

Environmental Insurance

Presentation to: Metachem Task Force



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Outline

- Introductions
- Who is AIG Environmental
- What does Environmental Insurance Do?
- Types of Coverage
- How other States are using Insurance
- Suggested uses for Delaware
- Questions
- Where can we assist you from here?



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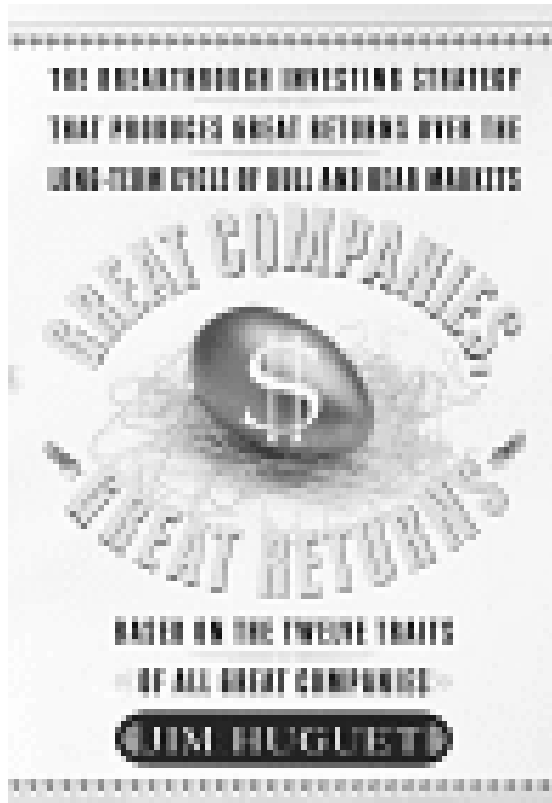
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- AIG Environmental has been providing environmental insurance, claims management, and environmental loss control services for 20+ years
- AIG Environmental is the largest environmental insurer and the leader in product innovation
- AIG Environmental - Regional offices are staffed by professionals with backgrounds in environmental law, engineering and other technical disciplines



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The Financial Strength of AIG



- **#8 in Forbes 2000 “Super 100” ranking of all U.S. corporations**
- **#19 in Financial Times listing of the top 500 companies in the world**
- **Common stock has a valuation of around \$200 billion**
- **AIG is a leading international insurance and financial organization with assets of over \$400 billion and a AAA rating**



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Environmental Insurance - What is it?

- Site Specific Pollution Liability Coverage for Commercial & Industrial Facilities
- Coverage for Financial Institutions
- Pollution & Professional Liability for Service Industry/Environmental Firms
- Pollution Liability for Non-environmental contractors



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Environmental Insurance - What is it?

- Transportation related environmental liability products
- Environmental Insurance Products for Contaminated Properties
- Environmental Surety



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Our focus for today...Financial Assurance:

- Responds when the Government orders a cleanup
- Can provide guaranteed funds for Remediation
- Can provide funds for Closure/Post Closure
- Protects Government against Bankruptcy
- Protect against previously undiscovered pollution conditions
- Pre-fund or transfer known liabilities
- Cap remediation costs
- Provide alternatives to trust funds, escrow accounts and indemnity agreements
- Facilitate PRP settlements



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What are the environmental liabilities...

- Bodily injury (individual & community)
- Property damage
- Fines/penalties
- Contamination/clean-up costs
- Natural resource damages
- Defense & investigation costs
- CERCLA & RCRA Liabilities - Lender, Arranger, Successor & Transporter
- Mold
- Terrorism



Options for dealing with liabilities & issues

- Extensive site characterization
- Price adjustment
- Indemnification agreements
- Escrow accounts/trusts
- Walk away from a deal
- PR initiatives
- Environmental Insurance



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Environmental Insurance

Risk Management Products

Cleanup Cost Cap (CCC)

Pollution Legal Liability (PLL)

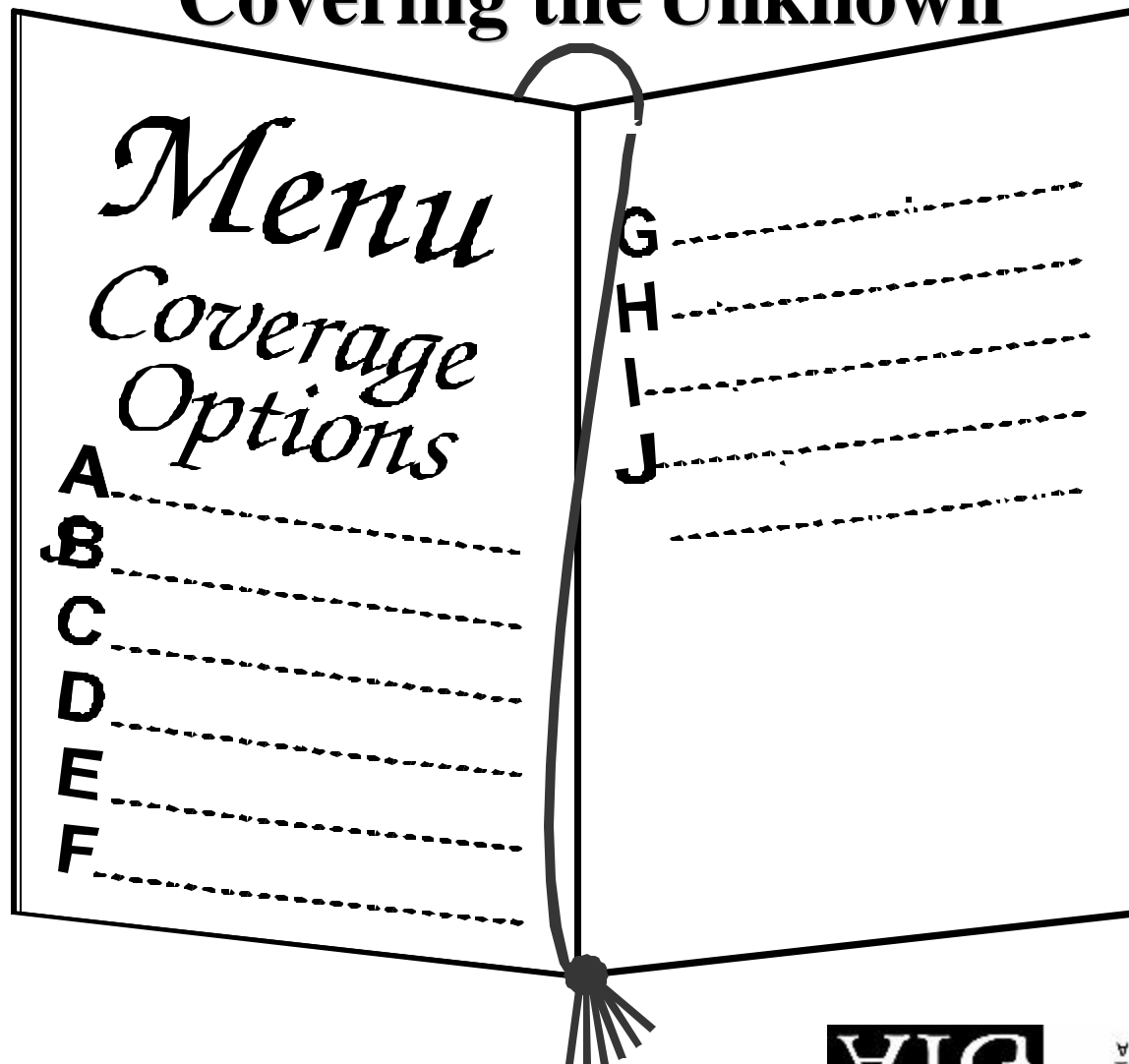
Environmental Protection Program (EPP)



