

Environmental Insurance Policies
for
Financial Assurance and Corrective Action

**US EPA National RCRA Corrective Action
Conference**

Providence, RI

June 20, 2006

Kevin Matthews

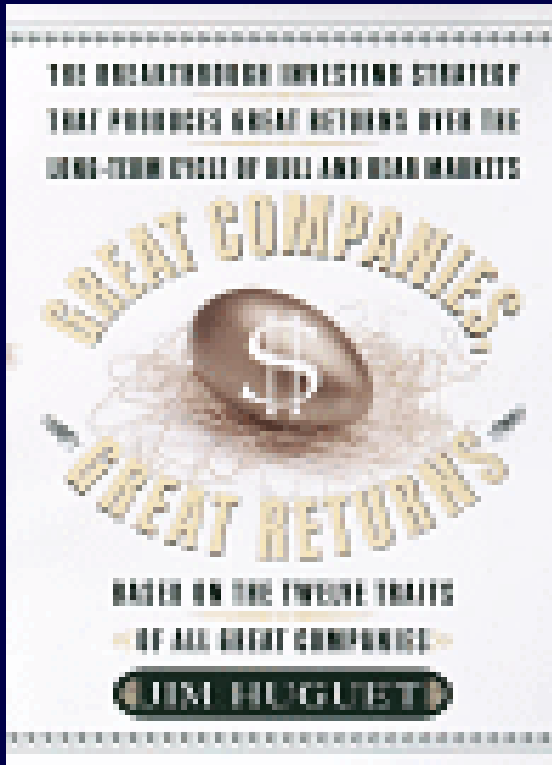
Director of Governmental Relations

AIG Environmental

AIG Environmental

- AIG Environmental has been providing environmental insurance, claims management, and environmental loss control services for over 25 years
- AIG Environmental is the largest environmental insurer and the leader in product innovation
- AIG Environmental - Regional offices are staffed by professionals with backgrounds in environmental law, engineering and other technical disciplines

The Financial Strength of AIG



- #9 on 2006 Fortune 500 ranking of all U.S. corporations
- #25 on the 2006 Fortune listing of the top 500 companies in the world
- Common stock has a valuation of around \$200 billion
- AIG is a leading international insurance and financial organization with assets of over \$850 billion

Outline

- Environmental Insurance Policy Application
- Environmental Insurance Policies used for RCRA Financial Assurance & Corrective Action
- Examples

Environmental Insurance Policy Application

- Environmental Insurance Background for FA/CA/C/CP
- Fortuitous Incidents
 - ➔ Spills, Releases, Accidents, Regulatory Actions, etc
 - ➔ Pollution Legal Liability (UST Coverage)
 - ➔ Can be used as FA (Certificates), Pay on Behalf Claims
- Known Actions
 - ➔ Corrective Action, C/PC, Reclamation, Nuclear Decommissioning, O&M
 - ➔ Cleanup Cost Cap, Environmental Protection Program

Pollution Legal Liability (PLL) Select®

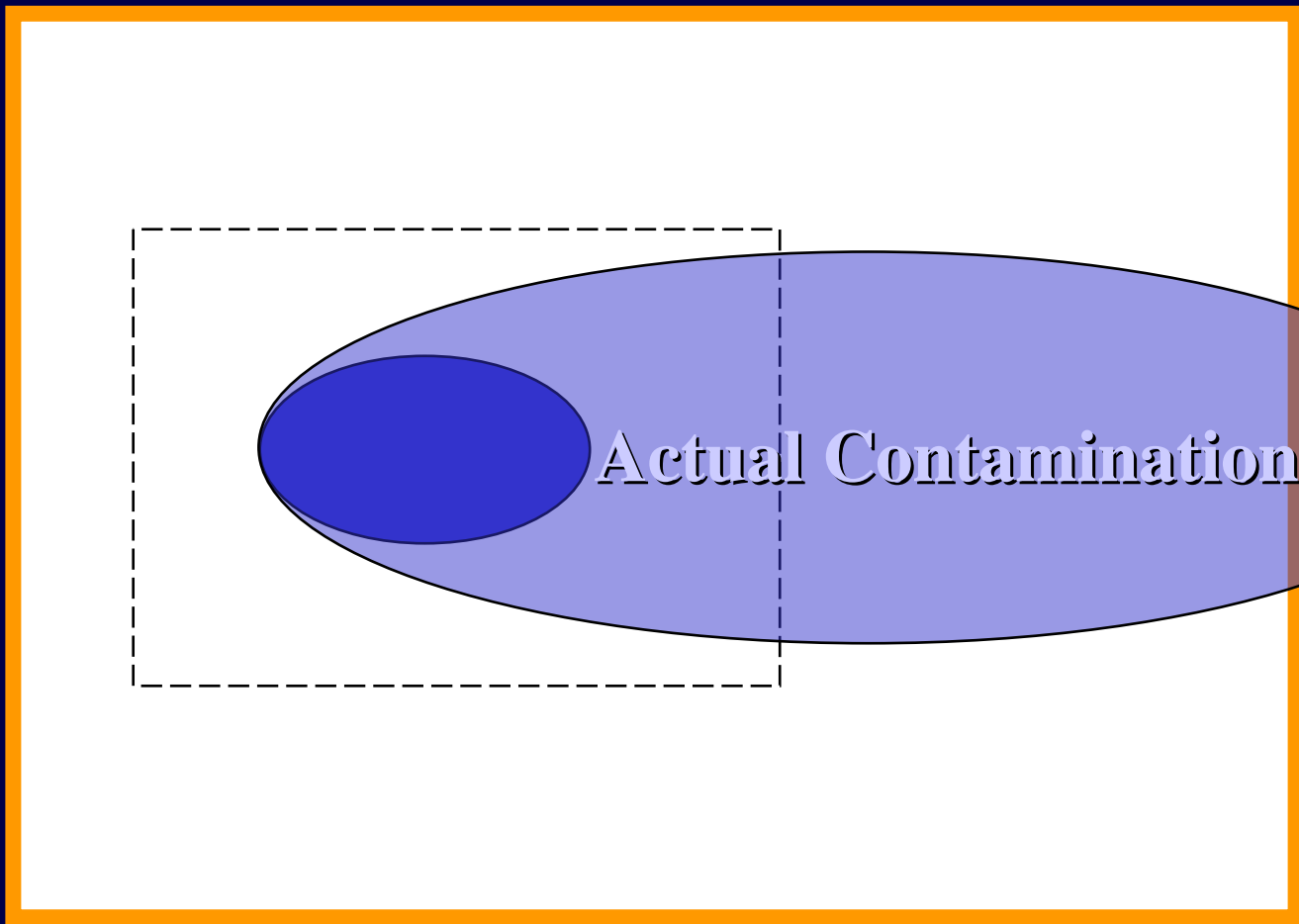
PLL Select provides environmental coverage for:

