



MODERN SOLUTIONS

to ENVIRONMENTAL LEGACY PROPERTIES Using These Risk Management Tools

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“The 2016 M&A market has seen 80% the activity of 2015. More private equity is participating in complex infill sites that involve a new list of emerging contaminants. The quality of risk management needed for those transactions calls for innovative environmental risk mitigation strategies that include creative financing, bullet proof indemnities, and manuscript risk transfer alternatives.”

Jeff Telego, *RTM Communications, Inc*, 2017

Why use environmental insurance?

- Environmental insurance maximizes shareholder value for the owners of contaminated property
- Environmental insurance has been very inexpensive over the past 30 years (based upon loss ratios)
- Environmental losses are expensive compared to the historical cost of the insurance
- Because of accounting rules and tax laws, some environmental insurance policies sold in the past had negative after tax cost (profit) over the premium paid, regardless of paid losses

Unfunded Environmental loss exposures have adverse effects on capitalized value:

- Managers try to maximize the capitalized value of a firm as a goal
- Capital markets assume a worst-case cost scenario when informed about unfunded liabilities.
- Unfunded environmental liabilities typically effect capitalized value on a 10 to 1 ratio

Here is what you can do to maximize your risk management tools using insurance in the purchase and sale of environmental legacy properties:

- Environmental insurance can monetize environmental legacy contingencies
- The long term carrying cost of insurance on an after-tax basis produces an extremely high internal rate of return for the purchaser of the insurance
- Self-insurance is always the riskiest call

The above are not new concepts. History has proven the ultimate cost of environmental legacy takes longer to realize than the relevant career planning horizons of company decision makers. Short term profit is maximized if environmental legacy costs are under-reserved for as long as possible. However the long term value of the firm is not maximized in doing so.

Learn more about modern solutions to environmental legacy property, using environmental insurance at the SEIP 2018: Expanding The Market June 18th – 20th, 2018.



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