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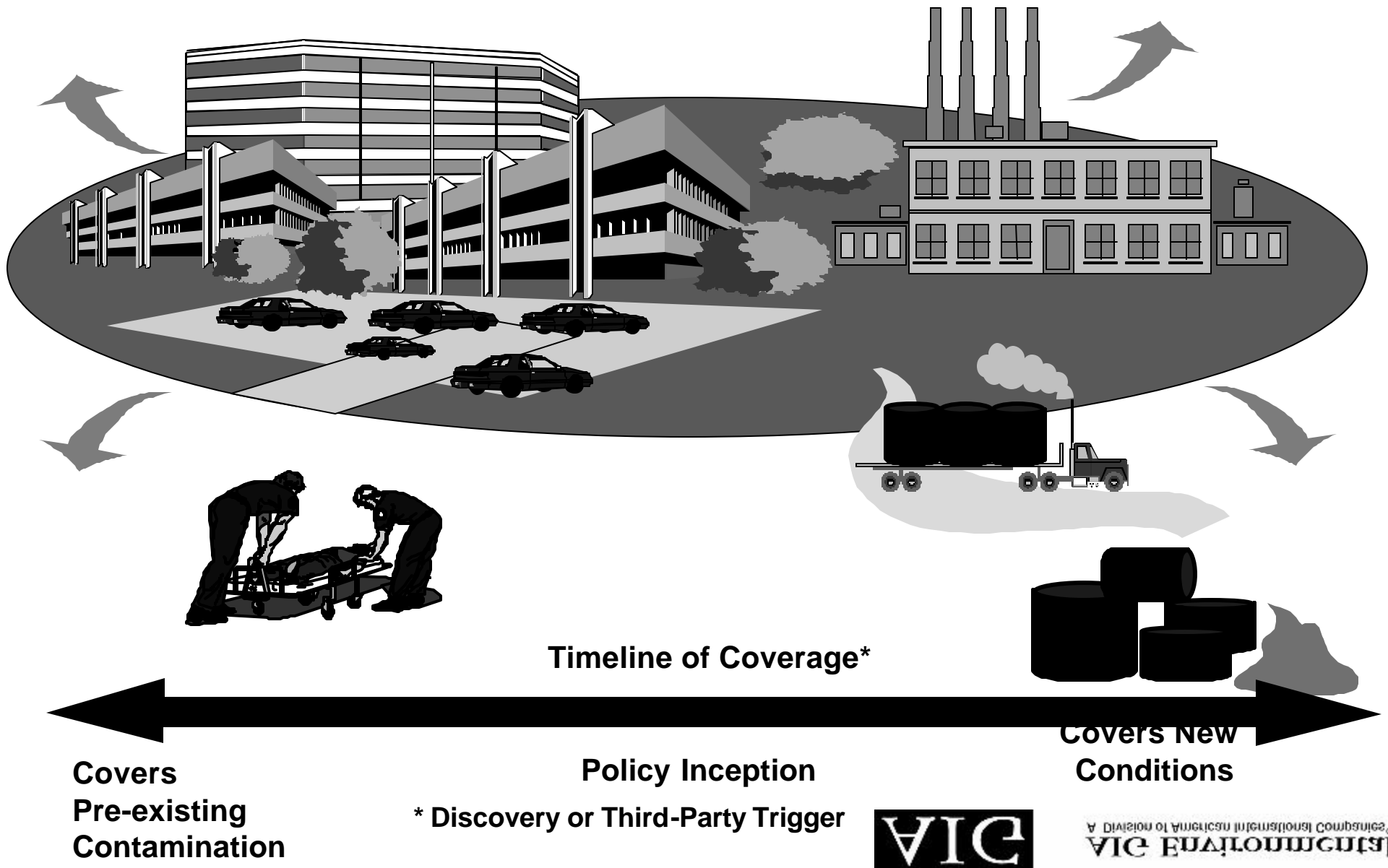
Pollution Legal Liability Select

Covering the Unknown



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PLL Select[®]



PLLS Coverage

Clean Up Coverages

- **On-Site Clean-Up of Pre-Existing Conditions
(Government Trigger)**
- **On-Site Clean-Up of New Conditions
(Government Trigger)**
- **3rd Party Claims for Off-Site Clean-Up Resulting
from Pre-Existing Conditions**
- **3rd Party Claims for Off-Site Clean-Up Resulting
from New Conditions**