- On and off-site pollution conditions for both unknown pre-existing and new contamination
- Coverage for known and unknown pollution conditions not expected or required to be remediated
- Third party bodily injury, property damage
- First party Business Interruption & Diminution in value due to pollution conditions
- Defense Coverage and
- Cleanup costs from pollution conditions arising from pollution releases from:
 - ➔ transported cargo
 - ➔ non-owned disposal site liability

Clean-Up Cost Cap:

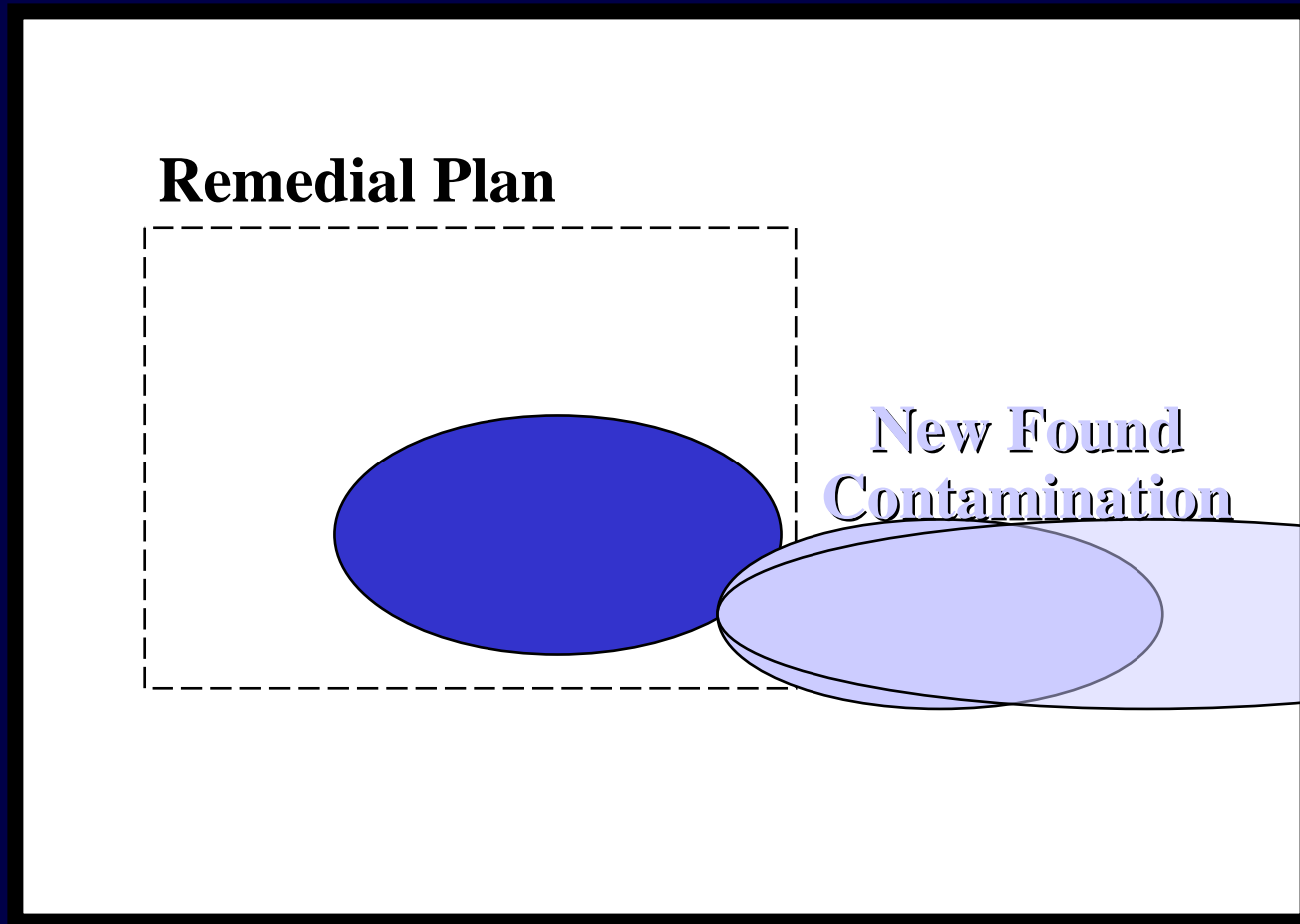
- Clean-Up Cost overruns on known remediation projects due to:
 - ➔ Actual contamination greater than estimated.
 - ➔ Coverage for cost overruns above an SIR based on the engineered expected costs.
 - ➔ Clean-Up beyond the boundaries of the covered location where required to complete the Remedial Plan.
 - ➔ Change orders required by governmental authorities that are incurred during the Policy Period.
 - ➔ Usually, Clean-Up Costs for Pollutants different from those in the Remedial Plan if such Pollutants are discovered while executing the Remedial Plan.

