

Environmental Insurance Solutions

Twin Elms Environmental Insurance Agency

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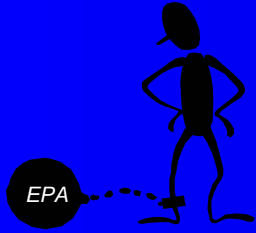


www.twinelms.com



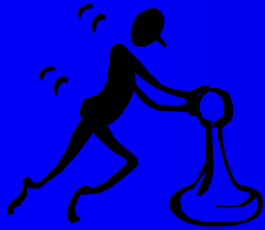
Presentation Outline

- **The Regulatory World**
- **Risk Shifting Tools**
- **Environmental Insurance Products**
- **Today's Marketplace**
- **Twin Elms Underwriting Process**
- **Real Deals that Worked**



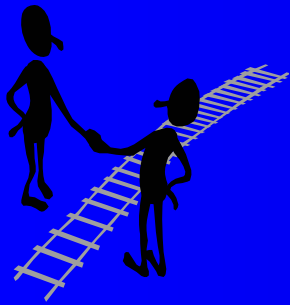
Old Regulatory Climate

- Presumed residential use
- “Pristine” clean-up standards
- No meaningful alternatives
- Cost prohibitive and time consuming
- Unqualified approval letters
 - Site Rehabilitation Completion Order (SRCO)
 - No Further Action letter (NFA)



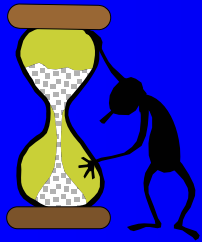
Regulatory Shift

- **Government sponsored clean-up programs**
 - State funded initiatives
 - Federal legislation
- **Brownfield redevelopment funding**
- **Voluntary clean-up programs**
- **Common sense approach – what is the real risk?**



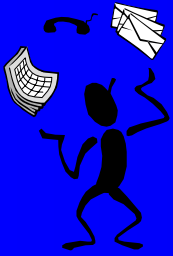
Risk Based Corrective Action (RBCA -- “Rebecca”)

- Actual risk
 - Potential receptors
 - Routes of exposure:
 - Surface and ground water
 - Soil
 - Air
- Future land use
- Qualified regulatory approvals
 - Deed restrictions
 - Engineering controls



Traditional Risk Shifting Tools

- Sellers representations & warranties
- Reliance on government funded programs
- Escrow accounts
- Indemnification agreements
- Personal recourse guarantees
- Purchase price reduction



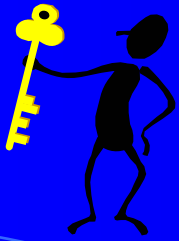
Risks Remain in the Deal...

- Inconclusive environmental assessments
- New releases from ongoing operations
- Gaps in government funded programs
 - Timing (ranking system)
 - Coverage limitations
 - Amnesty and prohibitions on actions
- Financial solvency of RP/indemnifier
- Changes in regulatory standards
- Future site usage and redevelopment



Solution...

Environmental Insurance



Environmental Insurance Products

- **Pollution Legal Liability Policy**
- **Remediation Cost Cap Policy**
- **Combined PLL/CCC**
- **Secured Creditor Policy**

Pollution Legal Liability Policy



Pollution Legal Liability Policy

Policy Features

- Policy terms up to 10 years
- Policy limits up to \$100,000,000 or more
- Covers historical and future conditions
- Coverage triggers:
 - Discovery
 - Third party claims
 - Government mandate
- Flexible deductible and premium structure
- Transferable to future owners

