assume cleanup costs as a liability. **Twin Elms Environmental Insurance Agency** is one broker specializing in this cover and can work with other retail agencies in implementing these policies.

Finite risk is typically used in redevelopment deals, but it is not limited to these deals. It covers redevelopment of land that was once home to gas manufacturing plants, manufacturing plants, former landfills and other types of business with the potential to pollute. Finite risk helps insureds handle the financial uncertainties that are often associated with just a straight cleanup process. These policies have advantages over traditional cost cap policies as the cleanup cost funding and cost overrun protection are blended into one seamless policy.

Developers, remediation contractors and property owners are using finite risk policies with more frequency to bring cleanup cost and management certainty to remediation projects. Multiple stakeholders involved in negotiating litigated settlements have utilized the policy as well. Parties to these settlements look to the finite cover to close their financial obligations and, just as important, shift the project's oversight responsibilities to insurance carriers. With a finite risk cost cap policy, the carrier agrees to assume the implementation, management (including regulatory review and approval), and financial obligations of the cleanup up to the policy limits. In exchange the insured pays the carrier a pre-funded premium that reflects the estimated cleanup cost and the cost overrun protection provided under the policy. These policies eliminate the requirement for a self insured retention equal to the estimated cleanup costs, a buffer layer of 5 percent to 20 percent and co-participation of 20 percent of the cost overrun protection found in a traditional cost cap policy.