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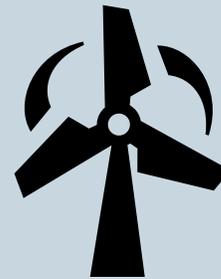
August 2017

Environmental insurance — A good time to consider

With environmental claims on the rise (particularly in the mold, Legionella and indoor air quality arena) and the marketplace offering ample carrier choice and appetite, there's never been a better time to consider how you're managing your environmental risk. Property owners, real estate managers and developers face a host of environmental exposures that can be devastating to their businesses. Whether resulting from their operations, their position as owners, their contractual obligations or the actions of contractors, they may find themselves liable for conditions they had little to do with or knew little about. Such environmental risks as historic contamination or operational issues (e.g., mold, lead paint, asbestos, Legionella or indoor air quality), and the stigma attached to these issues, are intangible, hard to quantify and therefore very hard to effectively manage. Here are some common exposures/risks to consider:

Indoor air quality

Commercial buildings have many enclosed spaces especially vulnerable to mold or Legionella, which can form in HVAC and plumbing systems as well as in other parts of the structures. Some residential facilities include swimming pools, which produce the humid conditions that can foster mold problems. Increasing claims based on mold and indoor air quality issues in the hospitality/real estate/health care space have resulted in carriers attempting to



In this issue, we...

...examine environmental insurance in light of the significant 20% growth in Environmental claims this we have seen this year. Environmental claims are very complex with mold and legionella being most prominent in addition to more cases of lead in the drinking water

...examine new options in non-traditional and alternative risk financing solutions for Real Estate, Hotel and gaming exposures to loss

...review the metrics of bomb threats and procedures for preparing your properties

mitigate this exposure with per door/room deductibles and other coverage limitations. When high concentrations of customers, workers, residents and delivery persons are exposed, even a single release of pollutants can have far reaching impact and yield extensive claims. The same would be true in the case of Legionella with sources including hot tubs, water systems incorporating an evaporative condenser, extensive plumbing systems or scenarios which may release a spray or aerosol of water droplets, such as shower heads, faucet aerators, spas, air conditioner/cooling tower units, fountains and other exposure pathways.

Acquisition of sites with historical contamination

Sites previously used for other commercial purposes can pose a range of unanticipated exposures for owners, occupants and even lenders and investors. Pollutants may be encountered when land is disturbed, and this discovery may trigger regulatory notification requirements and cleanup obligations. Another issue is exposure to bodily injury claims, including those related to the intrusion of volatile vapors, which is now a priority enforcement target for regulators. Older facilities may also contain lead paint or asbestos.

Storage of hazardous materials

Storage tanks above and below ground are frequently used to store potential pollutants, such as fuels, heating oil, lubricants and chlorine or other pool additives. Smaller volumes of materials, such as pesticides, herbicides and cleaning agents are often stored or used onsite. Property owners must also consider any hazardous materials that may be stocked for sale by retail tenants.

Potentially hazardous tenant operations/activities

Potentially hazardous operations include dry cleaners, gas stations, car repair facilities, photography development centers — essentially any businesses that may use or store significant quantities of hazardous chemicals. Any of these can translate into significant environmental liabilities for building owners depending on terms of lease agreements.

Development/renovations

Development of property, be it surface or subsurface and/or soil grading scenarios, has resulted in new releases of contaminants as well as the spread or exacerbation of existing contamination, making these scenarios far worse. It's important to have your contractors carry the proper contractor's pollution liability insurance to provide a primary (or in some cases, additional) layer of protection. Renovations are typically done in one part of a facility while other sections remain operational — increasing the risk of third-party exposure from spreading contaminants. This can be caused by demolition or removal of materials containing lead, asbestos and other hazardous substances or by vapors or gasses emitted by newly installed materials.

The risk outlined above could pose a range of exposures for owners, buyers, sellers, developers and even lenders and investors, such as third-party claims, discovery of contamination/pollution conditions, government/regulatory "reopeners," contractor-caused pollution, financial defaults and consequential losses.

There are more than 40 environmental markets with varying degrees of risk/product appetite, but that changes regularly depending upon loss/claims trending and the balance of their overall book of business in terms of the types of deals/risks making up their portfolio. The majority of markets have limited appetite today with policy terms more than five or even three years on new/operational risk, but many markets will make exceptions to provide five- and 10-year terms on certain pre-existing/historical risks. For a single fixed premium, environmental insurance can be used to protect against the risk of unknown/unanticipated pollution losses, providing more certainty and comfort.