Cleanup Cost Cap

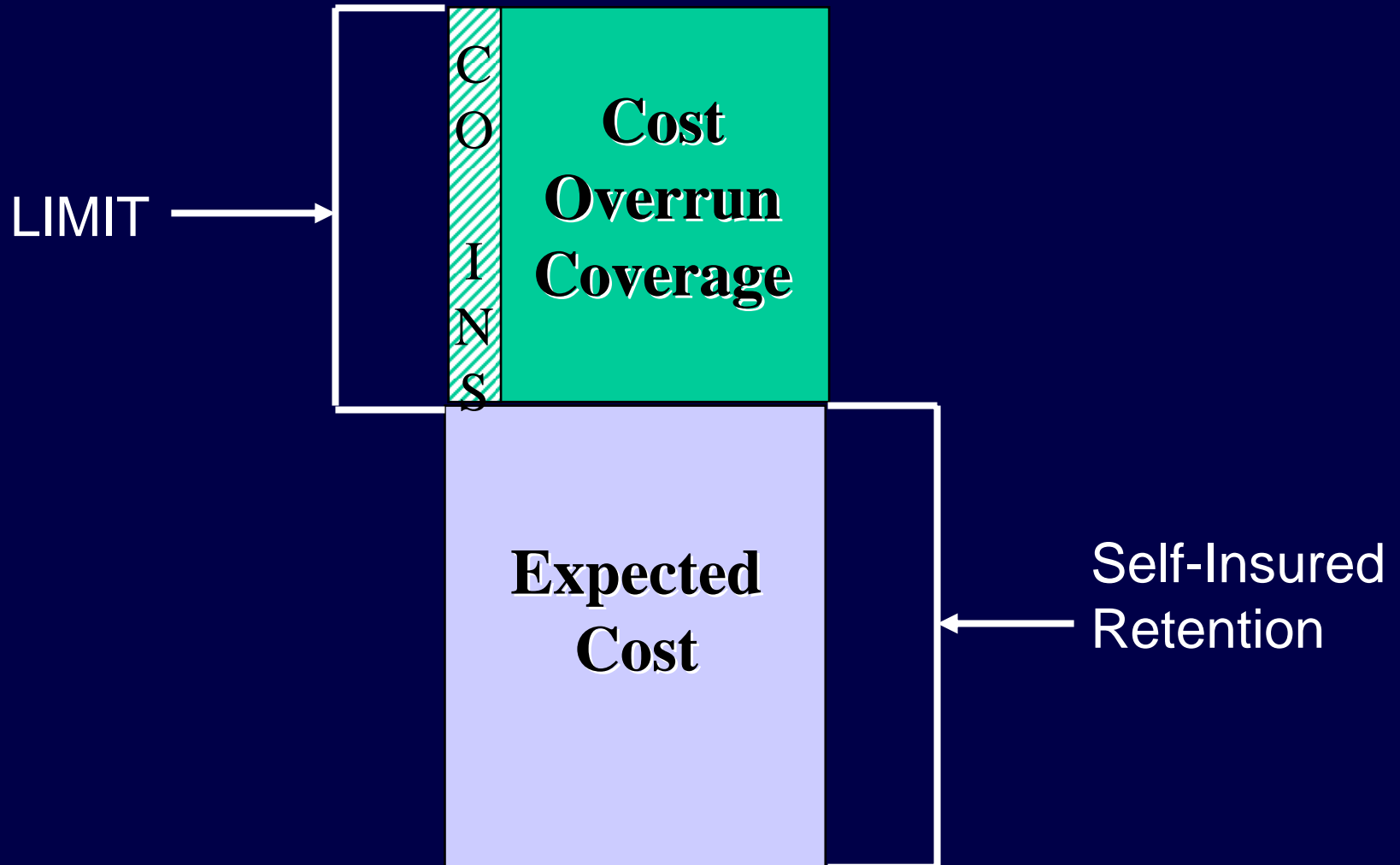


Property Line

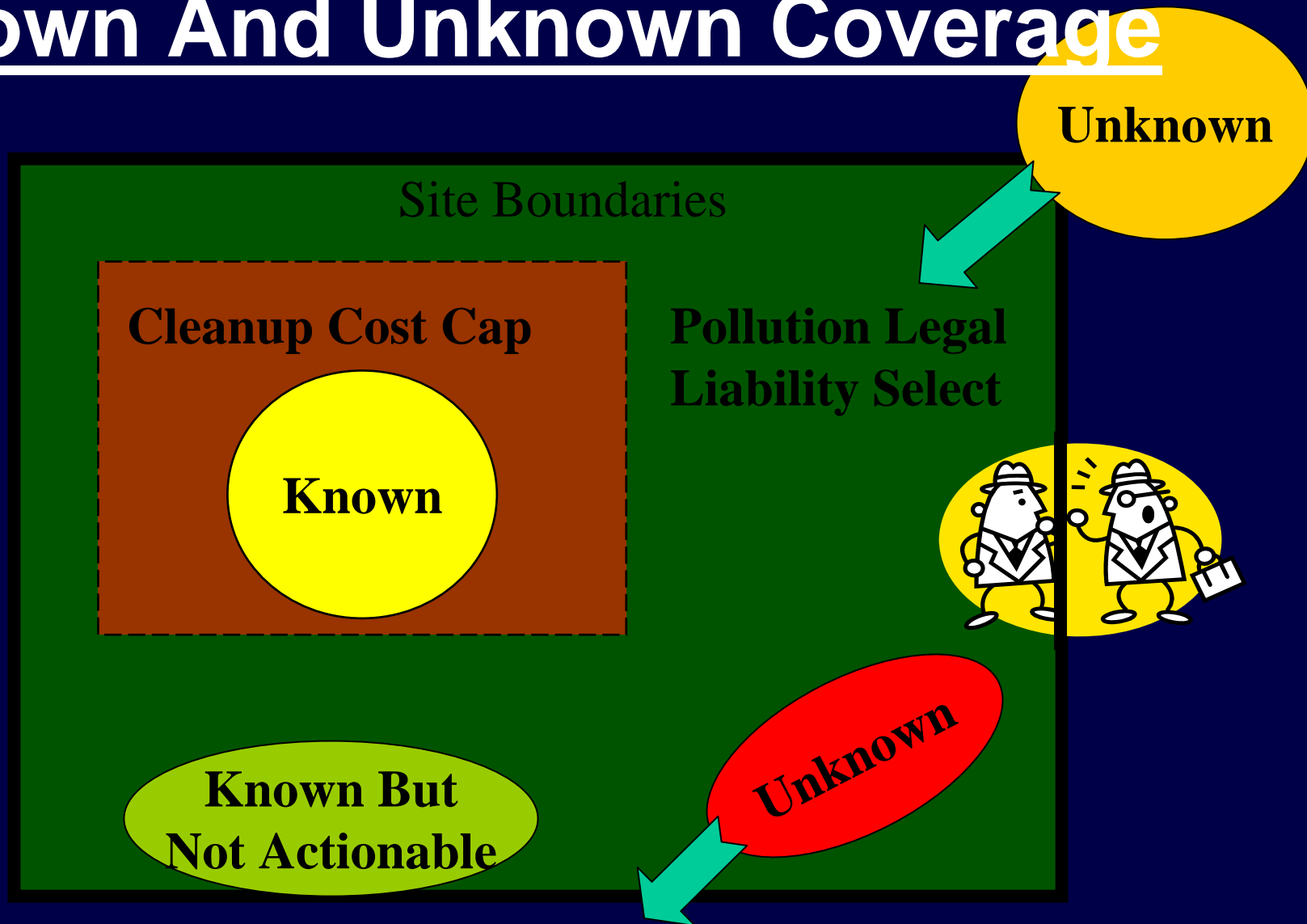
Cleanup Cost Cap



Cleanup Cost Cap Program



PLL/CCC Combined Coverage Known And Unknown Coverage



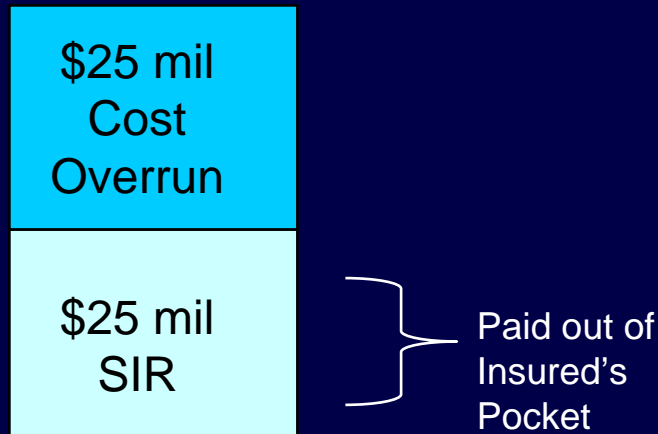
Environmental Protection Programs

Basic Structure:

