



## Using Environmental Insurance as a Competitive Advantage

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January 2003

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## Mold is the fastest growing risk management problem in the US

- Explosive growth in claims
- Insurers are in full retreat
- Exclusions will affect tens of millions of insurance buyers
- Armies of well educated plaintiffs lawyers
- Frequent seven figure judgments
- Available mold insurance is completely underutilized
- Professional E&O exclusions for mold related losses will focus attention on insurance coverage gaps

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## Where did all these claims come from?

- Prior to the new science linking mold to adverse health affects in humans, prior to the the lawyers and prior the media attention, mold claims were water damage claims without Remediation Costs, Additional Living Expense, Bodily Injury and Defense costs
- Changes in building materials and techniques have increased mold claims frequency

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## What will the future bring?

- New microbial matter insurance policies will be introduced by environmental insurance underwriters
- Appropriate environmental insurance is available today which will supercharge the insurance agents E&O claims
- Lenders will be more concerned about mold exclusions
- Hundreds of thousands of insurance agents will be forced to deal with environmental insurance for the first time/ the insurance product distribution system will fail

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## Insurance for Mold Related Damages

- Insurance companies have always excluded mold as a cause of loss on property insurance policies, but mold as resulting damage was covered
- Pollution exclusions in liability insurance could be used to deny mold claims, but the exclusion should not apply to mold as a pollutant

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## Home owners insurance

- Extremely poor loss experience has insurers
  1. Adding full mold exclusions in states where they can
  2. Adding sublimits of \$10,000 for mold damages
  3. Refusing to write any new business in some states
  4. Raising premiums
  5. Threatening to exit states all together
- There are no separate environmental insurance products for Homeowners

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## Commercial Accounts A Typical Contractors Insurance Program

exclusions	Affected by mold
Builders Risk	*
Property Insurances	*
General & Umbrella Liability	*
Workers Compensation	
Automobile Liability	
Professional Liability	*

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 Maybe Covered
  Excluded
  Covered

	Property		Builders Risk		General Liability		Umbrella		Pollution Liability	
	Covered Cause of Loss	Mold Exclusion	Covered Cause of Loss	Mold Exclusion	Traditional Pollution Exclusion	Mold Exclusion	Traditional Pollution Exclusion	Mold Exclusion	Traditional Definitions	Specific Mold Coverage
Replacement Costs	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Covered
Extrn Expense	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Covered
BI	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Covered
Defense Costs	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Covered
Contractual Liability	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Excluded	Maybe Covered	Covered

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## Environmental Insurance can address losses caused by mold damages

### Three broad types of policies

- Contractors Pollution Liability Insurance
- Professional Liability
- Environmental Impairment Liability

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## Contractors Pollution Liability

- Insures Bodily Injury, Property Damage, Clean Up and Defense, from a release of Pollutants, arising from the insured described operations
  - Appropriate for general contractors, home builders, remediation contractors, roofers, plumbers, trades, fire restoration
- Also covers Contractual Liability
- Training in mold prevention may be required

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## Professional Liability

- Insures a negligent Professional Error act or Omission
- Coverage is provided by eliminating the pollution exclusion and adding clean up to definition of damages
- Policies are usually only sold to degreed "Professionals"

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## Environmental Impairment Liability

- Site Specific Pollution Insurance
- Covers liability claims for Bodily Injury, Property Damage, Clean Up and Defense
- Can cover, Contractual Liability, Business Interruption and Extra Expense

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## The current environmental insurance market for mold

- AIG, XL, Zurich, Gulf, Chubb, Liberty Mutual, Seneca, American Safty Group, major players
- Environmental underwriters have adapted their insurance policies to cover mold
- Coverage is available on commercial accounts
- Contractors will have to pay 1% of revenue
- Minimum premiums are \$5000-\$10,000

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## Constraints in the Environmental insurance market

- Of 2400 insurance companies in the US/ 12 write environmental insurance
- Minimum premiums are in excess of \$5,000
- Territorial restrictions, west coast, south
- \$25,000 minimum deductibles
- No market for single family residences
- Very restricted market for small residential contractors
- No market for EFIS, fake stucco