Pollution Legal Liability Policy

Coverage Enhancements

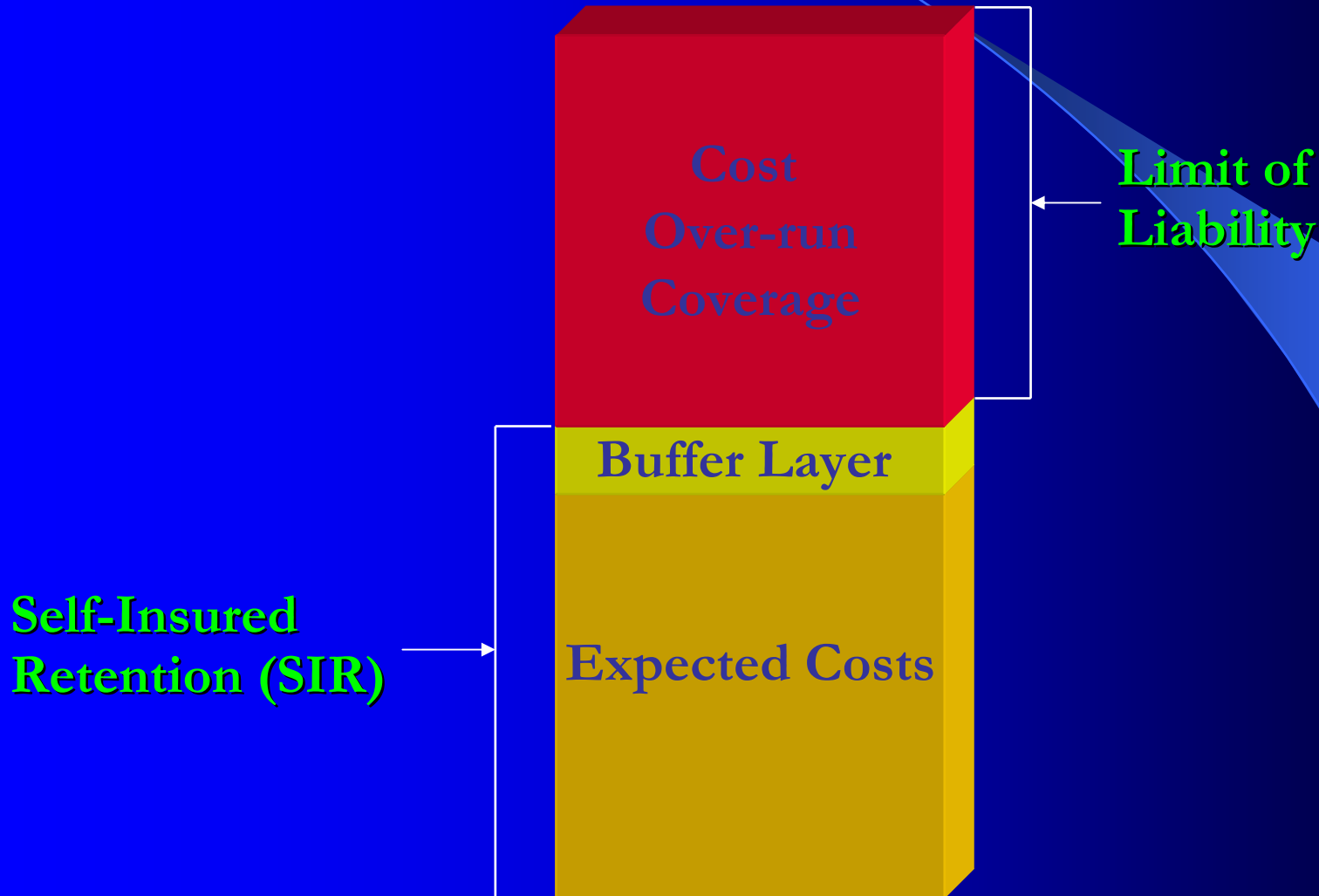
- Diminution of adjacent property value
- Natural resource damages
- Environmental liability assumed under contract
- Additional named insureds, including lenders
- Business interruption – actual loss or rental income
- Underground and above ground storage tanks
- Bodily injury caused by lead based paint
- Bodily injury caused by asbestos
- Non-owned disposal sites

Remediation Cost Cap Policy

Policy Features

- Policy terms up to 10 years
- Policy limits available up to \$50,000,000 or more
- Insures against clean up cost overruns
- Policy is claims made and reported form
- Owner or contractor can be named insured
- The policy attaches over a prescribed self-insured retention, (SIR), which is the expected cost of cleanup plus a buffer layer
- Can also cover ongoing O&M expenses

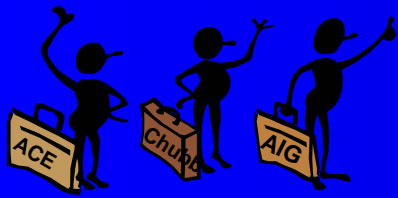
Remediation Cost Cap Policy



Secured Creditor's Policy

Policy Features

- Policy terms up to 10 years
- Policy limits up to \$50,000,000 or more
- Covers a single loan or portfolio
- Pays “lesser of” policy form
- Covers first party clean-up (on-site)
- Covers third party clean-up (off-site)
- Covers legal defense expenses