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PLLS Coverage

Toxic Tort Coverage

- **Third Party Claims for On-Site Bodily Injury and Property Damage**
- **Third Party Claims for Off-Site Bodily Injury and Property Damage**



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PLLS Coverage

Other Coverages

- **Third-Party Claims for On-Site BI/PD or Clean Up Costs - Non-Owned Locations**
- **Third-Party Claims for Off-Site BI/PD or Clean Up Costs - Non-Owned Locations**
- **Transportation**
- **Business Interruption**



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PLLS Uses for Delaware

- **Use as a Substitute for Financial Assurance in place of:**
 - **Self certification (state costs);**
 - **letters of credit (annual payment);**
 - **captive insurance companies; and**
 - **bonds (annual payment) - reclamation bonds no longer available.**
 - **PLL is one time payment for multi-year.**
 - **Caution - will not cover a known cleanup with PLL prior to issuing policy**



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PLLS Program Attributes

- **Site or portfolio coverage**
- **\$150 million limits**
- **10 year terms**



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Cleanup Cost Cap Program

Capping the Known
& the Unexpected



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Cleanup Cost Cap Program

Known Pollutants

Coverage for loss sustained for cleanup costs at a covered location pursuant to the RAP.

Unknown Pollutants

Coverage for loss sustained for cleanup costs for pollutants different from those identified in the RAP for a cleanup at a covered location.



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Cleanup Cost Cap Program

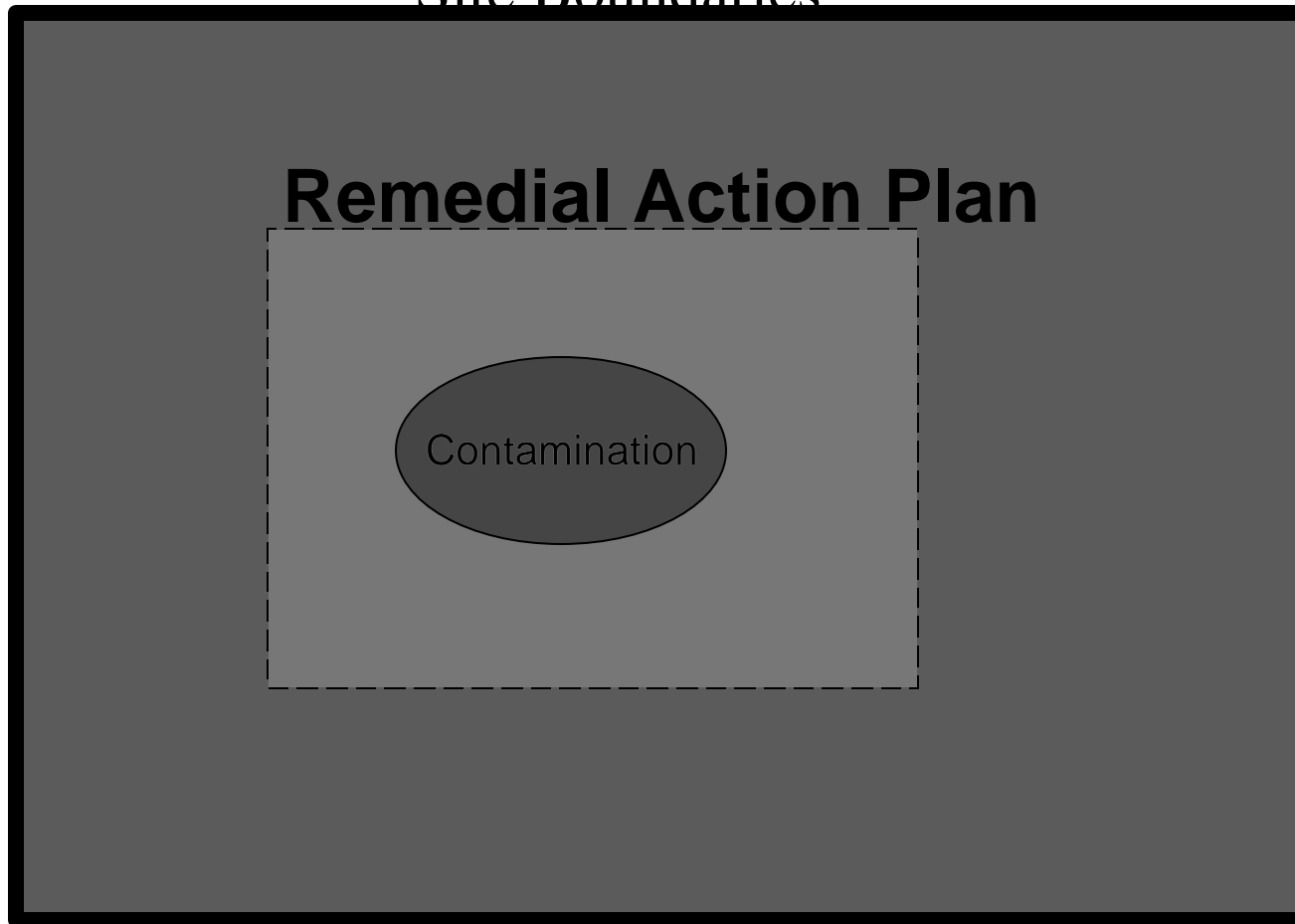
Additional Clean Up Costs May Result From:

- Actual contamination exceeding estimates - onsite & emanating from site
- Changed site conditions
- Escalation in materials expense
- Regulatory change orders (during term)
- Unknown Pollutants - Costs expended to revise RAP to account for new found contamination