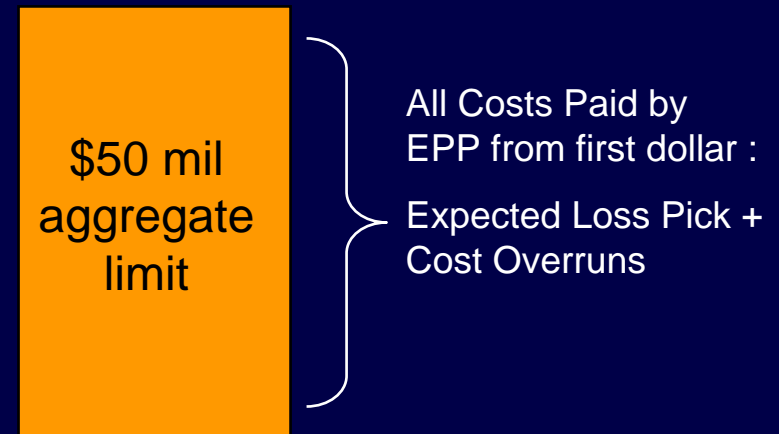
- Clean up Cost Cap or Combined CCC/PLL
- Annual Expected Costs are estimated based upon an engineering review.
- Annual Expected Costs are discounted.
- Premium is calculated.
- Notional Commutation Account
- Losses are paid first dollar. No Self Insured Retention.

EPP Advantages over Cost Cap policies

Traditional Cost Cap Insurance



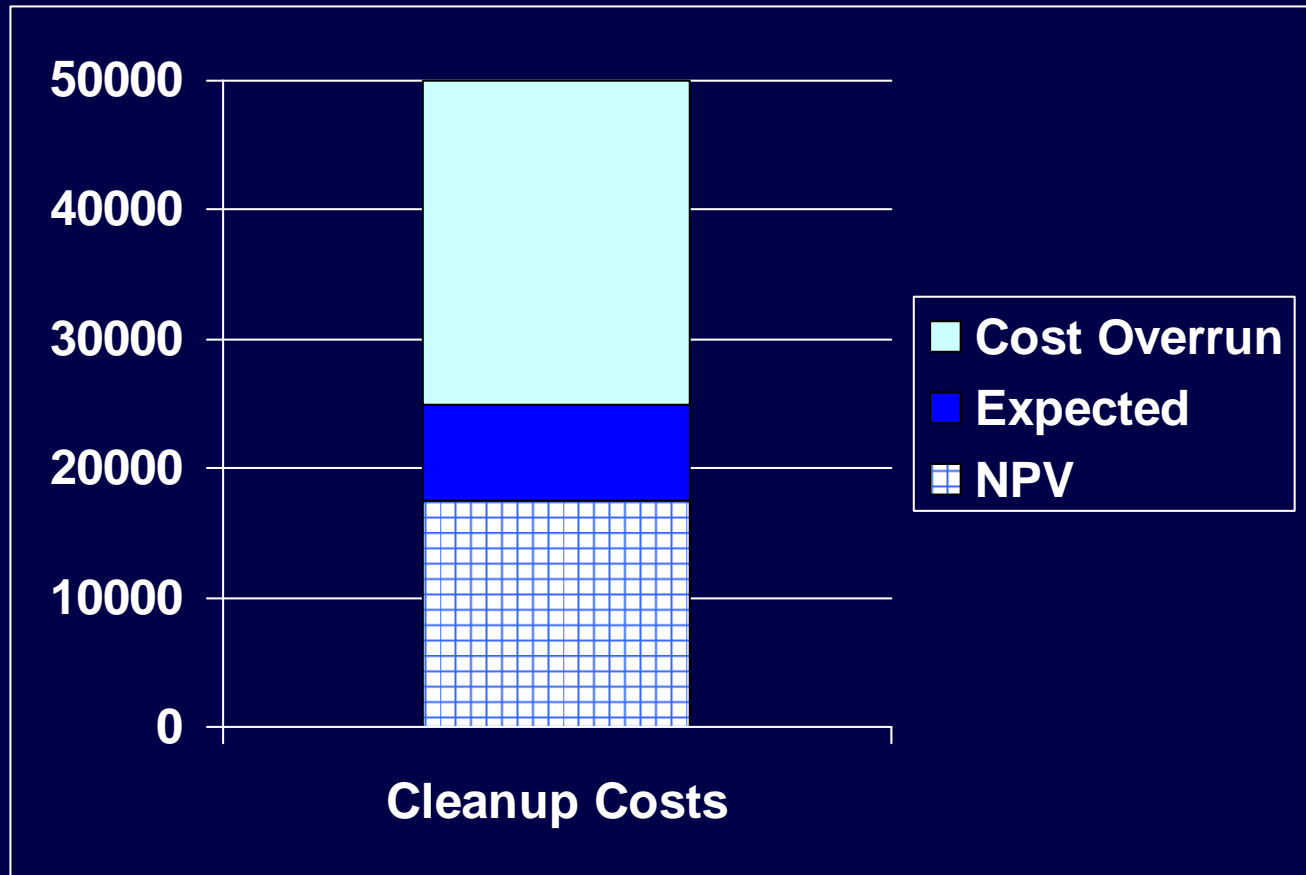
Cost Cap EPP Program



EPP Advantages may include:

