

New Day Market Update 2007





The observations and trends discussed in this market update are made based on the experience and expertise of New Day Underwriting Managers LLC. Estimates and market information are based on discussions with insurance companies that participate in these market segments. Coverage descriptions are those of a typical policy and does not represent the coverage that may or may not be obtained in any particular situation. Brokers and Insureds must look to their own policies to determine the actual coverage that they have obtained.

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NEW DAY MARKET UPDATE 2007

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I. EXECUTIVE SUMMARY

The New Day Market Update 2007 is an insightful overview of the current environmental and construction-related professional liability market outlining buying trends and forecasts for 2007. The report encourages greater understanding of the issues driving the market to help brokers and their clients navigate available options and find optimal solutions to manage their environmental and construction-related professional liability exposures.

According to the New Day Underwriting Market Update 2007, the environmental insurance market will remain robust in 2007 and available construction-related pollution and professional liability products will continue to gain buyers' attention. There are a number of key trends affecting the growth and opportunity in the market especially related to Pollution Legal Liability, Contractors Pollution Liability and Contractors Professional Liability insurance products. Key factors influencing these products follow:

ON POLLUTION LEGAL LIABILITY (PLL)

- Showing no signs of relinquishing its leadership position, PLL continues to be the workhorse of the market, comprising approximately 60% of the entire \$2 billion environmental insurance marketplace. PLL appetites and rates should remain stable throughout 2007 as there have not been significant losses over the past year.
- In 2007, rates for new policies are anticipated to hold steady for one and three year policies while five year policies and greater will continue to see a rate increase of 15% to 25%.
- Approximately 15 carriers are offering various forms of PLL coverage with several offering \$50 million or more in capacity. The available capacity is approximately \$300 million.
- Mold coverage will continue to be readily available with the potential for additional markets to provide on-site clean-up coverage.
- The buying motivators for PLL insurance over the past year continued to fall into four categories: regulatory, contractual, financial, and risk management.
- PLL coverage continues to grow as a risk financing technique, especially in real estate transactions which account for approximately 60% of all of the PLL purchases. Of PLL purchased for these transactions, 80% of the buyers were first time buyers.
- The remaining 40% of PLL insurance was placed to protect the assets of real estate entities and manufacturing classes interested in managing their operational exposures and third party claims from tenants.
- PLL requirements by lenders will continue to grow over the next year.
- Overall, annual PLL renewals remained flat while three and five year term rate increases ranged from 5% to 25% depending on the term and the type of exposure covered.

ON CONTRACTORS POLLUTION LIABILITY (CPL)

- Approximately 20 carriers offer 30 to 40 different products, all offering unique policies – vastly different endorsements, definitions, exclusions, etc. – with several markets offering on-line CPL programs.
- Market appetite remains strong with the core risk classes such as general contractors, trade contractors, and artisans or specialty trades.

**EXECUTIVE SUMMARY**

- During 2006, available CPL capacity exceeded \$300 million with the most any one carrier can offer remaining at \$50 million.
- Buying motivators for CPL typically fall into four categories: contractual requirement, asset protection, regulatory requirements and loss events. Contractual requirements have always been and continue to be the primary driver to buy.
- The market appears to remain relatively flat with increased charges for high risk activity and extensive form modification.
- As a result of a "softened" market, carriers appear more willing to offer enhancements rather than reduce price.

ON CONTRACTORS PROFESSIONAL LIABILITY (CPrL)

- Today, approximately 15 domestic and foreign carriers are willing to offer various forms of CPrL coverage with a variation of underwriting appetites.
- Annual CPrL premiums are estimated at approximately \$250 million and growing at a rate of about 15% to 20% each year.
- The professional liability marketplace continues to move back to profitability. Even though the past three to four years appear to have been profitable for many, rates still seem to be increasing.
- CPrL rates will typically track with standard professional liability market rates with up to 10% rate increases expected for 2007 on accounts performing well (low losses). Rate increases will vary based on the carrier.
- Rates are increasing modestly, however, premiums are increasing as greater rate revenues and exposures increase for many growing contractors. Many contractors are experiencing, on average, revenue growth of 25% to 40%. This appears to include firms generating hundreds of millions of dollars in revenue and this revenue growth has a significant impact on the overall cost of their CPrL programs.
- Combining all domestic and foreign markets, the available capacity for CPrL remains approximately \$150 million each claim/aggregate limit, with \$25 million each claim/aggregate the most any one carrier can offer.
- While no insurance carriers are expected to exit the CPrL marketplace in 2007, there is a strong possibility for new entrants to enter the marketplace, especially entertaining the middle market CPrL business.
- The two reasons motivating CPrL buyers are contract requirement and asset protection although another emerging trend is the owner's or general contractor's requirement of a contractor to purchase CPrL, regardless of whether or not the firm, is providing professional services.

The following *Market Update 2007* was compiled by New Day Underwriting Managers LLC ("New Day"). New Day is a specialty intermediary for retail agents, brokers and their clients that provides technical insurance, risk management and underwriting support and offers single-point access to a wide-ranging portfolio of environmental and construction-related professional liability products and services from the nation's largest insurance carriers.

II. POLLUTION LEGAL LIABILITY

MARKET OVERVIEW

Product Description

Pollution Legal Liability (PLL) is a claims-made and reported premises liability policy that provides coverage for bodily injury, property damage, defense and clean-up that results from pollution conditions (both sudden/accidental and gradual) or events at, on, under, or emanating from a covered location. The PLL can be offered for one or multiple locations under one policy.

The policy term is determined by the type of risk, client need and carrier comfort. Terms are typically offered up to 10 years although longer terms may be negotiated on an individual basis.

PLL policies can be written a variety of ways to provide coverage for:

- A real estate transaction where coverage addresses unknown legacy environmental liabilities with a policy term of up to ten years;
- For one location providing coverage for new and pre-existing pollution conditions or
- For a portfolio of locations addressing new and pre-existing conditions.

PLL coverage has expanded to the point where nearly every industry is looking at some form of coverage to address a variety of environmental liabilities. Whether it is to comply with State Underground Storage Tanks (UST) regulations; address Natural Resource Damage (NRD) claims or Securities and Exchange Commission (SEC) issues; mold issues; property transactions; or simple asset protection from day to day environmental risk, many organizations are looking to PLL to serve as a financing mechanism to protect against environmental loss.

Marketplace

In 2006, PLL continued to comprise approximately 60% of the entire environmental insurance marketplace, which is estimated at nearly \$2.0 billion in annual premium. There are approximately 15 carriers offering various forms of PLL coverage. The number of carriers has remained relatively stable except for the withdrawal of Quanta Holdings which stopped writing business in 2006.

Capacity

During 2006, the capacity available for PLL continued to exceed \$300 million, with the maximum limit any one carrier can offer remaining at \$50 million. The major carriers continue to have access to the reinsurance marketplace for facultative capacity above \$50 million.