Cleanup Cost Cap Program

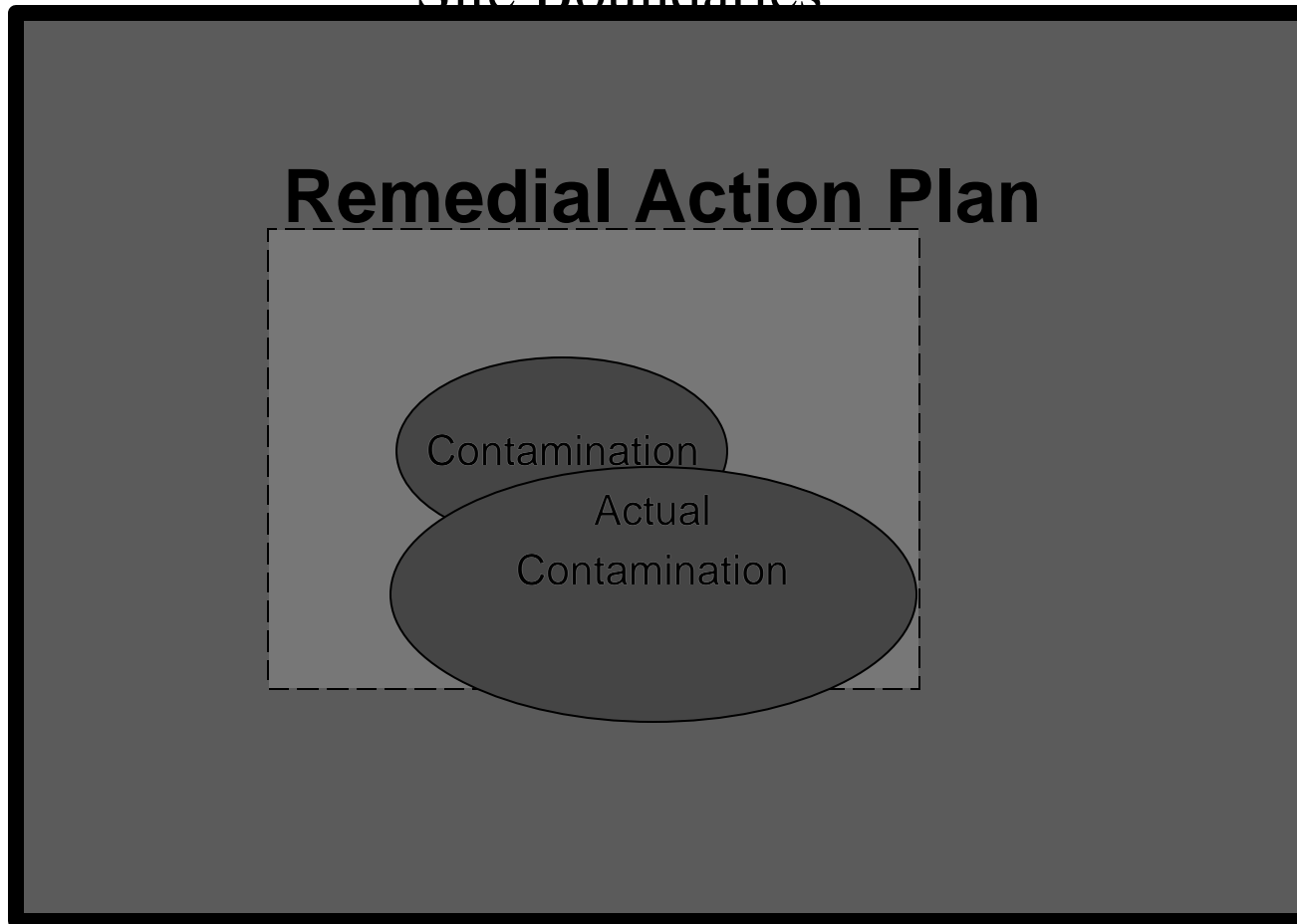
Site Boundaries



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Cleanup Cost Cap Program