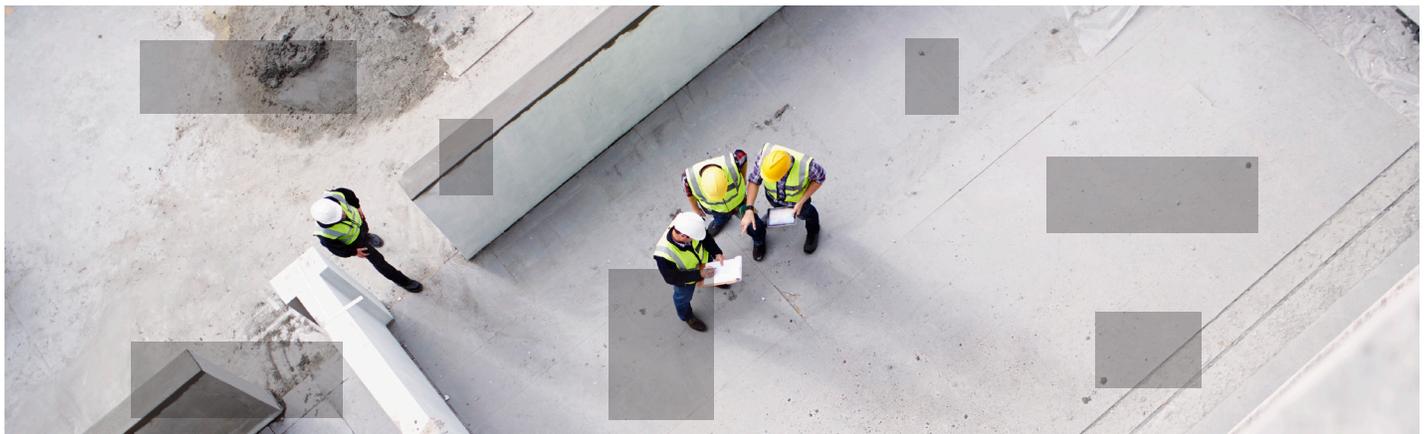
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What is alternative risk transfer?

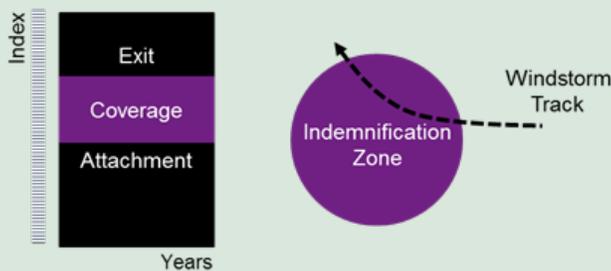
Alternative risk transfer solutions are tailor-made risk financing solutions and a key response to some of the limitations of the traditional insurance market. The solutions can help in three significant ways: 1) to self-finance risks which are not typically covered by a traditional insurance policy, 2) to transfer non-traditional risks and finally 3) to access alternative forms of capital which introduces competition and helps drive competitive pricing.

Emerging risks in real estate and hotel industry

Natural disasters, health epidemic, terrorism, geopolitical events and climate change were listed in key indexes of top five risks in real estate in 2016.¹ There are traditional insurance solutions for some of these risks. However, in specific cases insurance capacity available may be limited or not available at all. This is particularly true for non-damage business interruption events. In the cases where no solution is available, a company will absorb losses directly on its own balance sheet. Such unpredicted volatility has to be explained in detail to stakeholders. In the Alternative Risk Transfer Practice we find that companies in the real estate and hotel industry are accessing a very specific solution — parametric — to better manage and avoid these scenarios.

Parametric solutions

Falls in revenue/earnings associated with specific events (e.g., windstorm, terrorism, epidemic) are not covered by traditional insurance unless there is associated damage to insured assets. Parametric solutions, however, respond to objectively defined characteristics of the event as opposed to damage sustained to assets.



Claims are triggered if the actual measured characteristics of the event exceed pre-agreed thresholds, also known as triggers. The claim amount is calculated according to a pre-agreed scale of payment (e.g., an index), not by reference to audited loss amounts. This allows for speedy settlement and a quick cash infusion to help a company deal with previously uninsured or underinsured events.