Today's Marketplace

Insurance Carriers

Chubb Group

AIG

Ace Environmental Risk

XL Environmental

Zurich US

New Players

Liberty Mutual Insurance Group

Arch Insurance Company

Quanta Holdings

A.M. Best Rating

A++ XV

A+ XV

A+ XV

A+ XV

A XV

A XV

A- X

A- IX

(Ratings as of February 2006)



Twin Elms Underwriting Process

- Deal Analysis
 - Client needs identification
 - Coverage limits (asset protection)
 - Deductible structure (risk tolerance)
 - Policy period
 - Environmental exposures
 - Report review
 - Property use (past, present and future)
 - Purchase and sale requirements
 - Contractual obligations
 - Lender requirements
 - Additional insureds



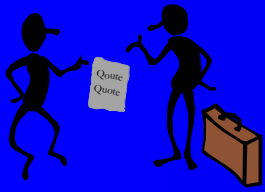
Twin Elms Underwriting Process

- Risk Shifting Tool Identification
 - Insurance markets
 - Match risk to carrier
 - Financial stability
 - Negotiation flexibility
 - Engineering expertise
 - Insurance products
 - Match the policy to the risk
 - Endorsement enhancements (off-the-shelf)
 - Customized endorsements (Twin Elms)
 - Product flexibility



Twin Elms Underwriting Process

- Market Submission
 - Coverage requirements (per deal analysis)
 - Liability limits
 - Deductible structure
 - Endorsements
 - Policy period
 - Completed application
 - Environmental reports (full disclosure)
 - Deal contracts (contractual liability)
 - Financial statements



Twin Elms Underwriting Process

- **Carrier's Proposal Review**
 - Policy coverage and endorsement review
 - Forward proposals to client and counsel
 - Assist client and counsel in policy selection
 - Final policy coverage negotiation
 - Analysis of policy and endorsements by counsel
 - Facilitate policy language negotiation between counsel and carrier
 - Receive counsel sign-off on policy and revisions

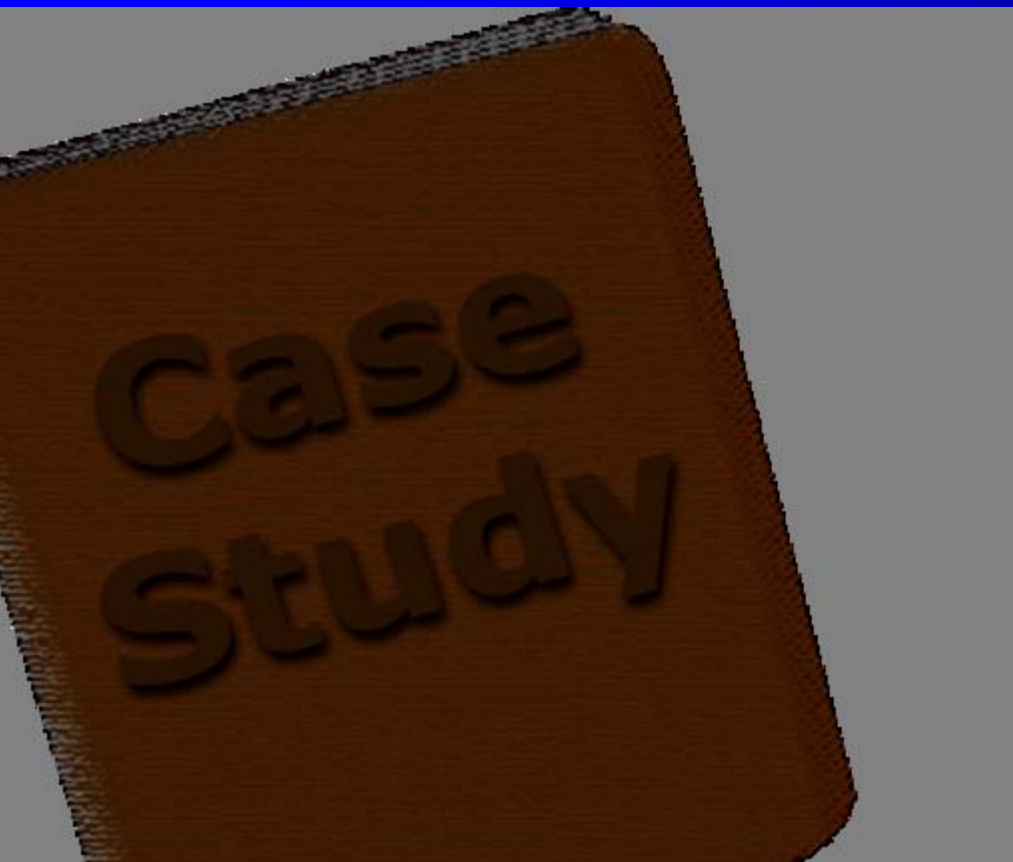


Twin Elms Underwriting Process

- **Policy Issuance**
 - Issue binder for closing
 - Order original policy
- **Policy Management**
 - Review of original policy
 - Forward policy to client and counsel
 - Service client throughout policy period
 - Transfer to future buyers
 - Adding and deleting Insureds
 - Claims administration assistance