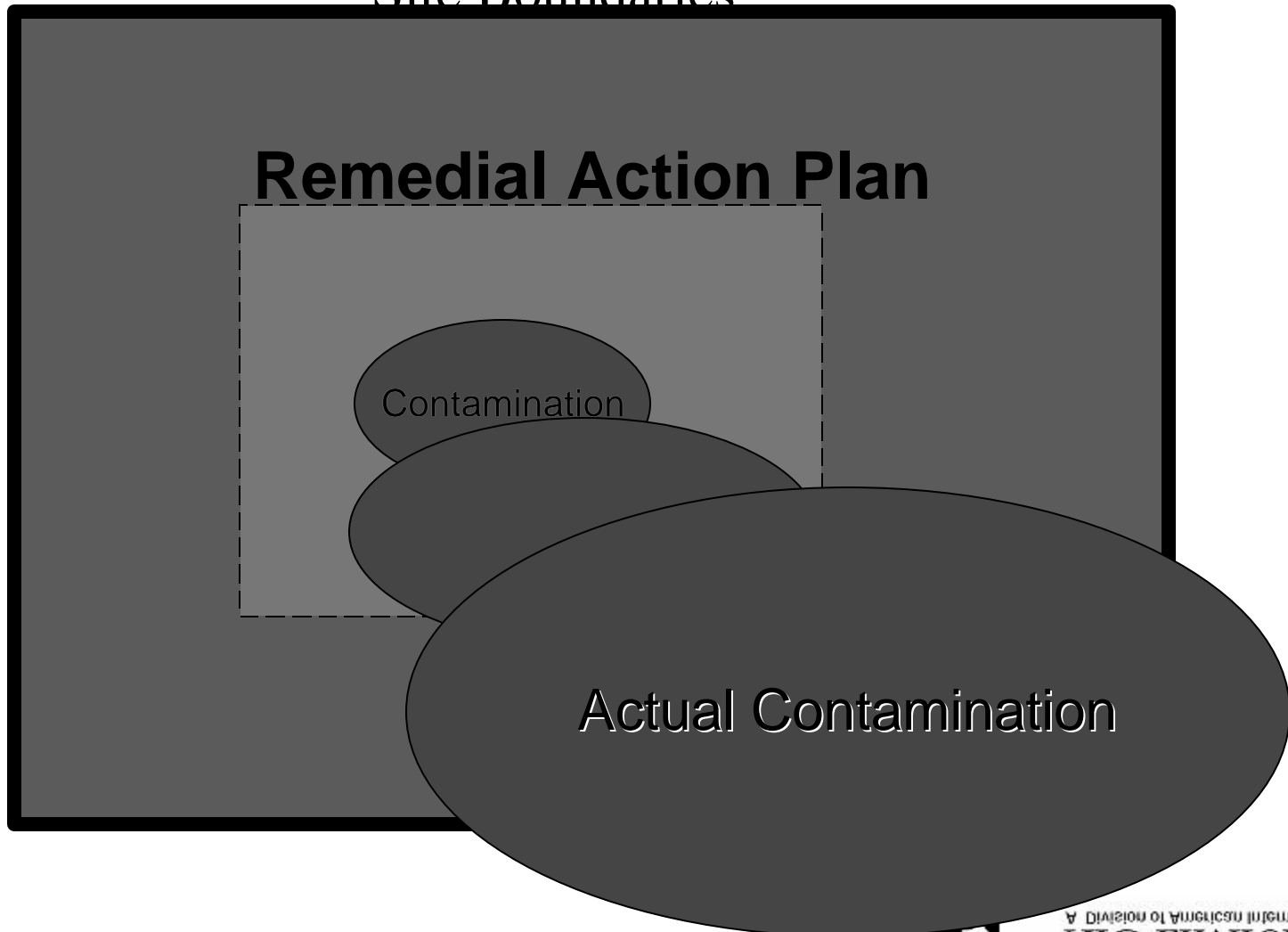
Site Boundaries



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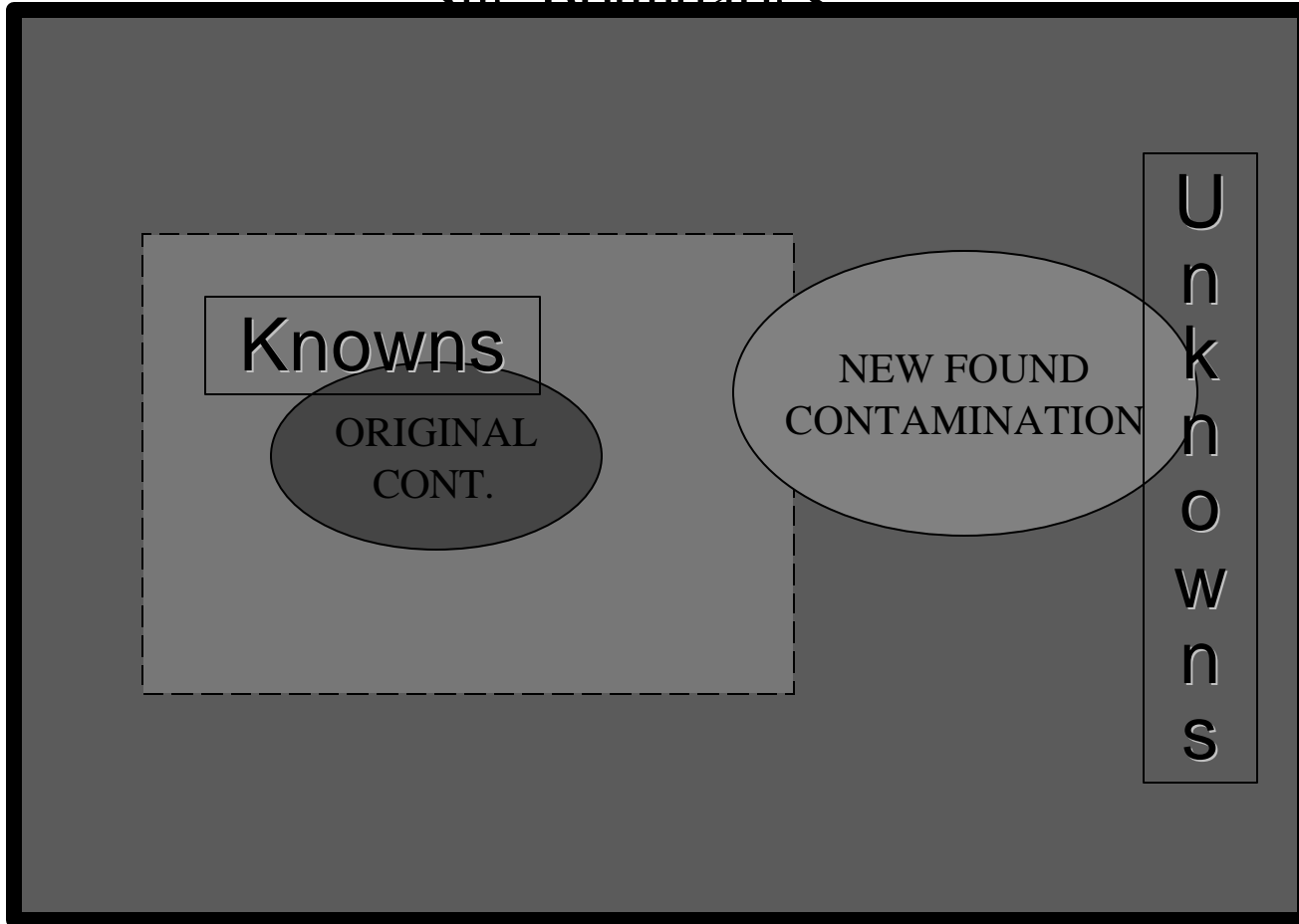
Cleanup Cost Cap Program

