NATIONAL UNDERWRITER
Property & Casualty / Risk & Benefits Management Edition

October 22, 2001 Edition
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Buyers Brace For Hard Pollution Market

By Robert W. Mitchell

As the insurance industry braces for the massive onslaught of claims brought on by the Sept. 11 terrorist attack that leveled New York's World Trade Center, players in the environmental insurance industry are gearing up for a tighter pollution liability market, industry sources say.

Small to mid-sized environmental insurers are feeling the biggest impact, according to Brian Donovan, president of Steel Tank Insurance Company, a captive in Burlington, Vt., pointing to the strong dependence of such carriers on the reinsurance market, which has seen dramatically rising rates.

While the environmental market had already been on a downswing in terms of capacity, according to Mr. Donovan, he said he believes the Sept. 11 disaster increased the pace of the decline.

The entire insurance market, including environmental liability, is "going through upheaval now. It was before Sept. 11 and more so now," Mr. Donovan said in a telephone interview.

A broad overview of the market finds environmental insurance premiums at 20-to-35 percent above rates last year during the same period, based on Mr. Donovan's observations.

A big part of what is fueling the squeeze in the environmental market is a fear of obtaining the reinsurance needed to write bigger risks, Mr. Donovan said.

"Major players are backing away from this class of business because much of their capacity to write new business depends heavily on…reinsurance," he noted, explaining that the reinsurance market is also expected to harden now at a more rapid rate.

Premiums for environmental insurance were rising throughout 2001 before the industry was rocked by the terrorist attacks, but the full impact, in terms of how much more buyers will have to pay for environmental coverage, cannot be ascertained until the bulk of the policies come up for renewal on Jan. 1, 2002, Mr. Donovan explained.

Bill McElroy, president of Kemper Environmental Insurance in Princeton, N.J., also cited firmer rates in the environmental insurance market. For example, he pegged 2001 increases for environmental contractor insurance roughly at 15 to 20 percent.

The majority of environmental insurance coverages, such as pollution legal liability and environmental impairment liability, are underwritten as multi-year contracts, industry sources said.

Scott Houldin, president of Twins Elms Environmental Insurance Agency, LLC based in Cos Cob, Conn., a national brokerage firm that specializes in environmental insurance, typically writes multi-year policies. "We write 5-to-10-year environmental policy contracts," he said. Twins Elms places environmental business with Kemper Insurance, AIG Environmental and Gulf Underwriters Insurance Company, he noted.

Pat Hedrig, senior vice president for risk management at Marsh and McLennan in Houston, Texas, agreed that most pollution liability policies are structured as multi-year contract agreements, but he did note one exception. He said contractor pollution policies are sometimes renewed on an annual basis.

However, Mr. McElroy believes that greater uncertainty in the market could result in insurers writing shorter-term environmental insurance policies, with annual renewal dates instead of extended policies providing coverage for, perhaps, five years.

Using the impact on the national psyche of the recent attack on America to illustrate a severe level of uncertainty among insurers, he said, "three years ago, writing a terrorist risk was probably a good move. But now that does not seem to be such a good idea."

Market conditions driving premiums upward also might have been triggered by the departure of key environmental carriers, according to Mr. Donovan. Among the insurers that exited the market, he noted, are the defunct Reliance Group Holdings, Frontier Insurance Group and CNA.

While environmental carriers will compensate for the increase in demand among fewer carriers by raising premiums or tightening terms, Steel Tank Insurance is not expected to raise rates on its own line of coverages that include environmental impairment liability and pollution legal liability, Mr. Donovan said.

"Demand remains strong but there are fewer suppliers. As a captive, we are a policyholder-owned company and we do not have to increase rates just because there is an opportunity to do so," he said, adding that such knee-jerk rate hikes are more typically found at publicly-traded insurers. "It doesn't make sense to increase our rates unless we have an increase in the cost of doing business," he continued.

For example, he said that an increase in service provider fees coupled with higher reinsurance rates would drive up a captive's operating costs, perhaps prompting a rate hike.

Asked if environmental insurers that had written policies within the vicinity of "Ground Zero" in New York should also prepare for claims related to asbestos contamination, Mr. Donovan said many had already made moves in that direction. "Most major carriers have increased their reserves for asbestos claims this year, before the disaster," he said.

Looking at the debris and lingering gases in the aftermath of the attack, he said that the WTC destruction could spark a major environmental cleanup.