Retentions

Minimum retentions continue to run around \$10,000. Coverage can be written with either deductibles or self-insured retentions depending on the market and the financial strength of the insured. Typical retentions for PLL coverage start at \$25,000 and can reach \$1 million or more depending on the size and complexity of the risk.

**POLLUTION LEGAL LIABILITY*****Premiums***

Typical premiums for low hazard risks (i.e., vacant land, or single location new commercial real estate) for a one year term are between \$7,500 and \$10,000 for a \$1 million per incident/\$1 million aggregate limit of liability.

MARKET TRENDS

Buying Motivators

The buying motivators for PLL insurance over the past year continued to fall into four categories including: regulatory, contractual, lender requirements, and risk management.

Companies having to satisfy Federal and State regulatory financial responsibility requirements continue to utilize PLL insurance to satisfy the requirement. These include landfills, hazardous materials treatment, storage and disposal facilities and manufacturing facilities with waste units within its footprint. Depending on the type of location, financial assurance requirements range from \$1 million per incident/\$1 million aggregate for Underground Storage Tanks to \$4 million per incident/\$8 million aggregate for treatment, storage and disposal facilities (actually \$1 million per incident/\$2 million aggregate for sudden/accidental pollution and \$3 million per incident/\$6 million aggregate for gradual pollution). Financial responsibility requirements ensure that companies have the ability to fund the clean-up of pollution conditions at their location(s).

The December 2005 Interpretation 47 (FIN47) of the Financial Accounting Standards Board (FASB), requiring accounting for Conditional Asset Retirement Obligations (CARO's), had minimal impact on PLL during 2006. Public companies have been slow to account for their CARO's since FIN47 does not specifically instruct what type of CARO's need to be accounted for. This has resulted in slow compliance with FIN47 and therefore, the initial impact related to PLL has been minimal.

More purchase and sale agreements (PSAs) provide environmental indemnification language which serves to release the buyer from any environmental liabilities considered "pre-closing" liabilities. Companies continue to opt to purchase PLL insurance to either back an environmental indemnity or to be used in lieu of an indemnity provision when they are purchasing facilities in an "as-is" environmental condition.

As companies and owners of commercial and habitational real estate restructure their portfolios and seek lending and other funding mechanisms, the number of lenders and other financial institutions requiring PLL insurance was on the rise during 2006. This trend has resulted in increased inquiries from insurance brokers handling real estate business, and has been confirmed per discussions with the major environmental insurance carriers. Lender requirements include adding the lending institution as an Additional Insured and dictating limits of liability and coverage enhancements such as mold.

POLLUTION LEGAL LIABILITY

Over the past year, PLL coverage continued to grow as a risk financing technique for many companies, especially when buying or selling real estate and during merger and acquisition (M&A). Chief Financial Officers, Risk Managers and outside environmental counsel continue to use PLL policies as a tool to facilitate transactions. Policies have been crafted to include the Seller, Buyer and the investment partners providing financing for the transaction. PLL is especially popular when the acquisition involves real estate with historical contamination at the site. PLL may be crafted to provide coverage for both third party claims and clean-up for known and unknown pre-existing conditions at the subject site depending on the regulatory status of the property.

Transactional vs. Prospective Coverage

The trend in 2006 continued to favor PLL coverage being purchased to facilitate real estate transactions. Based on conversations with the major environmental markets, approximately 60% of all of the PLL coverage purchased resulted from real estate transactions and approximately 80% of the Insured's involved on either side of the transaction were first time buyers.

The remaining 40% of PLL insurance was placed to protect the assets of real estate entities and manufacturing classes interested in protecting against environmental losses resulting from operational exposures and third party claims from tenants.

Policy Terms

Policy terms remained consistent over the past several years including 2006. For transactional purchases, terms varied between five and ten years; while on the prospective purchases, the average term remained approximately two and a half to three years.

Several of the major markets have the ability to provide PLL coverage up to a ten year term, typically covering unknown pre-existing (legacy) conditions only, while the remainder of the marketplace continued to write shorter term policies between one and three years. Coverage for new conditions is typically available up to five years depending on the risk.

Rate Changes

Rates during 2006 tracked with previous years. Overall, PLL renewals of annual policies remained flat while renewals of expiring three and five year policies incurred rate increases ranging from 5% to 25% depending on the term and the type of exposure covered. The 2007 outlook anticipates continued flat rates for annual terms, and rate increases ranging from 5% to 25% for multi-year terms.

Types of PLL purchases



**POLLUTION LEGAL LIABILITY****Coverage Considerations**

In addition to the basic coverage form for PLL, there are many coverage considerations which can be added via endorsement to the PLL form. Several are of importance in protecting owners of single sites or large real estate portfolios. The most requested PLL coverage enhancements over the past year include:

- **Mold or Fungus**

Many environmental insurance carriers offer mold coverage however provide modifications depending on the type of risk; i.e., habitational vs. commercial properties. Coverage and limits are typically broader and higher for the commercial properties.

Mold can be offered up to a \$20 million limit, typically for commercial real estate risks including Class A office space. Several carriers will offer mold coverage with up to a \$1 million sub-limit covering third party claims for bodily injury and property damage. Other markets will offer coverage for third party claims as well as coverage for on-site clean-up. The maximum policy term offered for mold remains five years. All of the markets charge an additional premium for mold coverage which can range from 30% up to 125% of the policy premium depending on the type of risk. Additional underwriting information is required including a supplemental mold application for each location and a Mold Operations & Maintenance Plan.

- **Lead-Based Paint and Asbestos**

The majority of the environmental markets either include coverage for third party claims for lead based paint and asbestos in their forms or have the ability to provide the coverage via endorsement. Typically, coverage is available with sub-limits up to \$5 million; however, several of the major carriers have the ability to offer coverage up to \$50 million. This year, New Day has seen several exceptions to the availability of these enhancements. One major market has discontinued offering coverage for lead-based paint for habitational risks located in the New York City Metropolitan area due to loss experience. Another major market will not offer coverage for asbestos. If lead-based paint and asbestos are confirmed to be present, several markets will require review of both lead and asbestos Operations & Maintenance Plans prior to providing coverage.

- **Non-Owned Disposal Sites (NODS)**

Site owners which generate waste may be liable for the clean-up of the non-owned disposal site. NODS endorsements provide coverage for the insured's legal liability arising out of pollution conditions at the designated non-owned disposal site. NODS, or sites which accept waste from generators, can be added, via endorsement, by the majority of the environmental carriers. Coverage can be offered at these locations, subject to the policy limit; however, several markets will sublimit this exposure from \$2 million per incident/\$2 million aggregate to \$5 million per incident/\$5 million aggregate. A majority of the carriers require the name, address and EPA Identification number to add a NODS. Only one or two markets are willing to offer blanket coverage for NODS as long as they are in compliance with regulation. The markets will assess an additional premium for NODS coverage typically ranging from \$1,000 to \$2,500 per NOD location.