Site Boundaries

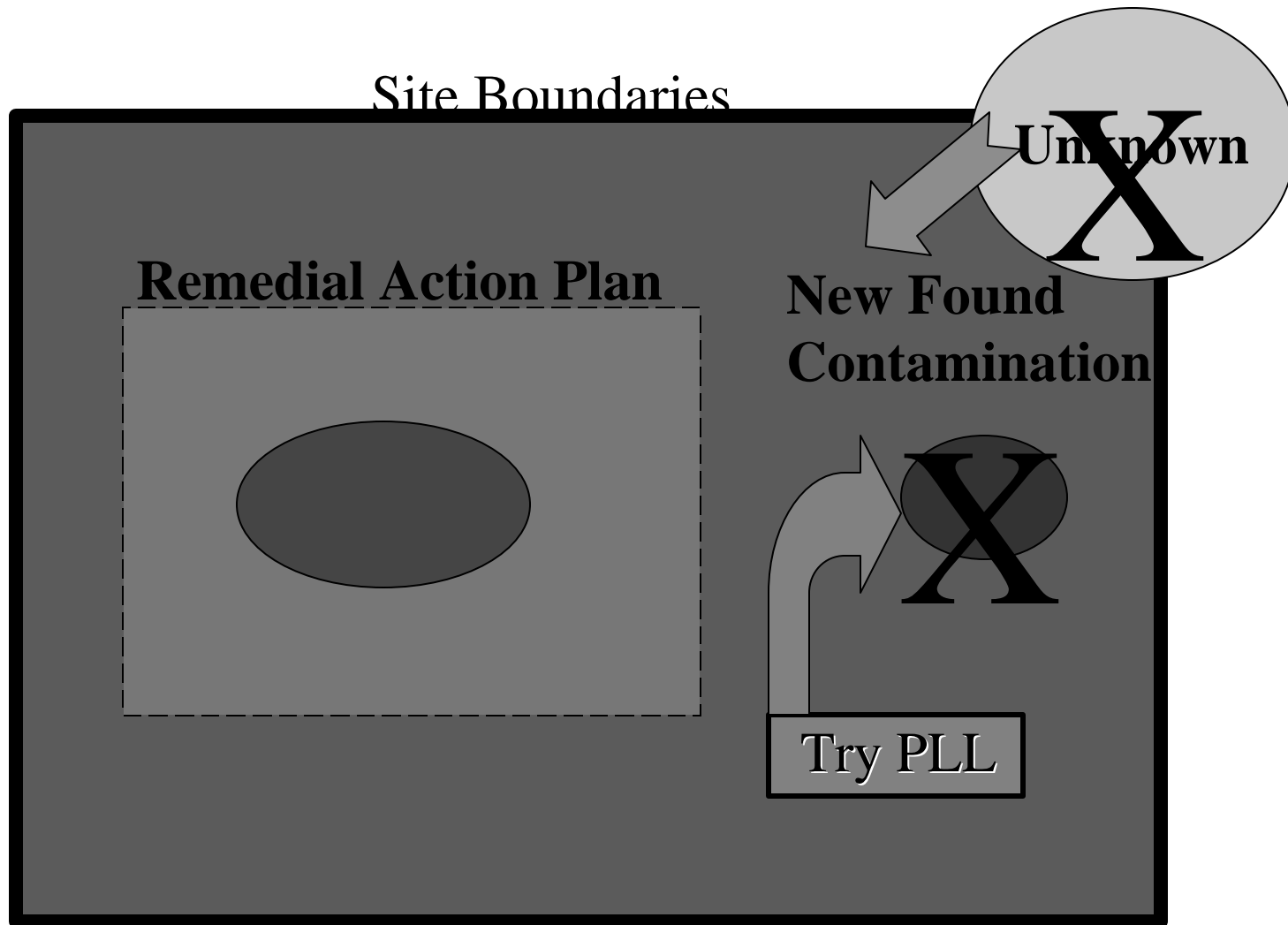


Cleanup Cost Cap Program

Site Boundaries

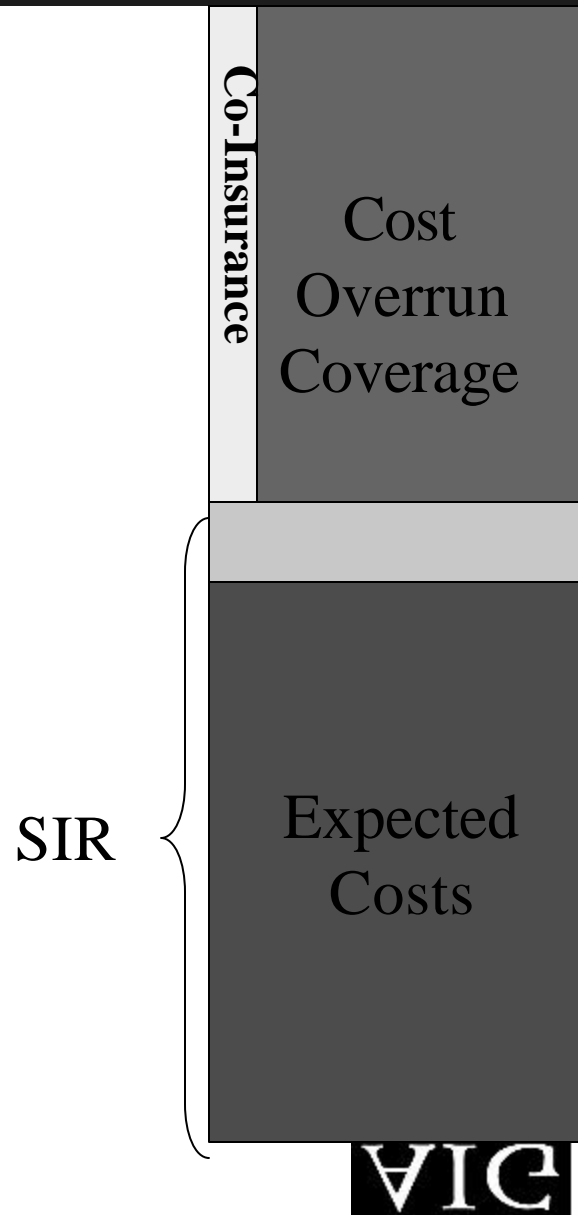


Cleanup Cost Cap Program



Cost Cap Structure

- Coverage attaches above Self Insured Retention (SIR)
- Discounts for a buffer above “Expected” in SIR
- Discounts for Co-Insurance



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Cleanup Cost Cap Pricing

Cost
Overrun
Coverage

Buffer

Expected
Costs

Rule of Thumb
@ 10% of limit
purchased



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CCC Uses for Delaware

- **Overruns could force a Company into bankruptcy**
- **Possible protection of state funds in case of bankruptcy during cleanup**



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Cost Cap Program Attributes

- **Single site or portfolio coverage**
- **\$150 million limits**
- **10 year terms**



