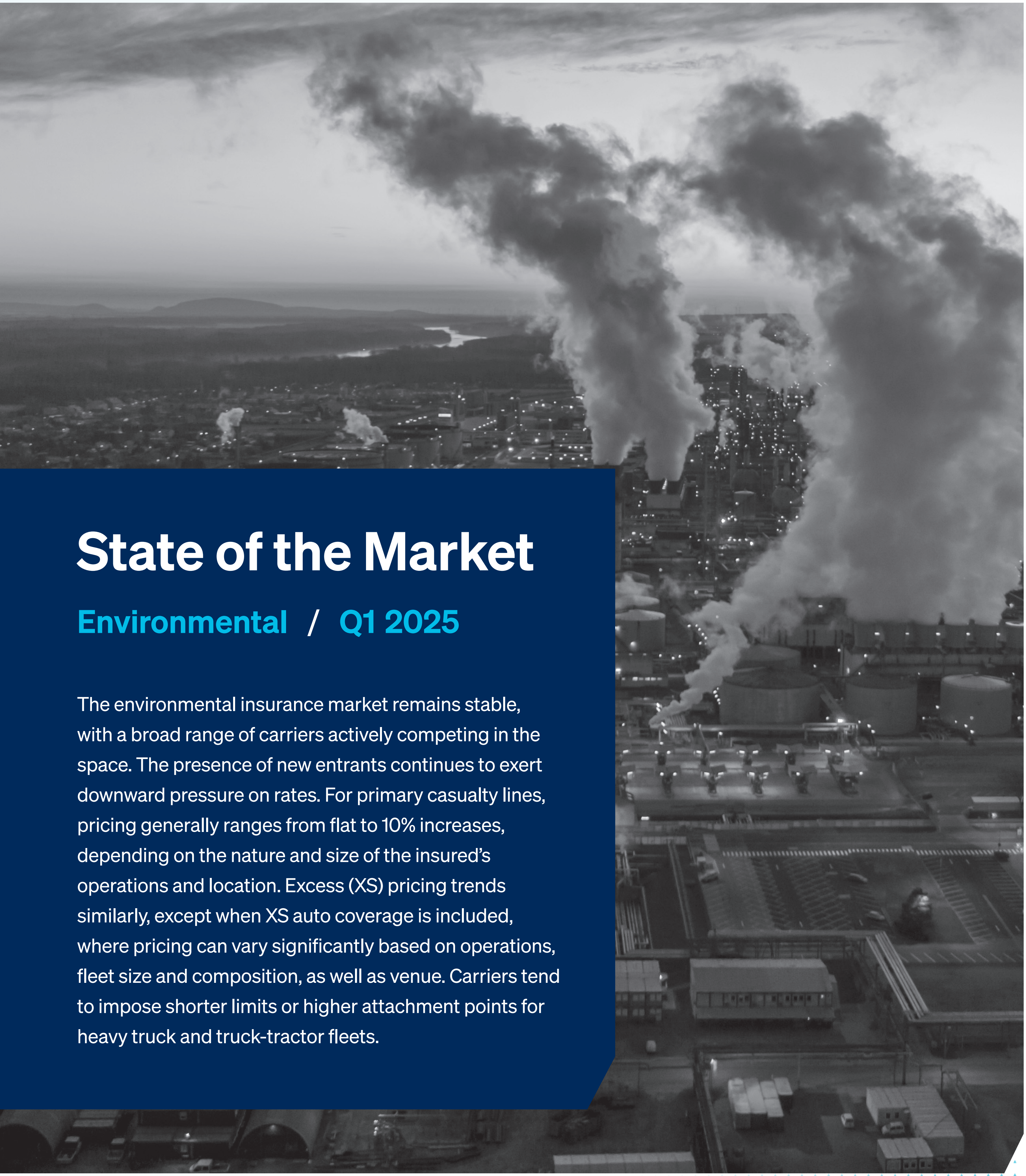
The Edge



State of the Market

Environmental / Q1 2025

The environmental insurance market remains stable, with a broad range of carriers actively competing in the space. The presence of new entrants continues to exert downward pressure on rates. For primary casualty lines, pricing generally ranges from flat to 10% increases, depending on the nature and size of the insured's operations and location. Excess (XS) pricing trends similarly, except when XS auto coverage is included, where pricing can vary significantly based on operations, fleet size and composition, as well as venue. Carriers tend to impose shorter limits or higher attachment points for heavy truck and truck-tractor fleets.

Capacity challenges

One of the biggest challenges in the environmental insurance market is the reduction in XS capacity, primarily due to large auto claims. This issue is particularly prevalent in Texas, where nuclear auto verdicts have led carriers to scale back their exposure. Historically, insurers willing to provide full $10M in XS limits have reduced those limits to $5M over the past few years. More recently, some carriers have opted not to renew accounts altogether to avoid being on the hook for substantial auto claims.

