



## First Party Pollution Coverage - Commercial Property

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This bulletin will provide a commentary on the relationship between the commonly used RRC pollution exclusion for commercial property, March 1986 edition, and the new endorsements introduced by IBC near the end of 1995. This bulletin will also summarize the work being done by the Property Subcommittee to address the exposures presented under the new IBC endorsements.

On December 19, 1995, the IBC released Bulletin no: AMSP95-01, and introduced two new endorsements: IBC #4050 Land and Water Pollution Clean Up Endorsement, and IBC #4051 Extended Pollution Clean Up Endorsement. These endorsements provide a significant broadening of cover. In brief, the two IBC optional endorsements provide clean up costs coverage for two exposures which are excluded under the basic forms:

1. When pollution-related loss or damage to the property insured is covered by the basic form, the Land and Water Pollution Clean Up Endorsement will pay for clean up of land and water at the Insured's premises.
2. Whether a pollution-related loss is covered or excluded by the basic form, the Extended Pollution Clean Up Endorsement will pay for clean up of all property, including land and water, at the Insured's premises, as well as loss or damage to the property insured caused by pollution, which is not covered by the basic form.

Both options provide coverage for related testing and monitoring expenses, but only on the Insured's premises.

The coverage provided by these two endorsements is specifically excluded under those treaties which contain the RRC Pollution Exclusion Applying to Business Classified as Commercial Property, March 1986. The RRC clause specifically excludes "...any loss or damage, whether direct or indirect, nor any clean up cost incurred resulting from any spill, discharge or seepage of a pollutant/contaminant." The last paragraph of the RRC exclusion also states "It is warranted that 'pollution' or 'contamination' shall not be insured as a peril insured under any policy issued by the Company."

The two new IBC endorsements are optional and RRC members are reminded that IBC has recommended that a separate limit of amount of coverage be provided. Coverage provided under reinsurance contracts will, of course, be determined through discussions between individual insurers and reinsurers. The Property Subcommittee is reviewing the current RRC clause with the intention of having an updated version available for business incepting or renewing in January 1997. It is expected that the revised standard RRC commercial property exclusion will continue to exclude the coverage provided under the optional IBC endorsements.

*Since IBC #4051 does not require pollution-related losses to be covered under the basic form, many property underwriters feel that this coverage should be provided through the creation of a separate class of business and not under traditional property contracts.*