- 1) Longer Terms than available in traditional market
- 2) Greater Limits than available in traditional market
- 3) More efficient use of client's capital – EPP absorbs the timing risk associated with the time value of money

Environmental Protection Programs



Premium: \$19 mil Estimated Losses (Expected): \$25 mil

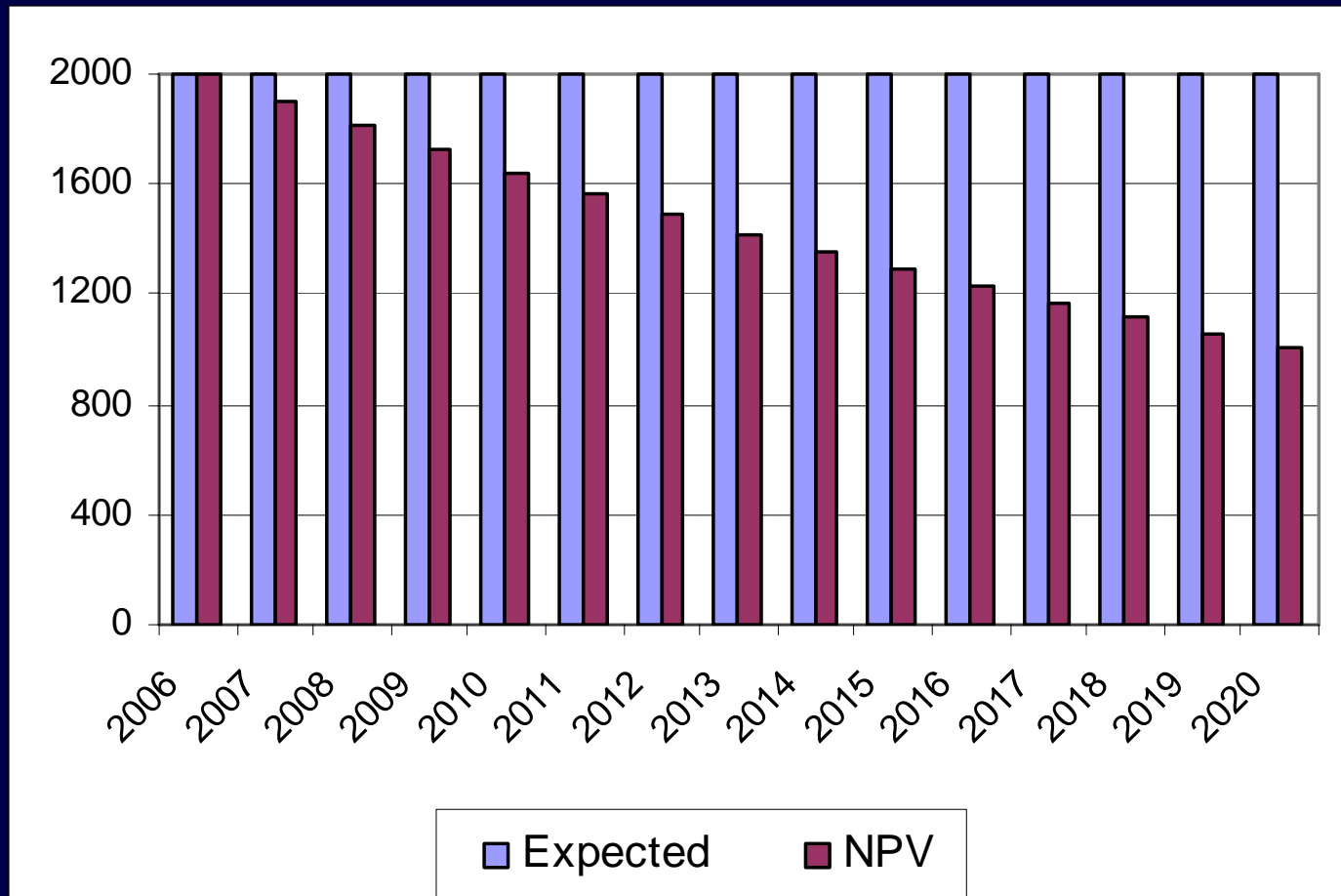
Limit: \$50 mil Notional Commutation Account Initial Credit (NPV): \$17.5 mil

EPP - The Effect of Time Value of Money

(Assuming 0% Inflation)

Total Expected Cost : \$30 million (\$2 mil annually x 15 years)

