



Greetings!

In our first edition of the new year, *Environmental Insider* offers an ongoing educational analysis and information relating to the environmental exposures and the state of the market through various articles written by our very own employees, as well as a Q&A featuring one of our senior underwriters.

This issue expands our offerings to include information from our Claims department, as well as several scenarios illustrating how policies can be structured as part of an overall risk management strategy for our insureds. We also focus on exposures and insurance solutions for real estate transactions and property management.

Here is a quick look inside:

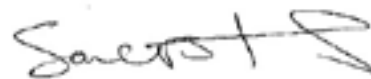
- **Bill Hoffman** explains Great American Environmental's 24-hour emergency response program: Response & React 24/7. The program – which is free of charge to every insured – ensures a rapid discounted response to emergency claims by knowledgeable and experienced pre-qualified environmental professionals.
- **Olivia Derderian** highlights the various types of policies available to support real estate purchases, redevelopment, construction and ongoing portfolio management.

- **Allison Szyba** analyzes lender driven deals from the underwriting perspective, and describes how policy enhancements can assist in managing both lender and borrower environmental exposures.
- An excerpt from a recent interview with one of our senior underwriters, **Kirk Davenport**, provides a thoughtful and in-depth perspective on the state of the market, as well as exposures and challenges in the industry.

If you have any questions, comments or suggestions, please contact one of our team members. We would love to hear from you, and we hope to see you at one of the upcoming industry events we are attending!

We wish you and your families a healthy and prosperous 2017!

Thank you,



Sara Brothers
Divisional Vice President



Response & React 24/7 - 365

by Bill Hoffman, Vice President - Claims



Accidents involving chemical and fuel spills are an unfortunate reality. Mold growth from weather events and water intrusion is frequent, disruptive and can be costly. Logistics and regulatory burdens for incidents like these can be broad, complicated and overwhelming.

That is why Great American Environmental division has contracted with Cura Emergency Services (CES), a

recognized leader in the environmental and emergency response industry for over 20 years, to create its Response and React (R&R) program as a service to its policyholders.

CES provides response management in all 50 states and Canada 24 hours a day, 7 days a week, 365 days a year. CES has experienced Incident Managers that can actively manage all aspects of the incident to assure that exposure is minimized. The R&R program encompasses a network of about 1,000 pre-qualified environmental professionals with pre-negotiated, discounted rates, knowledge and the experience to coordinate and manage a rapid, cost-effective response to emergency claims.

One toll-free phone call is all it takes to initiate a response and gain access to this network of professionals at pre-negotiated rates. From that point on, Great American Environmental division's Claims Department will coordinate with CES and the insured to manage all issues relating to the response.

What to do when an emergency strikes:

- Call the R&R Hotline at 800-340-3399 anytime, 24/7 - 365.
- Describe the situation to the on-call Incident Manager.
- Relax knowing that a highly experienced contractor will respond to the incident and coordinate with all necessary parties.

Services may include:

- Mobilization of a prequalified emergency response contractor to the site.
- Site coordination among the insured, contractors and regulatory agencies.
- Coordination with Great American's Claims Department in accordance with established protocols.
- Applicable regulatory notifications.

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Response & React 24/7 - 365 - continued

- Task-by-task management of the response contractors.
- Waste management handled in accordance with applicable regulations and in coordination with Great American Environmental.
- Invoice audits to verify authorization of the scope of work performed and to confirm costs are appropriate and in line with accepted practices.
- Closure reports filed with appropriate regulatory agencies with copies provided to you.

Initial emergency response by CES is provided at no additional cost, subject to confirmation of coverage.

As an example of the value-added services CES can provide, they were retained to handle the emergency response when an insured's vehicle caught fire and released hydraulic fluid at a job site. The initial clean up, which involved removal of contaminated soils, was handled quickly and cost effectively with minimal impact on the job site. CES arranged to have the contaminated soils disposed of for \$18,000, a reduction of \$7,000 from the initial cost estimate.

Another example involved an insured's fuel service truck which veered off a road and overturned, releasing approximately 15 gallons of diesel fuel from the hatches on the cargo tank. Remediation included a small amount of soil excavation and disposal, confirmation soil sampling, and reporting to the appropriate regulatory agency. The insured paid only \$4,105 for this work. CES provided a five percent discount by using their pre-approved vendors and also reduced mark-up of subcontracted services to 10 percent instead of the usual 15-20 percent.

Great American provides access to the Response and React Program to every insured - free of charge!





Real Estate Properties - Where Environmental Insurance Comes into Play

by Olivia Derderian - Underwriter



With an improving economy, there has been an increase in redevelopment and real estate transactions. While many real estate managers and owners purchase general liability and property insurance, there are gaps in coverage that many are unaware of. The following products are examples of how environmental insurance provides the coverage that is essential for real estate owners.