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## Background Summary

- Mold losses are significant
- They are not going away
- Insurance exclusions for mold damages will shift where and how mold damages are paid
- Fear of uninsured professional liability will force insurance agents to advise their clients to seek coverage for mold, this should create consumer demand for mold insurance products
- Insurance solutions are difficult to access

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### Problems create opportunity

- A builder with an insurance policy for mold will be offering a feature to their customers that cannot easily be duplicated by competitors
- Modular Building techniques offer better risk control= better insurance terms than other builders could obtain

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### The Certified Indoor Air Quality Building-Miller Building systems

- An environmental insurance policy would be provided with each new commercial building
- The insurance would cover
  1. Clean up costs up to replacement cost of the building
  2. Extra expense
  3. Liability / maybe medical payments
  4. Policy term of 7 years
  5. Named Insured's could include; owner, lender, builder

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### Certified Indoor Air Certified Homes All American Homes

- The same policy form could be used
- Instead of a policy on each home, there would be a master insurance policy with Certificates of insurance issued on each home
- All the homes built in a given year would be insured in a block, for the policy term.

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## Competitive advantages created by the insurance

- Enhances the perceived quality of the building
- Our brand can be enhanced by the credibility of a multi billion dollar insurer
- Competitors should not be able to match the insurance terms due to our
  1. Volume purchasing power
  2. Superior risk control on modular construction
  3. Bigger deductibles retained by builder (warranty)
  4. A "private brand" insurance policy

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## Steps to make Indoor Air Certified Buildings a reality The To Do List

- We need an underwriter
- We need an insurance policy to fit our needs
- We need pricing that makes this viable
- We need some administrative capability for processing
- Marketing materials need to be prepared

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## Finding an underwriter

- Some work in this area has been completed with Zurich
- Finding an underwriter that would give us an exclusive would create a barrier to competition
- AIG is the most aggressive mold market today
- Zurich can give mSolve an exclusive for underwriting services making them our preferred market.
- The other markets are wild cards and should also be considered

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## Finding the underwriter (continued)

- A conceptual proposal needs to be prepared, including;
    1. A description of the insurance product needed
    2. The proposed underwriting guidelines
    3. Description of why this is a controlled risk, mSolve
- Then we
1. Meet with home office product development people with various insurers
  2. Select the underwriter to team with on this project

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## Develop the policy form

- The base policy already exists, Property Transfer, Environmental Impairment Liability
- Alternative policy forms need to be reviewed
- Multi year pricing models are also in place.
- Seven year policy terms are readily available
- We need to add mold as a pollutant, these endorsements exist.
- Remediation costs and medical payments will be custom enhancements, that will be difficult

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## Pricing of the insurance

- Environmental insurance is available today on new construction
- Residential construction has been insured by insuring sub divisions
- We should figure out how much we can spend and then use industry benchmarks to set deductible and limit combinations
- The underwriter is going to make up the premium, it may as well be something we want to buy

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## Administration of the insurance program

- Individual buildings will need to be issued a policy
- Applications need to be completed, an insurance quote provided, (probably broker quoted)
- When orders to bind are received, the premium needs to be collected and policy need to be issued
- Excess/Surplus lines taxes need to be collected and paid
- Claims Handling procedures need to be developed

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## Marketing materials

- Sales brochures describing the features and benefits of the Certified Indoor Air Certified buildings need to be produced
- Ad copy and brochures will need to be approved by the underwriter

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## Time to market

- To create the branded insurance product and bring it to market is a 160 man hour project spread out over 8 weeks. It involves travel to New York to meet all the players. This estimate does not include mSolve time.
- A shorter method would be to get quotes for a master EIL policy basically off the shelf from Chicago based branch offices. This is a 50 hour project and can be turned around in 2 weeks

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**Advantages to the Branded Product**

- It would be difficult for a competitor to duplicate, The off the shelf products will be duplicated within days
- This is the perfect place to introduce the services of mSolve to all the underwriters, we will have premium in our pockets and they will pay much closer attention to us then if we don't

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