Twin Elms Environmental Insurance Agency

Real Deals that Worked



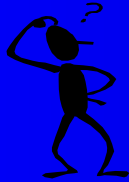
Former Industrial Site



Property Description: A 25 Acre campus located on a major river way.

Environmental Condition

- On-site soil contamination
- On-site groundwater contamination
- No known off-site contamination



Transaction Dilemma

- Owner desires to sell property without retaining liability
- Buyer desires cost certainty in redevelopment
- Lender requires personal recourse guarantee for financing



Solution

- Carrier provides Cost Cap and Pollution Legal Liability
- Seller divests of liability and buyer gains cost protection
- Lender accepts insurance in lieu of personal recourse

PLL/CCC

PLL Liability Limit: \$15,000,000

Cost Cap Liability Limit: \$5,000,000

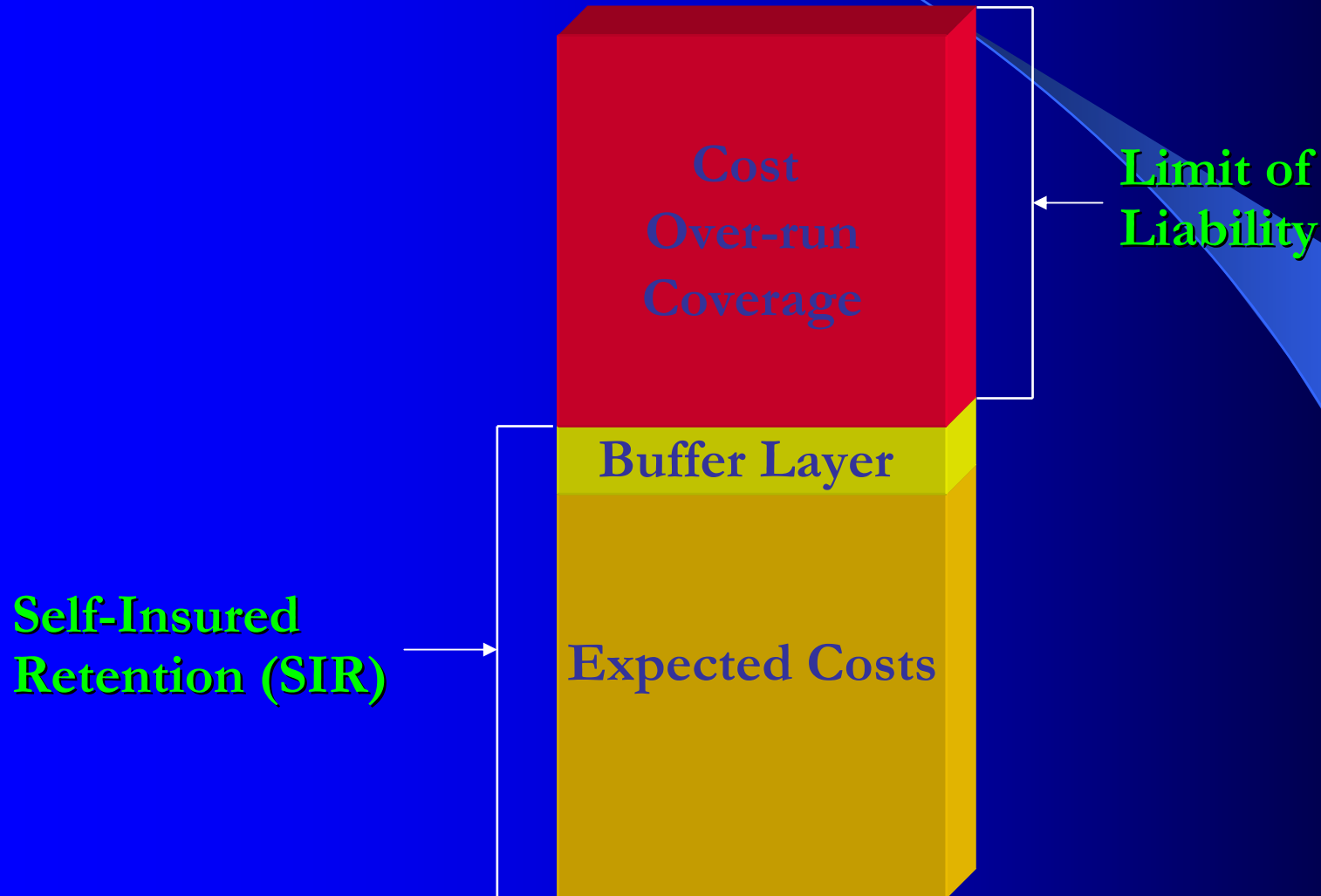
Policy Period: 10 Years

Policy Term Premium: \$778,400

Coverage Provided

- On-site clean-up of historical conditions
- On-site clean-up of new conditions
- Off-site clean-up of historical conditions
- Off-site clean-up of new conditions
- Third party claims for bodily injury and property damage
- Contractual liability coverage
- Additional insureds – seller and lender
- Business interruption - actual loss of rental income

Remediation Cost Cap Policy