Premises Environmental Legal Liability Policies

Coverage can be provided for legal liability arising from pollution conditions associated with new or pre-existing pollutants at the site, as well as with non-owned disposal sites and transportation of products or wastes. These policies can be enhanced by offering additional coverages such as Business Interruption, or providing coverage for inadvertent disturbances of asbestos and lead-based paint.

Environmental insurance provides essential coverage for real estate owners.

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Environmental Liability Insurance for Owners, Developers, Lenders and Contractors - *continued*

Legal Liability Policies Highlights

- Efficient way to round out coverage on real estate properties or portfolios.
- Provides coverage for bodily injury, property damage, legal expenses and clean-up costs resulting from pollution conditions arising from covered locations.
- Coverage can be offered up to 10 years under these policies.
- Structure portfolio policies by providing each location with a dedicated sublimit under an aggregated policy limit.
- Provides coverage for the owner, general contractor or construction manager, and all subcontractors at any tier who are performing contracting services at the covered location.
- Can be offered on a claims-made or occurrence basis.
- Up to a 10-year policy period, up to 12 years Completed Operations (coverage after the project is completed), or a combination of 17 years for both.

Indoor Air Quality (IAQ) Policies

When purchasing general liability or property coverage for real estate properties, there generally is a gap in coverage for IAQ issues arising from mold, lead-based paint, asbestos, etc. An IAQ pollution policy can be offered to provide coverage for such instances, as stated above.

IAQ Highlights

- More focused and cost effective.
- Provides coverage for pollution legal liability arising from IAQ and building related clean-up costs.

Contractor's Project Policies

Development properties are common types of properties that call for environmental insurance. To compliment a site pollution policy, an Owner's Controlled Insurance Policy (OCIP) or Contractor's Controlled Insurance Policy (CCIP), also known as "wrap-up" insurance, can also be provided. In order to maintain a reasonable premium, OCIP/CCIPs can share, or link, limits of liability with an accompanied site pollution policy.

Project Policy Highlights

- Purchased by the owner or general contractor/construction manager of the property/project.
- Provides coverage for bodily injury, property damage, legal expenses and clean-up costs arising from pollution conditions from contracting services.

Claims Scenarios

Site Pollution, Indoor Air Quality: Commercial Office Building – A small water leak occurred during a recent heavy rain event and water seeped into the HVAC system of a large commercial office building. After a few days, the additional moisture and condensation in the HVAC system resulted in a perfect environment for toxic mold growth. As the HVAC system did its job, it also spread mold throughout the building, to several floors, causing not only mold growth in other areas of the building, but also numerous cases of sick workers. The clean-up took several weeks to complete and a few of the businesses had to close during this time, creating business interruption costs.

Contractor's Pollution (OCIP), Silt & Sedimentation – The contractor had just completed the grading of a new parking lot and was ready to install the drainage system when a heavy rain began to fall on the project. Although the contractor had taken appropriate measures, the rain was intense, and silt and sediments washed off the property and into a nearby stream. The local "friends of the river" noticed the stream turn brown and reported it to the local wildlife agency, resulting in a clean-up being required and fines being levied on the project owner for impacting sensitive salmon spawning habitats.

Lender Driven Deals from an Underwriting Perspective

by Allison Szyba - Underwriter



As commercial lending entities develop a better understanding of environmental risk, they are placing greater emphasis on insurance programs for protection. Lenders may be at risk when a borrower defaults and foreclosure is undertaken. In addition to insurance solutions providing a level of comfort for a lending entity, this safeguard can also provide a more economical way for lenders to accept additional environmental exposure on

properties that previously seemed precarious or even unapproachable. Many insurance programs can minimize potential environmental risks while simultaneously protecting the lender's interest.

Policies can be structured for the lender only, which provides no risk transfer to the borrower and only responds on behalf of the lender, usually upon foreclosure. These policies can be very cost effective and can often

offer longer terms – up to 13 years. Alternately, policies can be structured for the borrower with the lender included as an additional insured. The latter provides broader coverage while still satisfying lender requirements; as it allows for protection from unknowns for the borrower. This type of coverage can be underwritten with restrictions that only apply to the borrower, while unrestricted coverage is often given back to the lender.