**POLLUTION LEGAL LIABILITY**

- **Business Interruption**

Available from most carriers, Business Interruption coverage is purchased on less than 20% of the PLL policies; however, the number purchasing continues to grow each year. Larger real estate portfolios and manufacturing risks are the most frequent buyers of the coverage. Business Interruption is triggered in the PLL when a location must close or relocate as a result of a pollution condition. Coverage can also be provided to real estate owners for loss of rental income. Coverage is typically sublimited and the deductible periods continue to range as few as five days to thirty-five days depending on the insured exposure. The additional premium for Business Interruption coverage ranges from 10% to 25% of the total premium. Carriers require Business Interruption worksheets and rent rolls prior to adding coverage.

- **Natural Resource Damage**

Natural Resource Damage (NRD) is injury to, destruction of, or loss of natural resources. Natural Resources are broadly defined by the US Environmental Protection Agency as "land, fish, wildlife, biota, air, water, ground water, drinking water supplies and other such resources which belong to, are controlled/managed by the United States, any State, an Indian tribe, local or foreign government." NRD claims can be asserted in addition to typical clean-up liability. Several carriers will offer the coverage via endorsement while many include NRDs in the definition of property damage. NRDs continue to be an emerging legal issue with significance in many states which levy penalties in addition to the cost of an environmental clean-up. NRD coverage is typically "included" within the PLL premium; however, an additional premium or higher deductibles may apply for this coverage, depending on the location of the site.

PLL Derivative Coverages

Several derivatives of the PLL policy continue to be offered by the environmental insurance marketplace including Underground Storage Tank (UST); Secured Creditor; and Clean-Up Cost Cap coverage.

- **Underground Storage Tank (UST)**

UST coverage provides coverage for corrective action as well as clean-up and satisfies regulatory financial responsibility. UST coverage is offered by eight carriers with premiums around \$400 to \$500 per tank. Due to the typical premium size many of the carriers offering UST coverage have developed programs that allow brokers and/or Insureds to obtain coverage via an electronic portal. .

**POLLUTION LEGAL LIABILITY**

- **Secured Creditor**
Secured Creditor or mortgage impairment liability is an environmental policy designed to protect the outstanding loan balance on loans for real property. Coverage may be purchased on a single site, portions of a portfolio or an entire portfolio. The policy will pay for the cost of the remediation of pollution conditions or the loan balance, whichever is less. The policy contains a dual coverage trigger which includes the discovery of a pollution condition and a default on the loan. Both of these triggers must occur prior to providing coverage. Several of the major markets continue to write Secured Creditor coverage.
- **Clean-Up Cost Cap (CCC)**
Clean-Up Cost Cap (CCC) or Remediation Stop Loss coverage continues to be utilized for capping known environmental liabilities at contaminated properties and is the product of choice when insuring Brownfield sites. (Brownfield sites can be simply defined as real estate with environmental implications that impact the value of the property.) CCC provides risk transfer insurance above the known contamination (minimum between \$1 million and \$2 million) and the buffer or deductible layer which is set between 10% and 30% of the remediation cost. Limits are available for up to \$50 million with a policy term of up to ten years. Minimum premiums range between \$150,000 and \$300,000 for CCC. Typically, CCC coverage is placed in conjunction with PLL coverage, which provides coverage for liability claims for bodily injury and property damage and clean-up of unknown pollution conditions at the site. Only about 4 carriers provide this complex coverage.

2007 EXPECTATIONS

The PLL policy continues to be the workhorse of the environmental insurance marketplace with no signs of relinquishing its position during 2007. PLL appetites and rates for both annual and multi-year terms should remain constant throughout 2007, as insurance carriers do not appear have suffered significant losses over the past year. Transactions and M&A activity is predicted to be strong during 2007 and the availability of coverage terms up to ten years will continue. Mold coverage will continue to be readily available with the potential for additional markets able to provide on-site clean-up coverage. PLL requirements by lenders will continue to grow over the next year. Rates should continue to hold steady in 2007 for one and three year policies while five year policies and greater will continue to see a rate increase of 5% to 25%. Market capacity will remain robust at over \$300 million while carrier single capacity will remain the same at up to \$50 million.

III. CONTRACTORS POLLUTION LIABILITY

MARKET OVERVIEW

Product Description

Contractors Pollution Liability (CPL) is a contractors based policy, offered on a claims-made or occurrence basis, that provides third party coverage for bodily injury, property damage, defense and clean-up as a result of pollution conditions (sudden/accidental and gradual) arising from contracting operations performed by or on behalf of the contractor. CPL is available to any type of contractor performing operations or conducting work. From environmental or remedial contractors to general and specialty trades, CPL has become a viable financing option for environmental loss providing insurance for large or even catastrophic loss scenarios at a reasonable premium.

Policies can be offered on a project or blanket program basis. Project policies provide coverage for all operations performed by the insured during the construction period and can include "tail" coverage (extended reporting period or ERP for claims made policies and completed operations for occurrence policies) to address the statutes of repose in many states or other contractual requirements. Usually a maximum term of 10 years is offered. Additionally, wrap-up programs can be implemented to afford coverage for all contractors regardless of activity undertaken (environmental or non-environmental) on a specific project. A blanket program provides coverage on an annual basis for all defined covered operations taking place during the policy term.

Marketplace

In 2006, CPL comprised approximately 30% to 40% of the entire environmental insurance marketplace which is estimated at \$2 billion in annual premiums. There are approximately 20 carriers offering various forms of CPL coverage. Some carriers have forms specific to non-environmental contractors such as general contractors and specialty trades and other forms specific to environmental contractors. It is estimated that these 20 carriers offer 30 to 40 different products all on unique company forms – vastly different endorsements, definitions, exclusions, etc. This lends to the difficulty in many insurance professionals with understanding the marketplace and, more importantly, coverage intent.

Several markets offer on-line CPL Programs. These platforms offer lower premium and reduced retention for smaller companies (usually under \$5 million in revenue). Access to these programs requires completion of qualifying documentation. Once completed and favorably reviewed, an applicant (broker/producer) will receive access to the system via a password entry point. The broker/producer can access the system on an insured's behalf and answer the application questions. Once the application is completed the system – if the risk is acceptable – will provide limits and terms. The policy can be purchased and bound through the system. The limitation of these systems is the relatively low revenue threshold, single form coverage and the need to satisfy all questions favorably. Any negative answer often negates the whole transaction. These platforms are efficient and provide simple access to basic programs.

CONTRACTORS POLLUTION LIABILITY

Market appetite remains strong with the core risk classes such as:

- General contractors
- Trade contractors
- Artisans or specialty trades

Each market has its own tolerance for higher risk activity, i.e., mold, asbestos, silica and other specific contaminants.