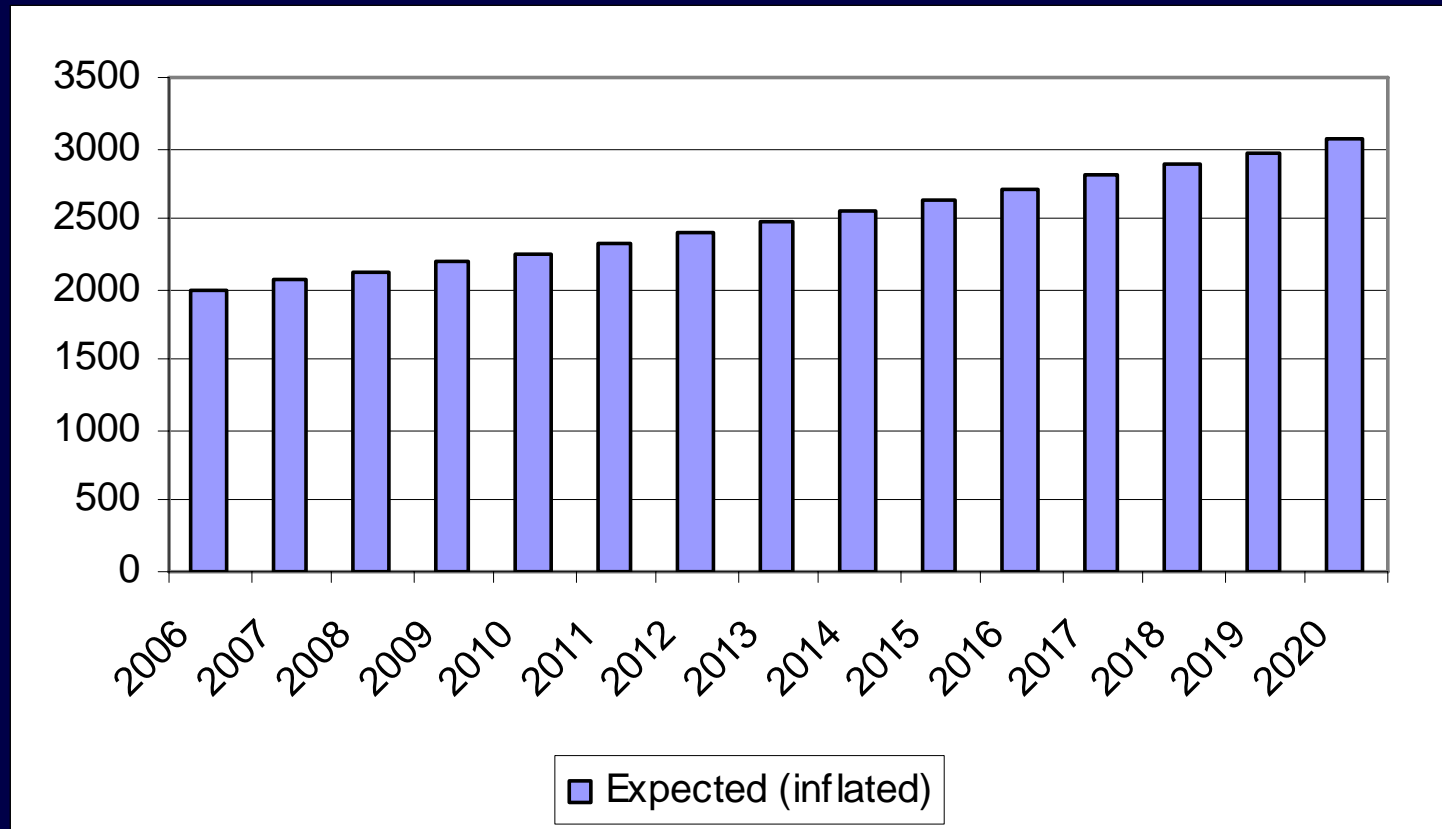
NPV of Expected Cost:\$21.8



EPP - The Effect of Time Value of Money

(Assuming 3.1 % Inflation)