As lenders are becoming more risk-averse, many have developed certain specifications for this type of coverage. These span from general requirements including expected term length, coverage limits, and self-insured retentions, to more specific requirements which may allow for the lender to use the policy in the event it has to sell the collateral to a new buyer, or in the event a borrower defaults under its loan and the bank is stuck with environmentally-impaired collateral. These enhancements to the policy can provide automatic assignment of a policy to the lender, automatic assignment to a successor-in-title, written consent by the lender for policy cancellation or modification, and scheduling the loan agreement to the policy. Additional enhancements are often requested depending on requirements set forth by the lending entity.

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Lender Driven Deals from an Underwriting Perspective - *continued*

Many risk-averse lenders understand the importance of environmental due diligence to the purchase and sale of a property as well as to the process of obtaining insurance. From an underwriting standpoint, lender driven deals are approached much like any other fixed site pollution deals, though with more emphasis placed on the borrower's financials and often the performance or occupancy history of the collateral, since restrictions are typically given back for the lender upon default.

In addition to current financial statements, due diligence reports, loan documents, tenant agreements, and any indemnities that may be in place are often required for underwriting. Given the necessary information, these policies can often be underwritten fairly quickly. This is important as the insurance option is a key part of streamlining the transaction and expedition of the loan process.

Case Study #1 - Lender-Only Pollution Policy

A lending institution is contemplating a refinance loan on a retail shopping mall that the borrower has owned for over 10 years. However, the bank is concerned that a dry cleaner operated in one of the units for about 15 years in the 1970s-1980s and there has been no investigation conducted in association with these former operations.

Knowing that the chemicals often used in dry cleaning operations are extremely toxic and can cause severe damage to human health and the environment, the bank seeks coverage for the potential conditions in the event of the borrower's default on the proposed loan. Since there has not been any sampling associated with the former dry cleaning operations, the insurance carrier is able to underwrite to the financial strength of the borrower (or environmental carve-out guarantor), and also to the strong performance and profitability of the shopping mall, resulting in an unrestricted pollution policy that will respond only for the lender in the event of default on the refinance loan. Additionally, the pollution policy term is 13 years, which extends three years beyond the 10-year loan term. This provides the lender with an additional three years of coverage in case claims are made after the loan expires.

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Lender Driven Deals from an Underwriting Perspective - *continued*

Case Study #2 – Borrower's Pollution Policy with Restrictions Excluded for Lender

A potential borrower was looking to acquire a multi-family residential apartment complex that was built on a property that was previously a gas station in the 1980s-1990s. When the property was redeveloped in the early 1990s, the builder encountered petroleum impacted soil and groundwater during the excavation and construction of the underground parking garage. Soil and groundwater samples were collected at that time and the local regulatory agency issued closure for the site since residual petroleum concentrations remained in soil and groundwater.

The lending institution was concerned that although all appropriate measures were taken and the environmental case was closed in the 1990s, now that regulatory

standards have sharpened, the oversight agency may re-open the case and require additional sampling, groundwater monitoring, or even remediation of the petroleum hydrocarbons that were left in place over 20 years ago.

The insurance carrier was able to offer a 10-year policy that restricted the borrower from making a claim for the clean-up of historical petroleum hydrocarbons, but was unrestricted for the bank in the event of default (and the policy automatically assigns to the lender upon default). Additionally, the borrower now has full coverage for other pollution conditions (as defined in the policy) including mold, which is a substantial exposure for multi-family residential properties.

Many insurance programs can minimize potential environmental risks while simultaneously protecting the lender's interest.



Choosing a Good Partner: Our Carriers' Take

The Summit: Carrier Stability | Vol. 2 Iss. 3



Kirk Davenport recently participated in an interview with The Summit, along with other various professionals within the environmental industry to discuss their perceptions of the current market. Read his responses below to gain insight on recent challenges, opportunities and trends within the marketplace.

The environmental insurance marketplace is experiencing some interesting activity. More carriers are entering this specialized space to compete for business and account opportunities appear to be abundant. We interviewed a few of our carrier partners to get their take on the current market – challenges, opportunities, and trends that agents and their insureds should be aware of.

From an insurance carrier perspective, how would you characterize the current environmental insurance marketplace?

The current environmental marketplace has been one of change. Some established markets have pulled back on their appetite or even exited while several newer entrants have been aggressive on both pricing and coverage. In addition, there have been some large mergers in the environmental space resulting in an overall reduction in available capacity. Despite the apparent adverse loss development on some older environmental books and the reduction in capacity, there is still downward pressure on rates albeit a bit less than prior years.

How important do you think the Carrier is to the overall value of the product offered?