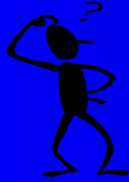
Retail Center



Property Description: This Center is a 85,000 square foot center built in 1989 set on 9.65 acres.

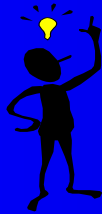
Environmental Condition

- On-site soil and groundwater petroleum contamination
- No known off-site contamination
- Property enrolled in State Cleanup Fund



Transaction Dilemma

- Owner desires to sell center without retaining liability
- Buyer requires environmental indemnification
- Cleanup Fund protection is limited



Solution

- Transfer of environmental liability to insurance carrier
- Indemnification no longer needed
- Enhancement of Fund protection

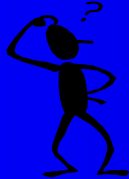
Future Retail Center



Property Description: This project consisted of a 35-acre retail center development of a former industrial facility.

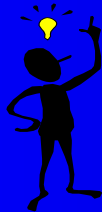
Environmental Condition

- On-site soil and groundwater solvent contamination
- Off-site condition unknown
- Existence of asbestos and lead paint



Transaction Dilemma

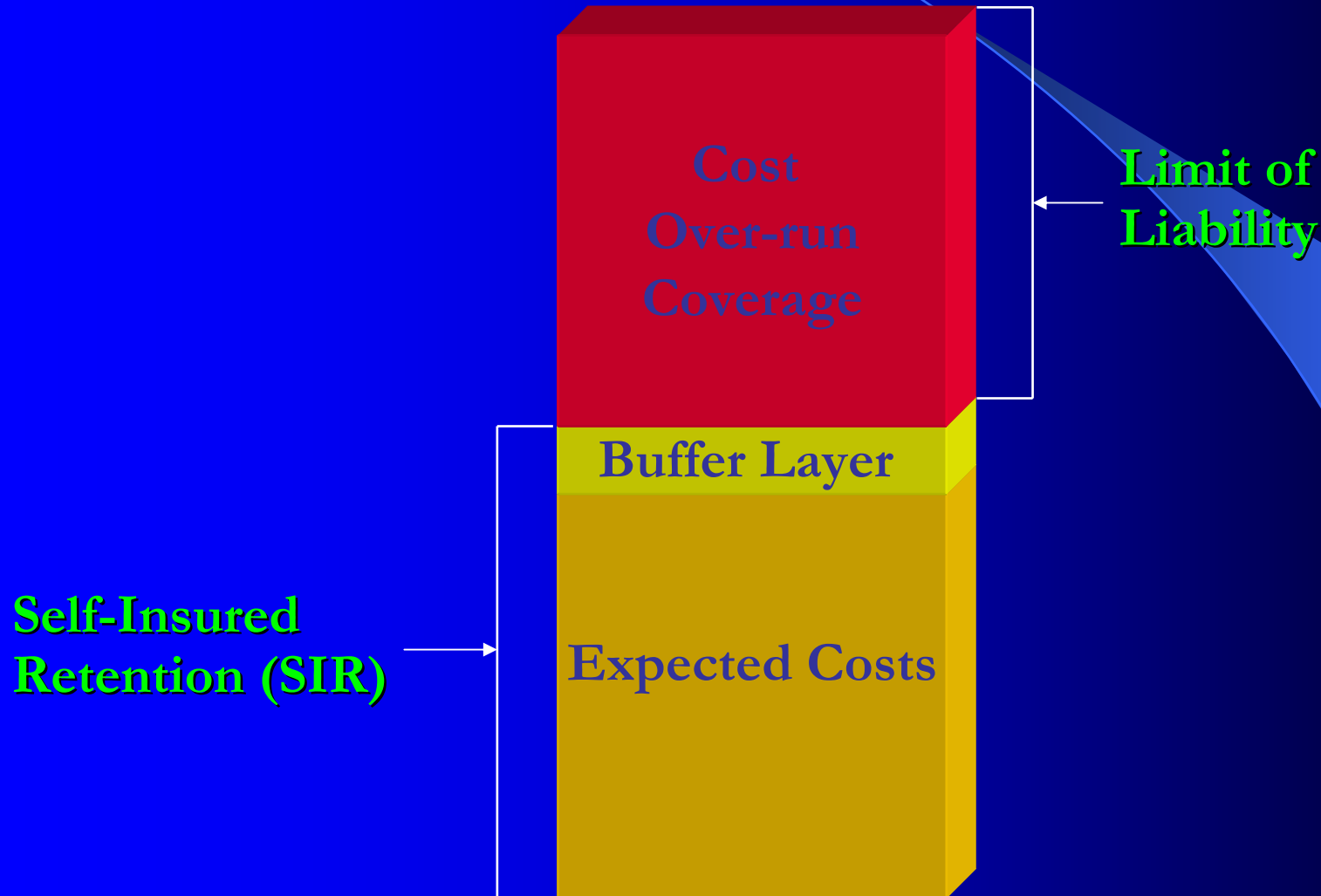
- Developer has signed contract with retailer, but is required to deliver site with regulatory closure
- Developer wants to remove clean-up cost uncertainty
- Developer seeks relief from regulatory administrative burdens



