# Growing Trend of Costly Environmental Claims Expected to Continue in 2018

The environmental insurance industry is moving into a transformative era. The marketplace has reached significant maturity after more than 25 years. The market has proven that it could easily absorb the $1 billion+ in AIG expiring premiums, since AIG's announced exit of its pollution legal liability coverage in 2016. With new entrants coming into the market each year, environmental insurers are transforming and innovating to grow and remain competitive. The environmental insurance marketplace is estimated to be over $2 billion in annual premiums with double-digit growth, outpacing the annual growth rate of the general property and casualty marketplace.

Much like the rest of the insurance industry, environmental insurers will use big data for analytics to drive new solutions, and to adapt business models and develop target niche areas/ solutions.

We raised a question last year: If after 30 years of actuarial data, AIG couldn't be profitable in this space, what carrier might be next and, more importantly, when will the "musical chairs" stop and rates start to rise? It's our prediction again for 2018, that profitability will be, in effect, postponed until the future, because there are simply too many players, and, therefore, excess capacity.

Frequency and severity of environmental claims are expected to continue in 2018. With significant hurricane and flooding in 2017, toxic release and mold claims are still being adjusted, but these don't seem to have much bearing on future coverage or rates, except that underwriters will examine more closely those risks with exposure to coastlines or flooding.

We are confident there will be continued growth with a soft market in 2018 for most classes or risks except for higher risks such as petrochemical, oil and gas, power and utility, and mining.

There will also be some measured constraints for certain higher real estate risks, such as hospitality, regarding indoor air quality - with the potential for higher retentions and coverage limitations.

Risks that pose potential for liability for water contamination will have more measured underwriting with an increased focus by the public and regulators on water contamination.

## The Market Today

- Highly competitive
- Close to 50 insurers

## Market Capacity

- All signs point to more growth, with over $600 million in capacity and more new players, including some limited London market participation, after decades of no interest.
- Capacity varies by line and by industry segment.
- Tougher classes, such as energy, risks from downstream to upstream, and power and utility risks, may have significantly less capacity as the EPA heightens its scrutiny of these industries' impact to air and water.
- Business interruption claims are also increasing from operational spill events and indoor air quality matters to violent storm events. Companies frequently cite

business interruption risks as one of their top concerns and environmental related business interruption risks can create significant financial consequences if not addressed adequately.

- Ten-year term transactional risk policies for pollution legal liability are still available in the market, but only from certain insurers.
- One-year policy terms are becoming more the norm for difficult risks, such as the day-to-day operations of energy, mining, petrochemical, and power and utility firms, and will create volatility for these classes of business as well as possible risk of gaps in coverage.
- With a booming construction marketplace, the demand for contractors' pollution liability continues, making the marketplace highly competitive. Prices are continuing to drop with no floor in sight. Additionally, the use of environmental-owner or contractor-controlled policies is becoming more common today even for projects smaller than $100 million in contract values - largely due to the continuing increase in construction defect/environmental claims and very competitive pricing.
- Environmental casualty policies, which combine general liability and pollution legal liability, continue to be very popular and are growing at a double-digit pace.
- Coverage for complex mergers and acquisitions, contaminated properties, and brownfield projects, requires more time to be customized. Losses on policies written for redevelopments have caused insurers to become tougher on insurance terms regarding contamination, and policies can include many restrictions, along with short terms.

## Topical issues

*New Threats:*

- **Brand value:** Companies are very sensitive to financial losses that might occur due to failure to prevent major environmental damages. Cases such as the Flint, Michigan water crisis, and other high profile industrial spills, have damaged organizations' brands.
- **Environmental terrorism:** Risks from nuclear, chemical, radiological, and bioterrorism are top concerns of municipalities and other public entities. In a world of more civil unrest, many terrorism experts now believe it is only a matter of time until there is some biological or chemical event. Cyber terrorism is a growing threat - pollution policies can cover pollution released in a cyber terrorism attack that targets a refinery or power plant.
- **Product pollution liability risks:** These risks are becoming more of a forefront issue, especially for higher risks that have big consequences if a product fails and causes water contamination or personal injury to consumers - since these might result in a lawsuit.

## Forecast for 2018

Rates are likely to be fairly stable, but vary by coverage line. Specifically, we predict:

- Pollution legal liability: 5% increase to 5% decrease
- Contractors' pollution: up to 10% decrease
- Combined general liability/pollution: up to 5% increase

*For more information on how USI can help protect your business against environmental claims, contact a USI consultant.*

Click to read the 2018 USI Insurance Market Outlook report, which details expectations for 19 coverage areas including new expert insights on specific industry vertical markets.