In today's crowded marketplace, the carrier's culture is one of the key differentiators. It is very important to remember that the insurance product is not simply just a piece of paper. The bound policy represents the culmination of the client's experience with the carrier's underwriting team – it begins with the initial

underwriting process, the negotiation of language and binding, midterm servicing capabilities and ultimately claims handling expertise. Is the carrier responsive to the agent's timing requirements? Can the carrier's underwriters deliver a viable product that meets the client's coverage and language needs? Does the carrier have in-house claims personnel with the experience needed to properly respond to complex environmental claims? The carrier's culture dictates the answers to these questions much more than the paper itself ever could.

What market challenges have you seen in recent months?

One recurring challenge in the current marketplace is the need to keep a steady hand and remain true to the core underwriting principles that have made us successful. Maintaining our culture that promotes technically sound and collaborative underwriting will allow Great American to remain an exceptional, long-term player in the environmental marketplace.

Where do you see the biggest opportunities for agents?

The demand for environmental liability products continues to increase. Clients are becoming more aware of their environmental exposures and how the environmental liability products can mitigate those exposures. Many construction contracts and purchase and sale agreements now specifically require environmental insurance. In addition, many lenders are requiring coverage as part of their loan underwriting requirements.

If you could speak directly with insureds, what would you want them to know?

When evaluating environmental liability options please take into consideration if the market will be around for the long-term to properly and promptly service the account and ultimately fulfill its obligations under the insurance contract. Are the carrier's goals and culture aligned with your own? Are the carrier's underwriters rewarded for client satisfaction, creativity, long term stability and profitability, or simply top line production?

Update your address book! We have moved!



As of December, The Plymouth Meeting office has relocated to Exton, PA. Please see below for our new address.

397 Eagleview Blvd., Suite 100
Exton, PA 19341

For toll-free calls, please continue to use 888-828-4320

**Upcoming Industry
Events Great American
Environmental
is Attending:**

*We hope
to see you
soon!*



Associated General Contractors (AGC) Annual Convention

March 7-9, 2017
Las Vegas, NV
www.agc.org



RTM – Sustainable Property and Asset-Based Transactions

April 11-13, 2017
Philadelphia, PA
www.rtmcomm.com/2017-Philly-Conference



RIMS Annual Conference

April 23-26, 2017
Philadelphia, PA
www.rims.org



SEIP Executive Summit

June 13-15, 2017
Atlanta, GA
<https://www.eventbrite.com/e/seip-executive-summit-2017-tickets-27201807338>



A Company You Can Count On

Great American Insurance Group's roots go back to 1872 with the founding of its flagship company, Great American Insurance Company. Based in Cincinnati, Ohio, the operations of Great American Insurance Group are engaged primarily in property and casualty insurance, focusing on specialty commercial products for businesses, and in the sale of traditional fixed and indexed annuities.

Great American Insurance Company is currently rated "A+" (Superior) by A.M. Best, and has received an "A" (Excellent) or higher rating from the A.M. Best Company for more than 100 years.* The members of Great American Insurance Group are subsidiaries of American Financial Group, Inc. AFG's common stock is listed and traded on the New York Stock Exchange under the symbol AFG.

The Numbers Tell the Story

There are over **3,000** property and casualty insurance companies in the United States.

Only **50** are included on the Ward's 50 List for safety, consistency and performance.

Only **5** have been rated "A" or better by A.M. Best for over 100 years.

Only **2** are on both lists.

Great American Insurance Company is **1** of the two.

We are proud of our "A+" (Superior) A.M. Best rating and thank you for the trust you have placed in us to insure your most important specialty accounts.

*A.M. Best rating affirmed May 12, 2016.

The above mentioned claim and coverage scenarios are provided to illustrate exposures your client could encounter. The facts of any situation which may actually arise and the terms, conditions, exclusions and limitations in any policy in effect at that time are unique. Thus, no representation is made that any specific insurance coverage applies to the above scenarios. The information presented in this publication is intended to provide guidance and is not intended as a legal interpretation of any federal, state or local laws, rules or regulations applicable to your business. The loss prevention information provided is intended only to assist policyholders in the management of potential loss producing conditions involving their premises and/or operations based on generally accepted safe practices. In providing such information, Great American does not warrant that all potential hazards or conditions have been evaluated or can be controlled. It is not intended as an offer to write insurance for such conditions or exposures. The liability of Great American Insurance Company and its affiliated insurers is limited to the terms, limits and conditions of the insurance policies underwritten by any of them. Coverage description is summarized. Refer to the actual policy for a full description of applicable terms, conditions, limits and exclusions. Policies are underwritten by Great American Insurance Company, an authorized insurer in all 50 states and the DC and Great American Protection Insurance Company, an authorized insurer in CA, IN, KY, MS, OH and WA. © 2017 Great American Insurance Company, 301 E. Fourth St., Cincinnati, OH 45202. All rights reserved. 5072-ENV (3/17)