Capacity

During 2006, the capacity available for CPL continued to exceed \$300 million, with the most any one carrier can offer remaining at \$50 million. The major carriers continue to have access to the reinsurance marketplace for facultative capacity above the \$50 million.

A question that is often asked of brokers by their clients is what limits should be purchased when considering CPL coverage. In the opinion of the New Day staff the matrix presented below provides a guideline for discussion with the contractors. The variables needed to be considered are: types of structures, geography, experience level, and risk appetite.

ANNUAL REVENUE	LIMITS PURCHASED
\$0 - \$10 million	\$1,000,000 each loss/aggregate
\$10 million - \$25 million	\$2,000,000 each loss/aggregate
\$25 million - \$50 million	\$2,000,000 to \$5,000,000 each loss/aggregate
\$50 million - \$100 million	\$5,000,000 each loss/aggregate
\$100 million - \$250 million	\$5,000,000 to \$10,000,000 each loss/aggregate
\$250 million - \$500 million	\$10,000,000 to \$25,000,000 each loss/aggregate
\$500 million - \$1 Billion	\$25,000,000 each loss/aggregate
Above \$1 Billion	\$25,000,000 each loss/aggregate or higher

Medium to larger size contractors typically take higher retentions, \$100,000 each loss or \$250,000 each loss to offset the cost of the higher limits. This tracks with the logic in purchasing CPL, that it is a catastrophic coverage, and to insure for the claim that will have the potential to threaten the existence of the organization.

CONTRACTORS POLLUTION LIABILITY

Retentions

Retentions continue to start at \$5,000. CPL carriers offer both self insured retentions and deductibles. Typically deductibles have to be negotiated prior to policy inception. Size of the actual retention will depend upon the carrier and the financial strength of the insured.

Premiums

Typical minimum premiums begin around \$10,000 for the \$1 million per loss/\$1 million aggregate limit of liability. However, on-line programs have minimum premiums as low as \$2,500.

MARKET TRENDS

Buying Motivators

The buying motivators for CPL typically fall into three categories: contractual requirement, asset protection, loss events.

Contractual requirements have always been and continue to be the primary driver for entity looking into the purchase of a CPL program. Contractual requirements can appear in virtually any contract. Often these requirements are generic, unclear and are drafted as part of a standard insurance package. This language should be carefully reviewed to determine true intent of requested coverage. Contractual requirements should address these basic items:

- Clearly request a contractor based program
- Blanket vs. project policy (is a dedicated limit required?)
- Define limits, retention and term and any unique needs
- Define the term of any tail coverage

In some cases these requirements can be negotiated out of the contract if an entity demonstrates its services pose no significant potential for an environmental incident. However, all construction activity has the potential for triggering an environmental incident and to that end, the owner/general contractor may make these requirements absolute and apply to all parties involved in a project. In this scenario, a wrap-up program may be an option because it affords coverage for all entities involved on a simple and cost efficient basis.

Many firms believe that the first step in addressing CPL coverage requirements in contracts is to negotiate them out of the contract. While this may be prudent in some cases, negotiating the requirement out of the contract may actually be exposing the firm to greater risk without a loss financing tool in place. Every project needs to be assessed for potential risk because even if the scope of work does not include remediation or other environmental work, there may be environmental exposures and therefore, a need for CPL coverage.

Many contractors are buying CPL as basic asset protection. As with any program, if this is the buying motivator, scope of coverage should be the driver of the coverage. Even experienced brokers

CONTRACTORS POLLUTION LIABILITY

often have limited expertise with regard to environmental liability. Brokers routinely discuss this coverage in general terms with their clients however the focus should be to assess the overall need and research the market to procure the optimal solution for the company's exposures. For current purchasers of environmental insurance the challenge is to maintain the continuity in the optimal program. The environmental marketplace is very dynamic and changes quickly in comparison to the standard commercial general liability (CGL) and Workers' Compensation markets. Once the appropriate coverage is purchased, the daily business activity must be monitored so that it is concurrent with the current insurance program. Often market appetite changes during the policy term and such changes must be negotiated upon program renewal. Failure to stay on top of these market changes may result in an inadequate program.

Loss events or potential loss events serve as a motivator to purchase any insurance and are an especially good driver for environmental insurance. Most environmental coverages provide catastrophic coverage, infrequent but significant claims. The inherent value of an environmental program lies in having insured a catastrophic event and the legal defense provided by the policy. Providing coverage for defense costs alone may save a company involved in an environmental claim from financial ruin. Virtually all CGL policies contain an absolute pollution exclusion and claims may be excluded or denied, leaving the firm to face an uninsured loss. An example of the type of loss event that has affected the insurance world over the past several years is mold or fungus liability. Many organizations in the construction industry have been exposed to such events, which can lead an organization to consider the purchase of CPL coverage to finance against loss.

Policy Terms

Most carriers will only provide a total term (construction period and ERP/completed operations) of ten years for project policies. Some carriers may offer higher terms up to thirteen years depending on the state and project types. Blanket programs are commonly written on an annual term however, some markets have begun offering multi-year programs. While the multi-year option tends to be cost effective, premiums for the full multi-year are required to be paid in the first thirty days and limits are typically not reinstated. This trend will continue.

Rate Adjustments

Rates are generally flat to decreasing in the market and New Day expects to see no changes for the upcoming year. Existing business (current purchasers) is generally flat on renewal. Renewals are being bolstered by enhancing coverage for the same price – adding transportation coverage, non-owned disposal site coverage and even environmental coverage for real estate owned by many construction firms.

New business rates are largely driven by insurance carrier appetite. They are generally on par with existing business but may increase as a result of some specific exposures such as residential work or mold. If a market is comfortable with a particular risk, pricing is usually very competitive. In the event more than one carrier is interested in a particular risk, coverage enhancements then often become the deciding factor.

CONTRACTORS POLLUTION LIABILITY

Coverage Considerations

In addition to the basic form, there are many coverage considerations that should be discussed which can be added via endorsement to the CPL form.

- **Mold**

Many carriers offer mold coverage depending on the class of business and overall exposure. Virtually all carriers offer some capacity for mold. Mold coverage is often provided via endorsement. The endorsement can establish its own limit and retention. Minimum information required to procure this coverage is a mold specific application. Some programs require completion of a recognized mold awareness training program. Many insurers provide this training as part of the CPL program.

All carriers today offer mold liability coverage on a claims made basis. Up until 2007, only one carrier was offering mold liability coverage on an occurrence basis. Recently, we have seen this carrier convert their current CPL policies offering occurrence based mold coverage to claims made mold coverage.

Construction firms with lower overall mold exposure, such as excavators, street and road/heavy highway contractors, concrete/flatwork contractors and others with similar operations often receive mold limits at full capacity with limited underwriting information, such as a supplemental application, to qualify the risk. Firms that have a higher exposure to mold such as general contractors (depending on the type of structures built), roofing contractors, residential contractors, drywall contractors and others with similar operations must complete the required applications, complete appropriate training, develop a water intrusion or mold prevention program and may be subject to sub-limits of insurance specific to mold.