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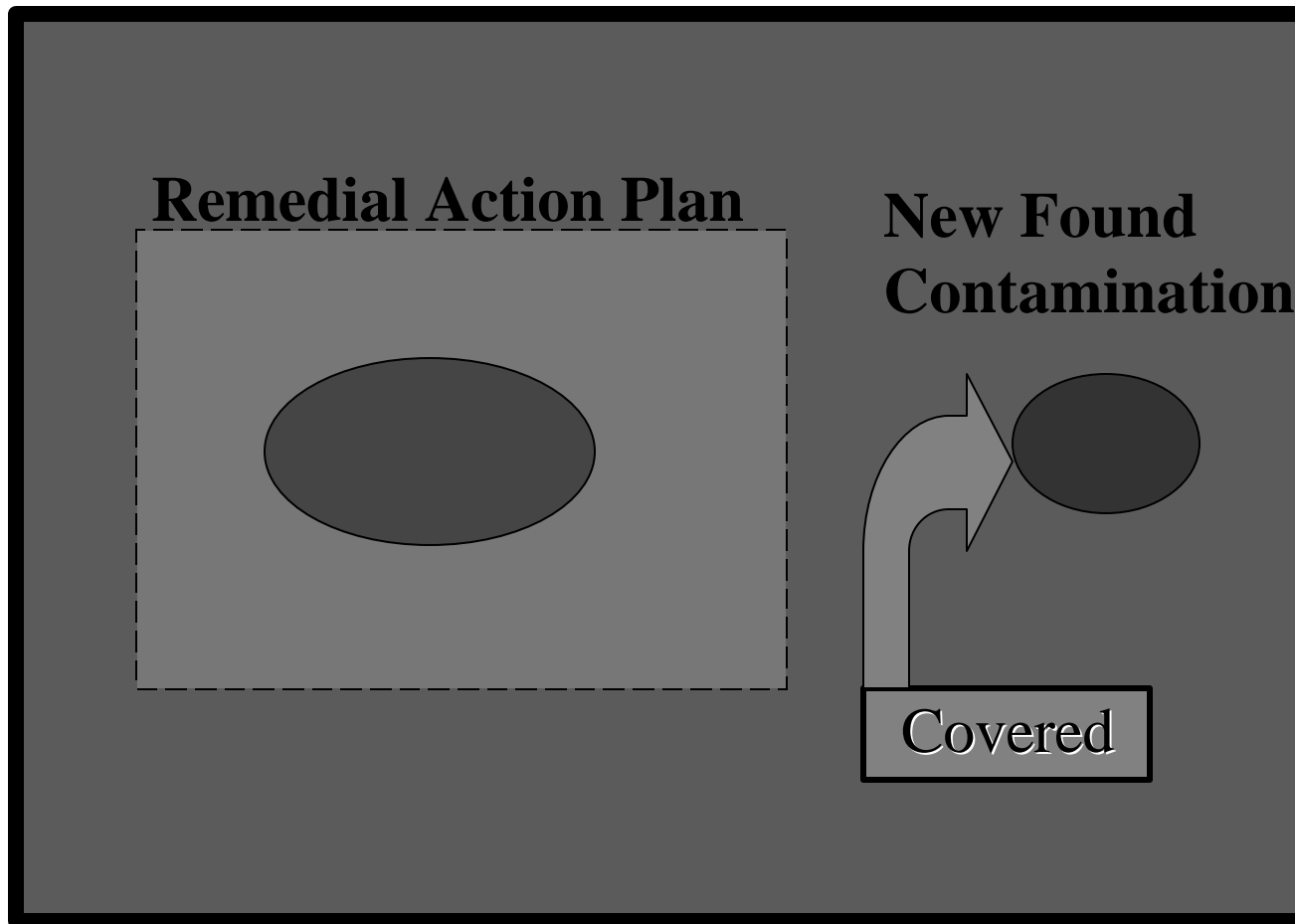
CCC/PLLS Program

**CCC (known)
+ PLLS (unknown)
= CCC/PLLS (known
& unknown)**



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CCC/ PLLS Program



CCC/PLL for Delaware

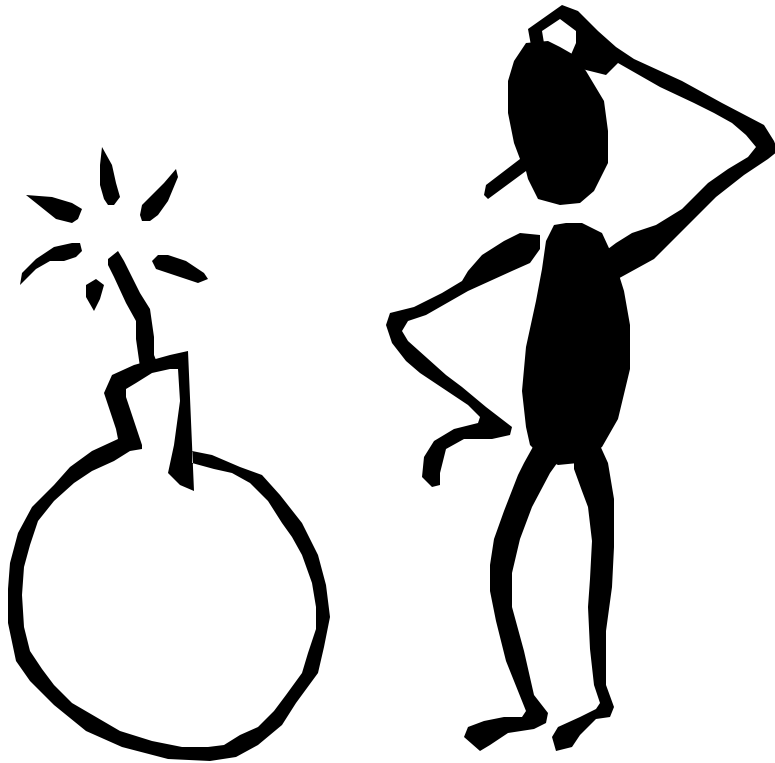
- Very good for a facility where you have known issues that need to be remedied.



