


**Architects Survival Guide
to
Managing Mold Risks**
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Background

- Putting mold losses in perspective.
- The insurance industry's response.
- Where architects fit into the picture.

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Where did all these losses come from?

- Wet buildings = mold losses
- Energy efficient designs
- Changes in building materials
- Construction defects
- Poor designs
- Public awareness and intolerance
- Toxic Torts

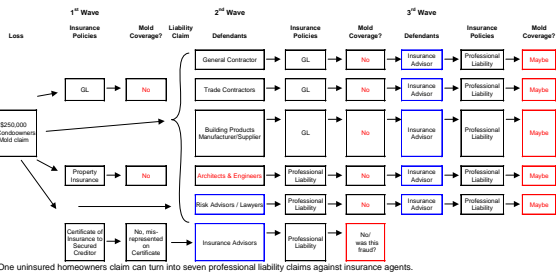
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Mold losses in perspective

- \$3-\$12 Billion Dollars incurred in 2002
- Losses from fires in 2002 - \$12.6 billion
- Insured losses from mold in 2005, are down 75% from 2002 levels. (Net of the hurricanes)
- Mold restoration contractors revenues are down 25% from 2002 levels.
- So where did the \$1.5-\$6 Billion annually go?

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Domino Effect Of An Uninsured Mold Claim from Property insurance to General Liability insurance to Professional Liability insurance



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Insurance Industry Response To Mold Losses

- Insurance companies successfully implemented a risk avoidance strategy.
- Mold **related** losses are now universally excluded or restricted in all insurance policies.
- Architects are the last construction industry sector without the exclusions.
- Mold Exclusions for Architects are imminent.

The current situation for Architects

- Mold losses in construction are still incurred daily.
- The claims are for construction defects and **toxic tort** bodily injury.
- Architects Professional Liability would insure mold related losses prior to mold exclusions.
- Mold **related** mold exclusions eliminate coverage retroactively and prospectively.

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Architects Professional E&O insurance Is Not A Solution

- Architects E&O is Claims Made Insurance
- The current policy pays for claims made during the policy period.
- Annual insurance renewals effect the insurance coverage on all prior acts and new work.
- A longer term risk management strategy is necessary.

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How To Manage The Mold Risk

- Use building science for proper design.
- Specify mold resistive materials.
- Monitor the construction process.
- Monitor the operation phase.
- Put long term non-cancelable insurance into place on projects.

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Insurance Solutions

- Project Professional Liability Insurance
 - Cannot be changed or altered
 - But it is very expensive
 - Trial lawyers target these policies
 - Lawyers feed off the process of laying the blame
- Still better than nothing.
- But an inherently flawed approach.

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Real Estate Environmental Liability Insurance/HPR/Mold

- Insures the building for environmental and mold losses
- Covers mold clean up and liability claims
- 10 year policy term
- Aligns the interest of all stake holders,
 - Developer, Owner, Future Owners, Lender
 - Contractor, maybe Architects

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REEL/HPR/Mold Underwriting

- Building scientists review for each project
 - The building plan
 - The contractor's loss control protocols
 - The materials, premium credits can apply
 - The construction process
 - The building managers loss control protocols
 - The actual operation of the building for 7 years
- A superior insurance design.

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REEL/HPR/Mold

- Good for larger projects.
- Premiums are up to 50% lower on projects that use Dens paperless drywall.
- Works well for new commercial construction, renovations and conversions.
- Not good for single family home builders.

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Managing Mold Risk in Prospective Projects

- Use building science based designs.
- Specify mold resistive materials.
- Engage building envelope consultants.
- Select quality contractors with good loss control.
- Recommend project insurance where possible.
 - The REEL/HPR/Mold product engages all of the above risk management strategies.

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Single Family Homes-Prospective Risk Management

- Select mold resistive material-
 - For example No Burn MIH mold resistive finishes or Dens paperless drywall
- Monitor Construction-
 - Energy Star Certified Homes are inspected 3 times
- Product warranty risk financing-
 - Product replacement only, but better than nothing
- Monitor completed site-
 - REEL annual inspections

Managing Mold Risk From Prior Acts

- Encourage clients to get appropriate long term insurance coverage today to access the loss control capabilities of the insurer over time.
- Try to rapidly respond to reports of water problems.
- Never act with arrogance and indifference to a reported loss.
- Your higher risk projects are less than three years old.

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Conclusion

- Manage the water intrusion and mold risk; Prevent, control and finance mold losses.
- Architects Professional liability Insurance is unreliable for mold losses
- Innovative products and services are being developed to help.
- Aggressively use combinations of these to protect yourself.
- Call any ARMN.Net office with questions.

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