Residential and/or habitational work is still the most sensitive class of business for mold liability. All carriers have various thresholds with regard to residential/habitational work and only one or two carriers routinely offer mold coverage to pure residential/habitational risks. These carriers will demand that a comprehensive mold/water intrusion prevention program is in place. The maximum percentage of residential/habitational is approximately 50% of total revenue for a blanket program. Select carriers will write 100% commercial residential/habitational structures on a project basis but most need to fall into the category of "commercial-grade" construction. Generally speaking, "commercial-grade" construction is a condominium project constructed of concrete and steel.

A critical item that needs to be understood is how each carrier defines residential/habitational work. Each market has its own unique definition based on their own set of tolerances and appetite. One defines residential/habitational as condominium, town homes and single family homes. Others consider any dwelling where the occupant sleeps as residential/habitational. This is important when seeking mold coverage since two

CONTRACTORS POLLUTION LIABILITY

programs may be competitive in pricing, terms and conditions, including mold, but one may not cover a contractor's specific mold exposure.

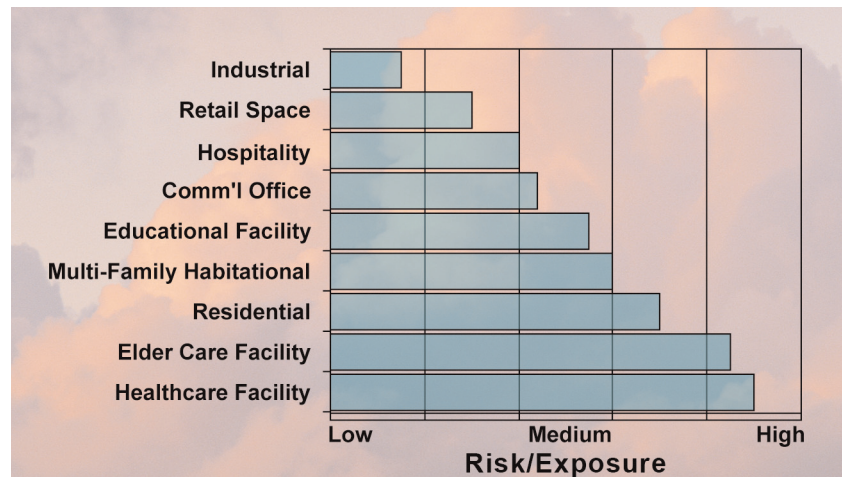
The chart below illustrates the potential mold exposure by building type. Healthcare Facilities, Elder Care Facilities, Residential and Multi-family Habitational are considered high exposure. Contractors building these structures have the highest potential to expose third parties to mold, primarily from a completed operations standpoint. Healthcare Facilities, Elder Care Facilities house populations with compromised or suppressed immune systems which can be more susceptible to ill health effects of exposure to mold. Residential and Multi-family Habitational have various occupants from children to the elderly that may also fall into the compromised immune system category. In addition, people spend large amounts of time in their homes, which can increase the potential for exposure.

Education and Commercial Office Buildings are listed as medium-high. Education facilities often contain populations of younger people and children that can elevate the overall concern of exposure. Commercial Office Buildings contain various occupants and the concern is the amount of time spent within these structures. A full time employee may spend more hours at work than at home. If mold is present

the duration of exposure can be a concern. Hospitality is listed as a medium exposure, as these structures often see a transient population and the exposure concerns focuses on close quarters and large amount of time that may be spent in these spaces including sleeping. Retail structures and Industrial are considered low exposures. These spaces are often large and have transient populations. The size and scale of these spaces tend not to place the occupant in close proximity to mold sources. Furthermore, industrial spaces may be highly ventilated or partially enclosed.

Although it appears the mold and fungus issue has settled a bit, New Day anticipates this will continue to be an area where underwriters will focus their attention, especially on higher risk projects.

Mold Exposure By Building Use



This graph only intends to portray the probability of occurrence of mold within various building types and is not intended to be an exact depiction of the actual occurrence of mold.

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- **Non Owned Disposal Sites (NODS)**

New Day has seen an increase in the purchase of NODS over the past year and attributes it to more knowledge of the exposure and coverage availability. A NODS endorsement is attached to the CPL. NODS, or sites that accept waste from generators, can be added via endorsement to most CPL policies. Generators of waste may be liable for the clean-up of the non-owned disposal site. Most carriers require the name, address and EPA identification number to add a non-owned disposal location. This enhancement is most appropriate for environmental firms and general contractors. NODS are subject to an additional premium of \$1,000 to \$5,000 per location. It must be noted that even if pre-negotiated, carriers will not issue an affirmative endorsement until they perform a favorable review of the requested information. Education of the brokerage community and the construction industry will drive this coverage enhancement and New Day anticipates an increase in requests for this coverage in 2007.

- **Naturally Occurring Hazardous Substances (NOHS)**

Naturally occurring hazardous substances (NOHS) such as asbestos, mercury, arsenic, radon, and pyrite have gained attention over the past few years. They have gained attention for two reasons:

1. More and more contractors have been involved in situations resulting in lawsuits where they disturbed a mineral containing a NOHS. For example, a general contractor in Connecticut who was building a "box store" hired a subcontractor to excavate and remove fill material from the job site. The subcontractor subsequently used the material as fill at three other project sites. The material they removed was soil containing remnants of an asbestos-containing mineral called Actinolite. They exposed third parties to asbestos and they also exposed their own work force. It is important to note that the asbestos in naturally occurring minerals is much less concentrated than the asbestos utilized years ago as a fire retardant for insulation around piping and ceiling and floor tiles. It still poses unique exposures for intrusive type work.
2. Many CPL policy forms exclude NOHS. There are several ways exposure to naturally occurring hazards may be excluded. Some are fairly recognizable as straightforward exclusions. Others are more difficult to find, and may be found in the definition of pollutants or pollution conditions. For example, one insurer applies a specific exclusion for naturally occurring substances in the exclusions section of the policy that can have significant impact on coverage:

This insurance does not apply to claims or losses based upon or arising out of any naturally occurring substances in their original location and unaltered form, or altered solely through naturally occurring processes or phenomena.

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Another insurer will exclude by definition. In its definition of pollution conditions, the definition does not include naturally occurring substances, therefore negating coverage for such exposure:

Pollution Conditions means the emission, discharge, dispersal, release or escape of pollutants, provided such are not naturally occurring. The entirety of any such emission, discharge, release or escape or any series of continuous, repeated, or related emissions, discharges, releases or escapes shall be deemed to be one pollution condition.

Even though the underwriters may describe their intent is to cover such claims, such exclusions can have a tremendous impact on coverage when a claim is presented.

