Environmental Market Status Q1 2020

The environmental insurance market is estimated to be more than $3 billion in premium annually. While every business can potentially be impacted by environmental risk, it is estimated that less than 20% of commercial insurance buyers purchase specialized environmental risk transfer policies to help protect them from financial loss arising from environmental exposures.

Though overall market capacity and appetite has steadily increased over the past decade for environmental coverages, higher risk industries are experiencing market disruptions and erratic underwriting behavior particularly related to site-based pollution coverage. As there are several risk transfer solutions provided by the environmental insurance market, and each product is behaving a bit differently in the current market, a brief update by solution line is offered below.

Environmental Site Liability Coverage

For traditional high-risk industries such as mining, oil and gas operations, chemical manufacturing and bulk chemical/petroleum storage, some markets are demanding significant rate increases of an average of 30% or more for environmental site policies. In addition to increased premium rates these industries are experiencing coverage restrictions, tightening capacity, and shorter policy term lengths for site-based environmental coverages.

Large portfolio programs including commercial and residential properties may also see more restrictive coverage conditions when they include higher risk operations. Such scrutiny is resulting in increases in pricing and coverage restrictions with some carriers declining to offer any proposals and/or renewal terms. More recently, healthcare risks have also seen more restrictive coverage terms related to mold, capital improvements and disinfection coverage. The COVID-19 pandemic is driving further scrutiny around coverage for hospitals, healthcare facilities and assisted living portfolios.

Established site pollution carriers are looking for rate increases of up to approximately 10% for more benign operations but are imposing coverage restrictions from the emerging hazardous constituents described further below. Some of the established markets are no longer willing to offer coverage or are providing restrictive terms and higher premiums for risk due to loss experience.
Contractors' Pollution Liability

The environmental insurance market provides unique solutions for owners, developers and contractors to address environmental risk arising from construction activities. Construction projects are scrutinized by markets, particularly for programs offering coverage for development properties impacted by historic industrial operations or urban sites where uncharacterized fill is common. However, in contrast to the site pollution market, which is hardening slightly, the contractors’ pollution liability market remains competitive. Many carriers are offering reasonable rates for occurrence-based contractor’s pollution liability (CPL) coverage, which addresses liability arising from general and trade contracting operations to participation in large infrastructure projects being delivered through public-private partnership and integrated delivery programs. This broad participation keeps pricing for CPL stable and at times favorable as newer market entrants compete for market share.

A Growing Market Offering: Combined General Liability and Environmental Coverage

In 2020 the environmental insurance market includes more than $250 million in combined General Liability (GL) and Pollution capacity. Environmental Combined forms provide ISO based GL coverage, including pollution enhancements such as site pollution, occurrence products liability pollution and contractor’s pollution coverage. Underwriters offering Environmental Combined forms target manufacturing operations risks and environmental contractors and consultants. Ancillary lines including workers compensation and auto may be offered to support this product offering along with umbrella policies to include the pollution coverages. Carriers offering combined GL/pollution coverage have not exhibited the same volatility pricing, however they have begun to limit their primary capacity. In general, the environmental market provides stability for casualty pricing at both the primary and excess levels.

Emerging Issues and Contaminants Influencing Environmental Coverage

In geographies with robust enforcement and more mature environmental legislation - particularly in the USA, The European Union, Canada, Australia and Japan – a focus has popped up around “emerging contaminants.” These “emerging contaminants” include chemicals and compounds that, while not necessarily new, are identified as having a perceived, potential or real threat to human health and the environment. These contaminants include, but are not limited to: Lead, per-and polyfluoroalkyl substances (PFAS and PFOS), 1,4-Dioxane, Glyphosate, Polychlorinated biphenyls (PCBs) & Perchlorlate.

Per- and polyfluoroalkyl substances (PFAS and PFOS) are an emerging pollution risk at manufacturing sites that produce non-stick cookware, fireproofing, soil repellent fabrics and carpeting, protectants for paper and cardboard packaging, and firefighting foam. These materials are commonly found in groundwater at fire training facilities and are problematic for public entity risks, landfills, large industrial sites, airports and military bases. While federal and state maximum contaminant levels have not yet been established, substantial research efforts are underway for their development and action levels as low as 70 parts per trillion (PPT) in groundwater are being discussed by the U.S. EPA. PFAS/PFOS are a widely used class of more than 3000 chemical compounds which have been linked to adverse health effects for humans and harm to the environment.

We anticipate further market restrictions for PFAS/PFOS coverage as these materials continue to capture the attention of mainstream media.

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Carriers have begun to implement PFAS/PFOS exclusions for sites where these materials were used in historic operations. We anticipate further market restrictions for PFAS/PFOS coverage as these materials continue to capture the attention of mainstream media.

**Specific Impacts of COVID-19**

The unusual exposures associated with COVID-19 present challenges on all insurance policies including those placed covering environmental risk. Similar to property and casualty policies, the coverage generally available for losses arising from COVID-19 under environmental policies is limited at best and likely uncovered. Pollution policies are not designed to cover pandemic risk and generally:

- Do not include virus in the definition of pollution conditions;
- Are not intended to defend or indemnify third-party bodily injury & property damage, remediation or business interruption arising from this exposure; and
- Often include a specific exclusion for communicable diseases or for infection via person to person contact.

Those carriers that do not already have these limitations in their policy forms are adding exclusions particularly for communicable diseases. Carriers specializing in habitational and healthcare risks are considering modifications to terms that allow for disinfection coverage.

**Conclusion**

The environmental insurance market is rich in capacity, with more than $700 million in site pollution and contractors pollution liability limits available. New markets who have entered the space, including those moving into the retail from prior wholesale only activities, are acting as disruptors. Use of new market participants and combined GL/Pollution products may offer Aon clients an opportunity to benefit from favorable conditions in the environmental marketplace with the availability of broader forms of coverage and more competitive pricing. In 2020 Environmental Insurance remains primarily a discretionary insurance purchase; however, environmental insurance products often help close critical gaps in traditional property and casualty risk transfer programs. It is unclear at this juncture whether the acute need to manage gaps in insurance programs, highlighted by the current pandemic, may drive growth in the environmental space or if pressure to reduce spending may impede growth in the market in the near term.