Total Expected Cost : grows to \$37.5 million over the 15 years

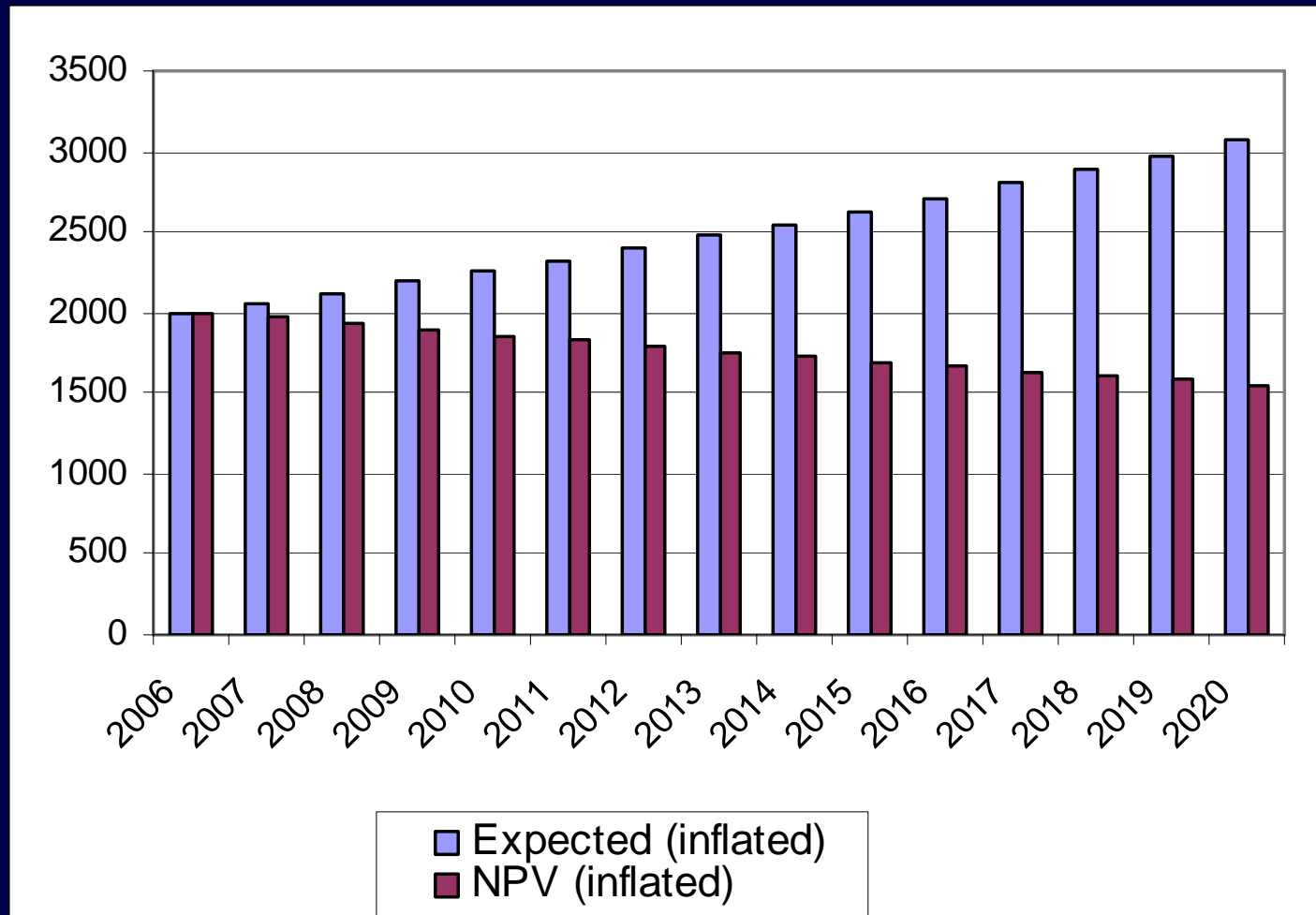


EPP - The Effect of Time Value of Money

(Assuming 3.1 % Inflation)

Total Expected Cost : grows to \$37.5 million over the 15 years

NPV of Expected : \$26.5 million



Environmental Protection Programs

What Drives the Deal:

- Financial Assurance
- Cost Overrun Coverage
- Guaranteed Fixed Cost Contracts
- Desire for third party involvement in payments process
- Replacement of Surety

Why People buy EPP's

Financial Assurance - the primary motivation on most of the EPPs to date

- Financial assurance to a third party may be:
 - Required by a governmental agency
 - Needed to complete a merger or acquisition
 - Needed to resolve superfund litigation
 - Needed for disclosure or investor confidence

Having an insurance program issued by an independent company with industry leading financial strength gives parties to a transaction confidence that funds to pay Clean-Up Costs will be available.

Environmental Protection Programs

Target Markets:

- Environmental Contractors – Fixed Cost Bids
- Brownfield Redevelopment
- State and Federal Superfund Settlements
- Mine Reclamation
- Landfill Closure and Post Closure Care
- Environmental Liability Transfer
- Miscellaneous; M&A activity
- Oil Rig Plug and Abandonment
- Nuclear Decommissioning

EPP Case Study: Bonding Requirement

A Bond may be required for:

- Landfill Financial Assurance
- Mine Operation Financial Assurance
- CERCLA
- Consent Decree Settlement

Possible Financial Assurance Alternatives:

- Surety
- Letter of Credit
- Escrow
- Insurance

Advantages of the EPP:

- ✓ Lower bond premiums
- ✓ More efficient use of capital – money is put to work and not tied up as collateral
- ✓ Longer terms/greater capacity available than from conventional insurance market

EXAMPLES

- Nevada Landfill Pool
 - ➔ Under funded C/PC Trusts
- NJ Landfill Trust Fund
 - ➔ Over funded C/PC Trust
- NJ Superfund Site Letter of Credit
 - ➔ Pre-Bankruptcy – putting an LOC to work
- State Environmental Insurance Programs
 - ➔ Assistance in obtaining appropriate Financial Assurance

The scenarios summarized above are offered only as examples. Coverage depends on the actual facts of each case and the terms, conditions and exclusions of each individual policy. Anyone interested in the above product(s) should request a copy of the policy itself for a description of the scope and limitations of coverage. Policy terms may vary based on individual state requirements and may not be available in all states.

Insurance underwritten by member companies of American International Group, Inc. The description herein is summary only. It does not include all term, conditions and exclusions of the policies described. Please refer to the actual policies for complete details of coverage and exclusions. Coverage may not be available in all states. Issuance of coverage is subject to underwriting review and approval. Non-insurance products may be provided through independent third parties.