Another NOHS is silica. Silica exists on almost every construction project. Some CPL carriers have attached silica exclusions to their programs and call them "non-negotiable". Others apply such exclusions but have the ability to remove them from the program and afford proper coverage. Any intrusive type contractor or concrete contractor should not have such an exclusion.

New Day foresees NOHS will be an area that continues to gain additional attention in 2007 and beyond.

- **Welding Fumes (Manganism)**

Manganism is a Parkinson-like disease that supposedly results from the inhalation of "toxic" levels of manganese (Mn). Such exposure can cause irreversible damage to the central nervous system. Cases of the illness have been dated back to the late 1800s. Some individuals exposed to very high levels of manganese for long periods of time in their work can develop mental and emotional disturbances and slow and clumsy body movements. Workers usually do not develop symptoms of manganism unless they have been exposed to manganese for many months or years. Manganism occurs when a significant amount of manganese is absorbed into the part of the brain that helps control body movements. Exposure to high levels of airborne manganese, such as in a manganese foundry or battery plant, welding operations, or pesticide application, can affect motor skills such as holding one's hand steady, performing fast hand movements, and maintaining balance. Exposure to high levels of the metal may also cause respiratory problems and sexual dysfunction.

From an insurance perspective, the major concern is exposure to employees and, of course, Workers' Compensation-related claims. However, in those states that subscribe to third-party-over action claims, many construction firms can easily find themselves in the middle of such a claim, and the primary issue at hand will be, is manganese a pollutant? Most likely most CGL insurers would look to decline via the pollution exclusion in



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the policy. If a contractor is looking for an alternative to insure against such an exposure, a CPL policy may be the alternative. As an added benefit, many CPL policies are structured to provide coverage for pollution-related third-party-over action claims.

Manganism is another issue to watch in 2007 to determine if this becomes a significant issue in the construction industry and how CGL carriers will handle these claims.

2007 EXPECTATIONS

The market appears to remain relatively flat with increased charges for high risk activity and extensive form modification. Carriers appear willing to offer enhancements rather than reduce price. Markets are and will continue to be very aggressive on existing business. The conventional view is that it is much easier to retain business than to procure new accounts. The markets are very conscious about overall competition. They also realize that there is an added need to come to the market with the best program in their initial proposals.

As for coverage itself, there are various areas of concern where coverage needs to be clarified or affirmed. Two prime examples include naturally occurring substances and non owned disposal site coverage. Each carrier has their own approach to offering such coverage but some are much better than others. Attention must be paid to these two specific areas to ensure that the optimal CPL coverage and program are being procured for the client.

Mold will continue to be at the forefront of the underwriting process for many of the contractors discussed above and mold capacity should not be as big an issue as it has been in the past. When addressing mold liability, it would be prudent to work with clients to develop a mold prevention or water intrusion plan, as a pre-emptive risk management action which will facilitate the purchase of insurance when it is requested or required. This allows the organization to manage the risk and then determine if a financing mechanism is needed to respond to loss.

IV. CONTRACTORS PROFESSIONAL LIABILITY

MARKET OVERVIEW

Product Description

Contractors Professional Liability (CPrL) is a third party liability policy providing coverage for acts, errors and omissions in performing professional services. In addition, CPrL provides coverage for vicarious liability arising out of professional services subcontracted by the construction firm. CPrL is available for all types of construction firms performing professional services – design-builders, construction managers (at-risk and agency), general contractors (involved in various pre-construction consulting), specialty trades such as Mechanical/Electrical/Plumbing (MEP) contractors who typically perform both design and installation, and environmental engineering/remediation firms.

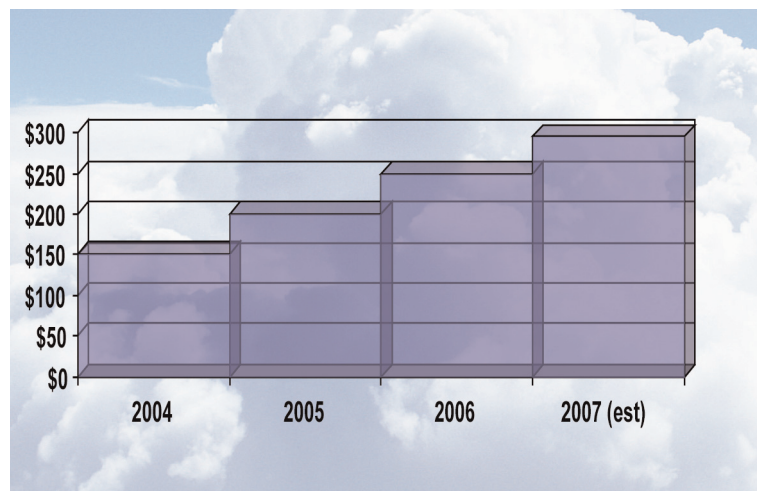
Additional first party coverage or protective coverage can be added to the typical CPrL. The protective coverage, offered by few carriers, provides coverage for the named insured for damages they incur as a result of negligent acts, errors and omissions arising from professional services performed by sub-design professional (DP). The coverage sits excess and Difference in Coverage (DIC) of the underlying professional liability of the design professional and pays out when the underlying DP's policy is exhausted.

CPrL is offered on both practice/blanket as well as project policies. However, many carriers will only offer CPrL on a project policy if they are currently insured with that carrier. This puts a tremendous burden on those contractors who are required to carry CPrL via contract but have no practice program in place. Terms for practice programs are annual while project terms range between three to five years with extended reporting periods (ERP) available up to 10 years however the common practice is to limit the total program to ten years, construction period plus ERP.

Marketplace

Today, there are approximately 15 domestic and foreign carriers willing to offer various forms of Contractors Professional Liability (CPrL) coverage. Carrier appetite varies dramatically. For example, one carrier may only offer CPrL to environmental firms while another only offers it to construction managers, design/build firms and other non-environmental construction firms. Others only offer coverage to smaller or middle market specialty trade contractors. In addition, some may only be willing to take an excess position while most will offer terms on a primary basis. With so many differences in risk appetite and coverage, it becomes increasingly difficult to navigate through the marketplace.

CPrL Annual Premium Volume



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It is estimated that annual CPrL premiums are in the \$250 million range and growing at a rate of about 15% to 20% each year. Each carrier offers their own unique policy form so careful attention must be given in reviewing each form for accuracy, depending on the delivery method and professional services offered by the construction firm.

New Day expects the number of insurance carriers to remain stable with the possibility to see a few new entrants, especially entertaining the middle market CPrL business.

Capacity

Combining all domestic and foreign markets, the available capacity for CPrL remains approximately \$150 million each claim/aggregate limit, with the maximum limit any one carrier can offer remaining at \$25 million on each claim/aggregate. The major carriers continue to have access to the reinsurance marketplace for facultative capacity above the \$25 million.

A question that is often asked of brokers by their clients is what limits should be purchased when considering CPrL coverage. In the opinion of the New Day staff the matrix presented below provides a guideline for discussion with the contractors. Variables need to be considered are: types of structures, geography, experience level, and risk appetite.