There are some important considerations when one considers a parametric solution. First, access to robust independent data is key. This removes any moral hazard that may arise from using internal company-controlled data. Second is the potential for basis risk. Essentially this means that there is no insurance up until the trigger point set. In other words, there could be a difference between the payment received from the parametric solution and the actual loss suffered. Basis risk can be limited by blending parametric with more traditional insurance capacity.

Current uninsured risks need not be uninsured anymore; the benefits of a parametric solution

To conclude, parametric solutions can be used and are being used by companies in the real estate and hotel industry to transfer risks not covered by traditional insurance today. These solutions can be an alternative means of managing catastrophe risks and complement traditional placements. The solutions can also be tailored to reflect specific geography, risk exposure, risk appetite and budgets. We have found that there is great flexibility in index design with industry-specific performance metrics, such as footfall, revenue per available room (RevPar) and other composite indexes being considered by insurers. This is exciting and endorses the relevance of parametric solutions for the real estate and hotel industry specifically.

¹ 2016 BDO Risk Factor Report for REITS

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Bomb threats – Understanding the risks and being prepared

Any business, office, school, sports venue, store or other facility may potentially be targeted by an individual or group by way of a bomb threat. Of particular interest to our readers is that commercial and retail operations, hotels, entertainment locations and casinos all are uniquely postured to possibly be selected by pranksters, disgruntled parties, and criminal or terrorist elements for bomb threat hoaxes or actual attack scenarios. In fact, not only must we now be concerned with traditional bomb threats, which have historically been perpetrated mostly by anonymous telephone calls or via threat letters sent through the postal service, yet now this spring a startling new trend in bomb threat modus operandi has been noted across the U.S. — the submission of threats by email and fax. The possibility of social media bomb threats should also be considered.

Bomb threats often consist of a caller or other form of threat-maker claiming that they have, or will, soon attack the victim location or person with an improvised explosive device (IED). Thus, the nature of bomb threats is exigent and may impact life safety. They also inherently leave the victim organization with limited time to react. To ensure that your people and businesses remain secure, and so that you may avoid costly and inconvenient business disruptions often associated with bomb threats, Willis Towers Watson Security Risk Consulting Practice is keen to share our best practice bomb threat awareness, preparatory and response methodology below.

The threat

The 2015 U.S. Bomb Data Center Explosives Incident Annual Report (available online as of 4/14/2017; <https://www.atf.gov/explosives/us-bomb-data-center>) reveals that “a total of 1,670 bomb threat incidents were reported in 2015, an increase of 50 percent since 2010.” Of these bomb threats, 38 were directed at multi-use business properties. Almost all bomb threats are, of course, hoaxes. Many actual bombing acts, of which there were 400 in the U.S. in 2015, are not accompanied by any sort of pre-announcement or threat warning, but instead are simply surprise IED attacks. Globally, however, bomb threats have preceded actual explosive detonations on many occasions.

Significantly, on June 2, 2017, the New Jersey State Regional Operations Intelligence Center advised in a Threat Analysis Unit report that some N. J. and multiple entities nationwide have recently received hoax “poison pen” bomb threats via faxes or emails. NBC News New York has reported the same. These threat communications threaten to activate pre-placed improvised



explosive devices if ransoms are not paid. These threats have been disruptive, with large-scale evacuations occurring and emergency services being summoned.

The potential impact of bomb threats to your business includes

- Possible property damage and life safety concerns
- Unwanted press attention
- Work disruptions or interruptions
- Diminishment of employee, consumer or shareholder confidence
- Aggravated criminal or terrorist risk profile

How to respond if you are targeted

- The recipient of the threat must attempt to glean as much information as possible
- Take any bomb threat seriously, alert authorities promptly and activate your security procedures
- If the threat is specific it may be more credible; act immediately to safely evacuate the area
- If a suspicious item is found, do not disturb it and await responding police
- Treat any threat correspondence, telephone recordings or other related material as evidence
- Post-incident, transparently communicate with all staff so that security lessons-learned may be imparted

Remain cognizant of the disruptive and potentially life safety aspects of bomb threats. Act now to be prepared for a safe and seamless response to such threats.

The information shared here is intended to assist you in staying safe. It is not suitable for social media. For further guidance or assistance in developing and implementing a Bomb Threat Preparedness & Response Plan, contact Willis Towers Watson Security Risk Consulting.

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