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Environmental Protection Program-EPP

Large & Long Term Environmental Liabilities



To provide:

- Funding for financial disclosure
- Financial assurance
- Ability to do exit strategy

To replace

- Escrow accounts
- Remedial action trusts
- Reserves



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Environmental Protection Program-EPP

**self funding of known liabilities
+ insurance for excess of knowns
+ insurance for unknowns
= blended finite program**



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Environmental Protection Program-EPP

EPP Basic Structure

- **Manuscripted policy forms for coverage needed**
- **Expected costs inflated for expected duration & then discounted to a NPV**
- **Excess coverage is provided**
- **Rewards for favorable loss experience (commutation account)**
- **Claims management services**



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Environmental Protection Program-EPP

EPP Premium Development

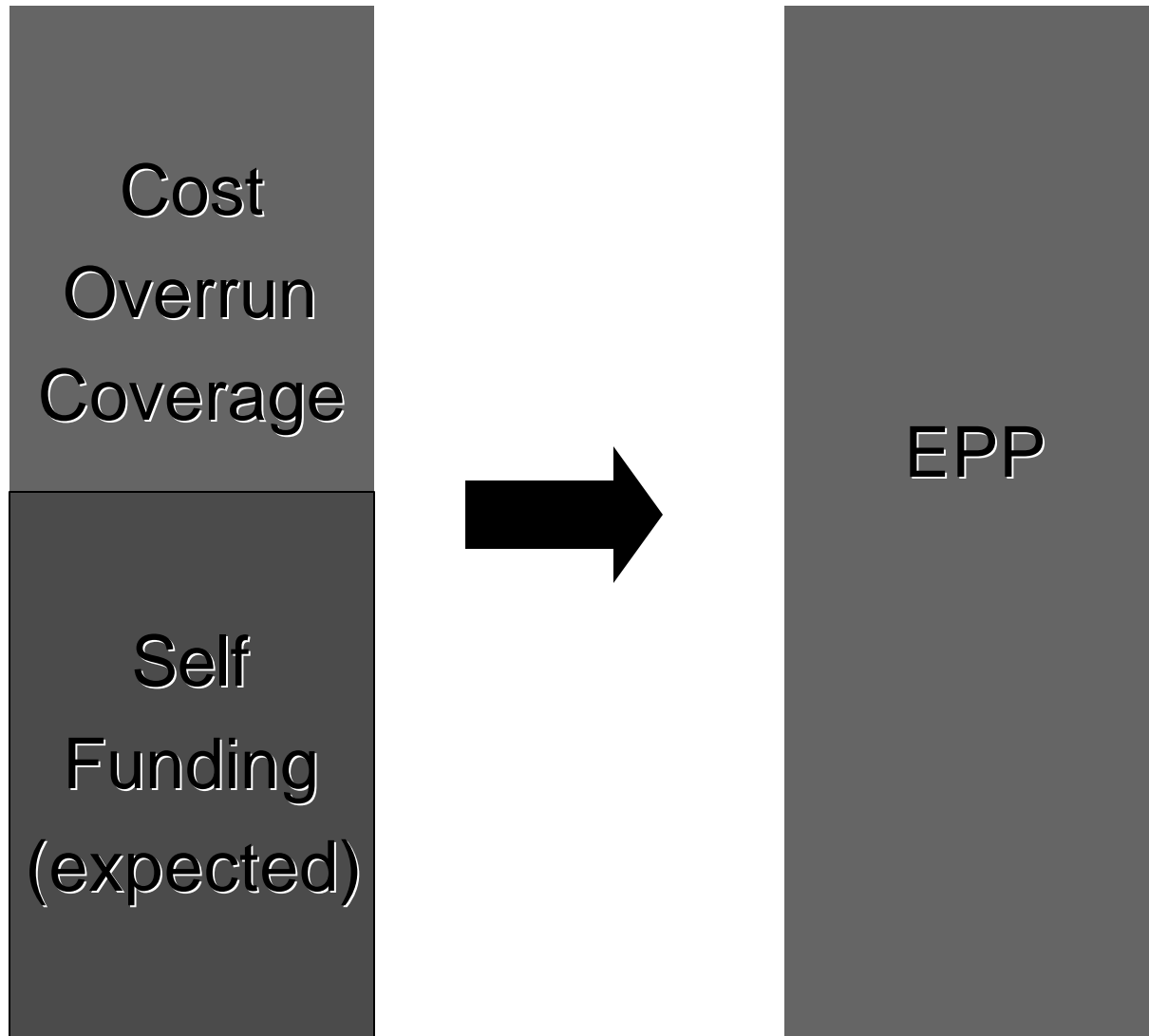
$$\begin{aligned} \text{EPP Premium} &= \text{NPV} \\ &+ \text{Transactional Costs} \\ &+ \text{Risk Transfer Premium} \end{aligned}$$

(NPV = cash flow timeline in today's \$ for estimated annual losses + inflation rate + discount rate)



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Structure of the EPP



Closure / Post - Closure

- ◆ **A similar program can be developed for landfill Closure / Post -Closure**
- ◆ **Need to know the Asset Liquidation value of the landfill**
 - ◆ **Remaining space**
 - ◆ **Nearest alternative landfill**
 - ◆ **Type of landfill**
 - ◆ **Local market**



EPP - Benefits to Delaware

- Financial assurance that monies will be available for future activities:
 - Required by gov't agency
 - Needed for Long Term O&M
 - Superfund litigation resolution
 - Use as an incentive for Settlement
- Long term & high limits
- Another set of “engineering eyes”
- Potential Tax benefits for Private Parties
- Liability transfers & buy-outs
- Protection against Bankruptcy



How are other States using Environmental Insurance

- Massachusetts & California
 - For Brownfields
 - Provide up to 50% subsidy for premium
 - Pre-negotiated Policy by State
- Wisconsin
 - For Brownfields
 - PLL Policy to protect State Budget
 - Premium paid by Developers
- Other States are examining uses
 - VA, PA, OH, NC, AR, KS



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“Suggestions” for Delaware

- “Require” Environmental Insurance for Financial assurance - consider minimum financial ratings for insurer
- Pre-negotiate PLL Policy or PLL/CCC that covers State concerns
- Subsidize Purchase of EI for companies with demonstrated need
- Use CCC and/or EPP and incentives to encourage RCRA & State Superfund Cleanups



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