ANNUAL REVENUE	LIMITS PURCHASED
\$0 - \$50 million	\$1,000,000 to \$2,000,000 each claim/aggregate
\$50 million - \$100 million	\$2,000,00 to \$5,000,000 each claim/aggregate
\$100 million - \$250 million	\$5,000,000 each claim/aggregate
\$250 million - \$500 million	\$10,000,000 each claim/aggregate
\$500 million - \$1 Billion	\$10,000,000 to \$25,000,000 each claim/aggregate
Above \$1 Billion	\$25,000,000 each claim/aggregate or higher

Medium to larger size contractors take higher retentions - \$100,000 each loss or \$250,000 each loss and combine the CPrL with the CPL to offset the cost of the higher limits and sacrifice neither program because of price. This tracks with the logic in purchasing CPrL – it is a catastrophic coverage so insure for the single claim that will have the potential to threaten the existence of the organization.

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Retentions

Minimums remain at \$10,000; however, most firms will purchase higher retentions to offset the cost of coverage. CPrL carriers offer both self insured retentions and deductibles. Typically, deductibles have to be negotiated prior to policy inception.

Premiums

The average minimum premium of all the markets is around \$10,000 for the \$1 million per loss/aggregate limit of liability.

MARKET TRENDS

Buying Motivators

There are two reasons motivating CPrL buyers – contract requirement and asset protection. Contract requirements for CPrL are on the rise. Although it is difficult to apply a percentage increase, it is certain that there has been a dramatic increase in the number of owners or General Contractors (GC) requiring CPrL coverage. This is a factor of an increased awareness of exposures more so than any changes in the marketplace. Owners and GCs are becoming more aware of the professional liability exposures they face and try to transfer that exposure via CPrL requirements.

As for asset protection, this can be further broken down into several factors, all interrelated and all driving factors leading contractors to the purchase of CPrL to finance professional liability loss. They include:

- an increase in education or awareness on the issue
- availability of coverage – carriers catering to all types and sizes of construction firms,
- softening of the standard casualty lines making funds available to purchase CPrL
- increase interest in Construction Management At-Risk and Design-Build

Discussions with underwriters revealed that the marketplace saw an average of 20% new buyers to the marketplace, driven by one or all of the above motivators.

Project Delivery Methods

Although Design-Bid-Build continues to be the predominant delivery method selected by many owners in the United States, according to a recent edition of Engineering News Record (ENR) the Construction Management At-Risk (CM At-Risk) delivery method has now surpassed Design-Build as the second most popular choice. This could be for a number of reasons – owners wanting to create a more collaborative team, centralize responsibility for construction, guaranteed maximum price (GMP) contract, various state legislators now allowing CM At-Risk for public projects, or perceived reduction of risk. CM At-Risk is probably the least understood project delivery method by all insurance professionals, including brokers/agents and underwriters. CM At-Risk continues to cause the confusion when trying to get perspective on the professional liability risk associated with the delivery method.

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It is fairly clear that during the pre-construction, design and bid phases a construction firm may provide advisory professional management assistance to the owner and in cases, the prime design professional, offering schedule, budget, constructibility reviews and a number of other services (depending on the services agreed to in the contract). But what professional services and associated liability, if any, arise during the construction phase? The CPrL marketplace is still split on this issue.

Currently, some carriers specifically exclude CM At-Risk services, fearful of providing coverage for general liability type exposures – construction means, methods, techniques, scheduling, etc., and any resulting damages to subcontractors as a result of these services. Others will provide CPrL coverage for professional services offered via CM At-Risk as long as they are provided by a licensed design professional or spelled out in a professional services agreement rather than a construction contract. Lastly, there are some carriers that do not differentiate between CM At-Risk and CM Agency nor do they have any exclusionary language for construction means, methods, sequencing, scheduling, etc. Contractors need to understand their own professional liability risks and the coverage afforded by the various coverage forms to obtain coverage that will respond in the event of a claim. Anyone of the options above may be satisfactory and the requirement for a knowledgeable broker manifests itself in the process of procuring appropriate coverage.

For 2007, New Day sees little to no change with this issue. Education in all levels of the industry needs to occur to truly understand and address the professional liability exposures associated with CM At-Risk. The fact that there seems to be several variations of CM At-Risk will not help the issue.

Professional Liability Insurance Requirements

Another trend impacting CPrL coverage is the owner's or general contractor's requirement of a contractor to purchase CPrL, regardless of whether or not the firm is providing professional services. Many public/private owners and general contractors (GC) need to take a harder look at what they are requiring of construction managers, design builders and/or general contractors and reassess those requirements. No one is advocating that owners or GCs should blatantly remove the professional liability insurance requirements from the contract but perhaps concessions on coverage or limits can be made.

- Is it necessary to require \$10 million of professional liability insurance from a firm performing agency construction management on a \$50 million project?
- Is it necessary to require the design professional under a design build contract to have specified limits and over look the \$25 million the design builder purchases?
- Is it appropriate for an owner to request \$10 million in professional liability from a general contractor/developer when they are not in contractual privity with the design professional?

This is a difficult topic because liability cannot be capped and owners have a right to protect their asset and their project. To the other extreme, New Day has seen many projects where the owner merely relies on the \$1 million professional liability coverage from the prime design professional on

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projects of \$250 million and higher. To address appropriately, the solution lies somewhere in between and should be determined on a project by project basis, based on the level or type of professional services being offered by the construction firm.

For 2007, there was minor improvement in the availability of CPrL coverage. Continued and sustained improvement will depend on continued education of the exposures and a better understanding on the level of coverage offered in the CPrL marketplace. Unnecessary CPrL insurance requirements lead to an increased cost of the project. In New Day's opinion, contractors may be able to secure CPrL coverage, however, if they are not providing professional services, the likelihood that the CPrL will provide any protection may be questioned.

Prudent contractors are aligning themselves with CPrL carriers now and buying the coverage on a practice or blanket program. This allows them to bid projects with CPrL requirements with efficiency, allocate costs and protect the organization.

Rate Adjustments

The professional liability marketplace continues to move its way back to profitability. Even though the past three to four years have been profitable for many carriers, rates still appear to be increasing. CPrL rates will typically track with standard professional liability market rates. New Day anticipates 0% to 10% rate increases for 2007 on accounts performing well for underwriters: little change in operation or project type and no significant claims activity. For construction firms with significant claims activity, change in operation, change in project type, or with delivery methods offered, rate increases will vary based upon the carrier.

Although rates will increase modestly, premiums will rise at a much higher rate due to the increase in revenue or exposure base of many contractors we have seen. In many cases contractors are experiencing revenue growth, on average, of 25% to 40%. Naturally, this will have a significant impact on the overall cost of the CPrL program.

