



Captives & Environmental Insurance

A Winning Combination



AIG Europe has many years of experience providing Captive solutions as well as Environmental insurance for the complex needs of Europe's largest companies. With AIG's experience in alternative risk transfer solutions and in Environmental insurance, it can provide its clients with an efficient mix of traditional risk transfer and client retention options .

Environmental Liability Directive

Environmental liabilities pose a growing, high-cost risk to companies across Europe. As heightened public awareness and enhanced environmental regulation - including the recently implemented European Union Directive 2004/35/EC (Environmental Liability Directive) – have made businesses increasingly responsible for environmental damage, most insurance policies have failed to respond, excluding losses from gradual pollution releases and biodiversity damage.

The transposition of the EU Environmental Liability Directive within the European Union has been a unique opportunity for AIG to bring its capacity and expertise to fill these gaps in the market and offer its brokers and Major Accounts tailor-made solutions that can address the fullest range of a company's environmental exposure.

The directive and the national implementation by Member States reflects the latest governmental initiative to ensure that the “polluter pays.” In addition to land and water damage costs, organisations are now responsible for biodiversity restoration and remediation, that is, costs for restoring plant and animal species to the natural state before the pollution incident occurred.

A stand-alone environmental policy eliminates the ambiguity inherent in general liability wording (which often excludes clean-up costs, gradual releases and biodiversity damage) and reduces potential coverage gaps.

Value proposition

We bring to our clients and intermediaries a unique combination of expertise in Risk Management and in Environmental underwriting.

The involvement of a captive in an environmental programme can give clients what they need in terms of :

- covering difficult exposures by a policy rather than leaving them uninsured (and leaving the operational unit take a severe hit in its P&L accounts when the claim arises);
- risk transfer capacity for catastrophes at excess pricing;
- itemized pricing for the captive primary layer : expected level of losses plus admin fee plus claims handling fee;
- very flexible structure : captive can pick and choose each section of the policy and layers to underwrite (e.g. captive may take a layer of the on-site cleanup cost and leave all liability exposures to AIG Europe);
- leverage the existing captive's underwriting capabilities whilst providing additional diversification in its portfolio;
- more control over costs fluctuations over time;
- immediate benefit of all improvement in their exposure base.



A highly flexible structure to meet each client's objective

Coverage provided for:

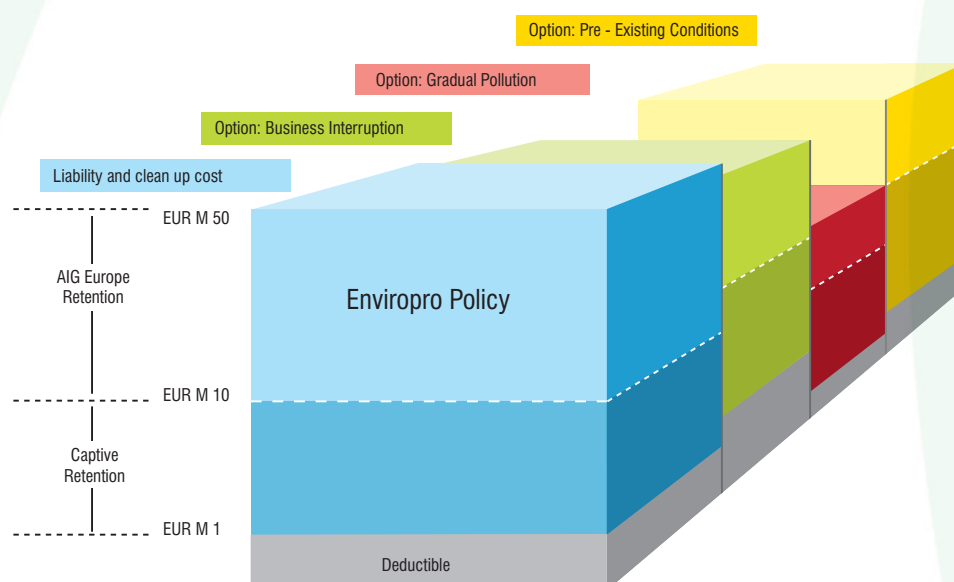
- Restoration or remediation of biodiversity damage to first-party or third-party sites
- Defence and assessment of biodiversity damage claims
- Mitigation of loss costs to prevent the worsening of a pollution incident early on
- Loss arising from gradual, as well as, sudden and accidental pollution conditions
- Clean-up costs (on-site and off-site); includes repair/rebuild costs to first-party property damaged during clean up
- Third-party bodily injury and third-party property damage caused by pollution release