Solution

- Structure Remediation risk cost cap policy
- Carrier assumes regulatory compliance responsibility
- Clean-up cost uncertainty removed

Remediation Cost Cap Policy



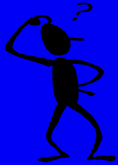
Former Manufacturing Facility



Property Description: 1.4 million square foot building situated on 93 acres. Former defense contractor built the facility in 1942 for manufacturing.

Environmental Condition

- Soil and groundwater industrial cleaning solvent contamination
- Off-site plume covering 300 acres, moving one foot per day
- ROD to conduct extensive pump and treat system



Transaction Dilemma

- Buyer's inability to secure project funding
- Buyer's concern about inheriting environmental liability
- Seller's indemnification agreement is limited



Solution

- Transfer of environmental liability to insurance carrier
 - Buyer, seller & lender named as insureds
 - Policy backstops indemnification

Pollution Legal Liability Policy

Liability Limit: \$20,000,000

Self-Insured Retention: \$150,000

Policy Period: 10 Years

Policy Term Premium: \$195,000

Coverage Provided

- On-site clean-up of historical conditions(excess of indemnification)
- On-site clean-up of new conditions
- Off-site clean-up of historical conditions(excess of indemnification)
- Off-site clean-up of new conditions
- Third party claims for bodily injury and property damage (excess of indemnification)
- Diminution of adjacent property value
- Business interruption-actual loss of rental income
- Additional insureds – lender and seller

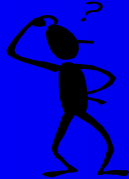
50-Acre Industrial Complex



Property Description: A three building complex comprised of 512,000 square feet located on a 50-acre campus in an industrial corridor.

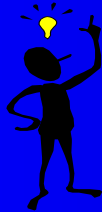
Environmental Condition

- On-site and off-site soil and groundwater solvent contamination
- DEQ approved RAP
- Pump and treat system operation required for 20 years



Transaction Dilemma

- Seller willing to reduce price to fund cleanup cost and O&M
- Buyer desires cleanup cost certainty
- Buyer requires protection for unknown risks and future liability



Solution

- Cost cap policy to protect against cost over-run
- Coverage extended to cover clean-up of unknown conditions
- Pollution legal liability policy structured to protect against future liability

PLL/CCC

Liability Limit: \$3,000,000

Self-Insured Retention: \$50,000

Policy Period: 10 Years

Policy Term Premium: \$97,400

Coverage Provided

- On-site clean-up of historical conditions
- On-site clean-up of new conditions
- Off-site clean-up of historical conditions
- Off-site clean-up of new conditions
- Third party claims for bodily injury and property damage
- Contractual liability coverage
- Additional insureds – seller and lender
- Business interruption - actual loss of rental income

Combined Program