Project Professional Liability

Owners of construction projects, architects, engineers, design-builders, general contractors and insurance brokers all have experienced the same issues and frustrations in attempting to secure project professional liability insurance. Where coverage was once somewhat available, insuring professional liability on construction projects has become an extremely difficult task to accomplish over the past few years. Projects involving the construction of commercial condominiums or other "habitational" buildings presents even greater issues.

The project professional liability policy will typically provide the broadest coverage for all entities on a construction project as long as it is structured properly. The operative phrase is "structured properly". There can be a variety of contractual arrangements with those providing professional services on any given project. In most instances the lead design professional will hold contracts with the

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entire design team. In these instances, the policy structure is simple – all entities are named accordingly. However, in other instances it may not be that simple. Perhaps the owner is contracting directly with the fire protection engineering firm? Maybe the general contractor is contracting with the MEP contractor – who happens to be providing the design on that work as well. It is imperative to have a clear understanding of the contractual arrangement for professional services to ensure proper coverage is provided. All entities performing design services or professional services should be named to the policy to optimize coverage

When creating the structure of the program consideration should be given to the various insured versus insured exclusions attached. While coverage may be secured, naming the owner, general contractors and the design team, the insured versus insured exclusion may preclude those entities from the original intended coverage. Also, keep in mind there are project exclusions that exist on contractor's and DP's professional liability policies. Some are as broad as excluding coverage regardless of whether or not the project policy "covers" the claim". It's excluded for the mere fact that a project policy exists. This may be a very significant drawback to project policies – rather than having various limits under all contractor and DP policies, you now have a single limit with the project policy. Lastly, there is a greater potential of exhausting the limit of liability in the event of a claim or claims since coverage is extended to numerous insureds under the policy. The concern here would be that defense costs may reduce the limit of liability remaining for compensatory damages. In addition, the practice programs of the many design professionals covered under the project policy will have a project exclusion on the policy, making the project policy the only policy for the project.

When it comes to premium cost, there is a simple rule of thumb - the broader the coverage, the higher the cost. Therefore, all things being equal, project professional liability whether secured by the owner, design builder, contractor or design professional tends to be the most costly alternative. It may, however, be the least costly in the event of a catastrophic occurrence.

A sound alternative to the project policy continues to be the Owner's Protective policies. The protective policies have gained momentum over the past three to four years as the pricing of project professional liability insurance has skyrocketed. Offered to owners ("owners protective") of construction projects, Design/Builders and General Contractors (contractor's protective), the "protective" policy provide first party indemnity for damages, which are excess of the design professional's professional liability insurance, that the named insured incurs as a result of negligence of the design professional. The "protective" sits excess and DIC of the design professional's professional liability insurance and there is a minimum insurance requirement placed upon the design professional by the carrier offering coverage. This requirement varies greatly upon the type of project and the design team performing services. Furthermore, the underlying design professional's professional liability policy must be exhausted before the policy will provide the indemnity. There are only a few carriers offering "protective" policies and not all offer them to both owners and contractors. Coverage terms and conditions vary greatly so it is imperative that a sound understanding of the contractual relationship between the named insured and the design professional exists prior to pursuing the coverage.



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New Day believes the protective type programs will continue to gain attention in the CPrL marketplace in 2007 and beyond.

Combined Professional Liability and Pollution Liability Forms

When discussing "combined" policy forms, we are referring to a CPrL combined with Contractors Pollution Liability (CPL). Some carriers only offer pollution liability arising from professional services. While that product has its place in the marketplace, any firm performing actual work is not adequately insured for pollution liability under those forms. If contractors are performing actual work, confirm that the CPL component of coverage is being purchased and not just pollution liability coverage under the professional liability insuring agreement.

Combined CPrL and CPL programs were created to offer a cost-effective financing solution to those contracting firms that possess both professional liability and environmental liability exposures. Rather than purchasing two separate policies, this combined form offers the ease of providing both coverages without the issues of two premiums and two retentions.

In 2006, New Day performed an informal study of thirty-five (35) construction firms with approximately \$250 million in annual revenue that purchase some form of CPrL and/or CPL coverage. This study was launched to confirm a trend that New Day believed has gained momentum over the past 3 years - the utilization of a combined form versus buying separate CPrL and CPL policies to optimize premium dollars. It was confirmed that with the general cost of insurance, exposures with both professional and pollution liability rising in the construction industry, contractors are finding the combined form to be a cost effective alternative to buying separate programs or more importantly, sacrificing neither coverage for the other because of cost. Most contractors feel both coverage parts are extremely important to the existence of the organization. Of the 35 firms surveyed, 28 purchased a combined CPrL/CPL program while 7 maintained separate programs. While the population surveyed was limited, there is a trend in which contractors are buying or moving to a combined CPrL/CPL versus separate of monoline policies. New Day expects interest in the combined form will continue into 2007 and beyond.

Pollution/Mold Exclusions

Some carriers continue to apply some form of a pollution exclusion, i.e., silica, lead and asbestos to their CPrL policies. This limits the effectiveness of the coverage since the intent of the exclusion is to exclude pollution conditions arising from professional services. With so many different activities being performed by CMs, GCs, DBs and specialty trades, there is a potential that pollution may result from professional services being offered. Since New Day expects no change from the markets with CPrL programs structured with pollution exclusions, it would be prudent when pursuing CPrL coverage to ensure there is no such pollution exclusion that restricts coverage.

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Although mold and fungus concerns seem to have stabilized over the past 2 years, they are still an issue for many carriers offering CPrL. From one carrier's standpoint, mold is excluded and there is no alternative to buy back the coverage. For others, it is fairly easily secured, provided the construction firm can evidence a mold prevention or water intrusion mitigation program. Most carriers will still offer up to \$10 million with additional limits being available on a case by case basis.

2007 EXPECTATIONS

Overall, the CPrL marketplace continues to be a dynamic market with much interest in the coverage from various types and sizes of construction firms. Education will be the key to driving the development of this segment of the professional liability marketplace. There continues to be a learning curve for many when it comes to CPrL coverage. Insurance professionals, for example, need to have a basic to intermediate understanding of the differences between project delivery systems and project management systems. Professional liability exposure varies greatly for a construction firm based on these basic concepts.

New Days anticipates no significant changes in the coverage, in general, over the next year and the number of carriers offering CPrL will remain relatively stable, except for the addition of one or two new markets.

One closing note to remember: when securing CPrL, it would be prudent to first assess professional liability exposures by creating some type of professional liability risk profile. Many insurance professionals, in the haste to make a sale, will skip over the assessment of risk process and go straight to the purchase of coverage, missing an important step – determining what can be managed or transferred. A methodical way to do this is required and it can be as easy as a simple spreadsheet document. In addition, the buying expectations or levels of the construction firm need to be qualified. Will they make the purchase of the coverage at \$250,000 premium or \$25,000? Taking this path and understanding these items for consideration brings efficiency and effectiveness to the process and leads to the optimal solution for the buyer of coverage.



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