Optional coverage available for:

- First-party business interruption losses
- Transportation-related environmental liabilities
- Contractor operations-related risks; includes work completed by subcontractors
- Coverage for pre-existing conditions
- Product pollution coverage

Each key section of the exposure can have a separate sub-limit and deductible, and be ceded in all or in part to a captive reinsurance company, in order to better fit each clients' own situation.

Sample insurance solution structure



Case Study

Primary Layer Retention

The Challenge

A European diversified industrial company is willing to self-insure its pollution liability costs up to €1m or €3m per site, depending upon the quality of each site. The various subsidiaries operating the sites however are not prepared to bear the full retention of €1m or €3m in their own P&L because of the volatility of the exposure. They are however prepared to pay for the exposure over time.

The Solution

AIG Europe can help this client by issuing a 5 year Enviropro policy covering the subsidiaries with smaller deductibles. AIG Europe reinsure to the group's captive the primary layer (€1m or €3m depending on the sites) for the first party on-site cleanup costs section of the policy, with the premiums collected from the subsidiaries. AIG Europe then keeps as risk transfer the remaining exposure (the excess of the primary layer for the on-site cleanup costs, and the full limit for the third party liability section of the policy).

The Benefit

Each subsidiary is covered with a minimum deductible, and the expected exposure is funded over-time by the group: the group maximize its retention capabilities whilst the operating units do not bear the volatility risk.



Key underwriting considerations

For risks of a more complex nature and/or multinational enterprises, we offer tailored underwriting to meet the insured's unique needs. Depending on the coverage needed the level of underwriting information will vary. The following is a partial list of information that we would need to understand:

- Environmental Investigation Report Phase I-type (status summary)
- Environmental Investigation Report Phase II-type (includes sampling)
- Insured's latest audited financial report
- Captive's latest audited financial report

Collateral requirements

The need for collateral will vary upon the structure (e.g. liability Vs first party ceded to the captive, limits ceded, captive and parent financial strength, etc) and will be reviewed with the client as part of the underwriting process to ensure that the collateral requirement fits the client's objectives.

Programme design

- Multinational and pure domestic programmes
- Captive fronting
- Rent a captive or PCC fronting
- Available capacity of up to €50 M
- Multi year policies are available
- Policies are site specific

Claims handling

AIG Europe is committed to ensuring quality service and superior claims experience. Our environmental claims unit acts rapidly to minimize loss, helping to identify the source of contamination and the likely extent of damage immediately after an incident. This may involve characterization of pollutants, environmental modelling to assess migration pathways and fate analysis to assess degradation of polluting chemicals.

Drawing upon over twenty five years of claims experience of member companies of American International Group, Inc. (AIG) worldwide, and more than ten years within Europe, our environmental team has the expertise and resources to make quick, authoritative decisions. In the event legal specialists are needed, we also provide access at pre-negotiated rates to a panel of leading environmental defence firms.

Case Study

Historical Known Vs Unknown conditions

The Challenge

A European refinery wants to close a number of sites and sell them after site clean-up. The company is aware that some of the sites require remediation work over the following years to remove accumulated pollution, but fears that during this work other more hazardous substances might be found (unknown pollution conditions).

The Solution

AIG Europe can help the client to insure against these unknown pollution conditions via an Enviropro policy whilst at the same time financing the clean-up of the known pollution conditions. Through excess and stop-loss insurance, the client could obtain additional limits above the expected losses which could be borne by its captive.

Remediation costs for the known pollution conditions could also be reinsured to the client's captive, up to the estimated amount of expected costs, with AIG Europe providing capacity in case these costs overrun.

The Benefit

This structure allows the client to leverage its captive's risk appetite to the fullest extent. Through the captive the client could fund itself for the remediation costs and cap the maximum exposure for remediation works, therefore removing any volatility from any future remediation costs.



AIG Europe EnviroPro
Click here for more information