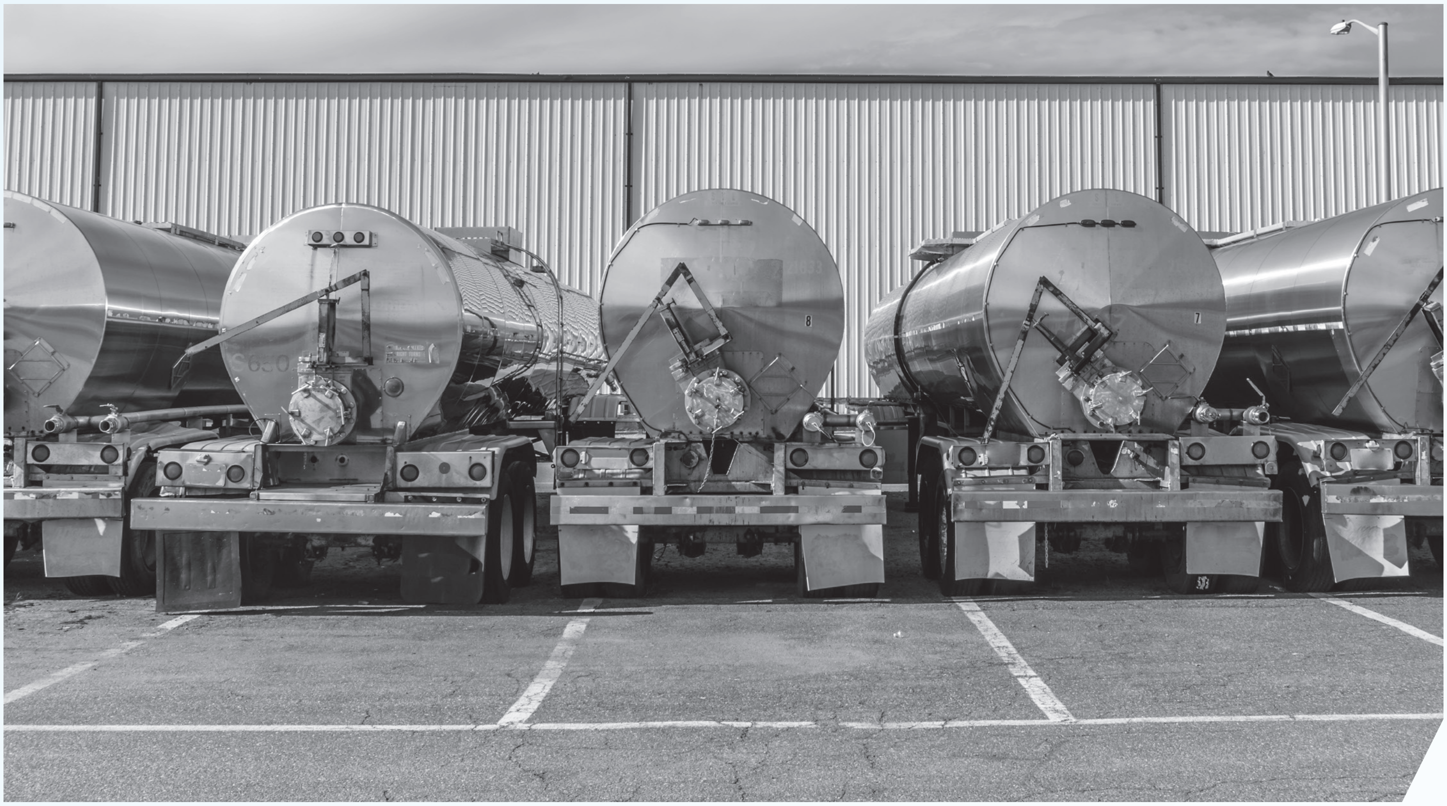
Given the increasingly litigious environment in Texas, this trend is unlikely to change in the near future. While the state is not yet considered a judicial hellhole on the level of states like New York or California, it is trending in that direction, with a significant portion of carriers now facing challenges in the state.

Emerging risks

The environmental insurance market continues to evolve as new contaminants and regulatory concerns gain attention. Several emerging risks should be on the radar for insureds and insurers alike:

- **Ethylene Oxide (EO):** Used in sterilization processes and consumer products, EO has been the subject of increased litigation due to its classification as a carcinogen by the EPA. Despite uncertainty around the EPA's assessment, the number of lawsuits is growing.
- **Microplastics:** Found in food, beverages and human tissue, microplastics are under increased regulatory scrutiny. Early litigation has focused on consumer fraud and greenwashing claims.
- **Formaldehyde:** Long used in construction and industrial applications, formaldehyde is seeing rising personal injury claims tied to new EPA toxicological assessments.
- **Phthalates:** Used in plastics and cosmetics, phthalates continue to face regulatory restrictions, litigation over mislabeling and increasing claims related to alleged health risks.
- **Legionella:** A major source of claims in environmental insurance, Legionella bacteria in water systems can lead to costly lawsuits, as seen in the $4.5M Wingate Inn settlement related to legionnaires disease resulting from hot tub usage.
- **1,4-Dioxane:** A solvent found in drinking water and consumer products, 1,4-dioxane is driving lawsuits against both utility companies and manufacturers.
- **6PPD-Quinone:** A byproduct of tire wear linked to environmental harm, 6PPD-quinone is under growing regulatory scrutiny, with some states considering restrictions on artificial turf and tire waste.

These risks highlight the evolving nature of environmental exposures and the potential for increased litigation, regulatory action and insurance claims in the years ahead.



Aging infrastructure

For insureds with older locations, aging infrastructure and outdated systems, securing coverage is becoming increasingly difficult. Carriers are tightening policy terms and conditions, leading to higher pricing, stricter underwriting and more limited coverage. The surplus lines market is playing a critical role in filling coverage gaps where standard markets have pulled back, particularly for older risks that face financial responsibility requirements.

Additionally, states are enforcing financial responsibility regulations more strictly. More inspectors are conducting audits, particularly for gas stations, to ensure they carry the required coverage. This trend follows a slowdown in inspections during COVID-19, which left many businesses unchecked. Now, as enforcement rebounds, there has been an uptick in submissions for these risks, as businesses that previously lacked coverage must now comply with regulations.

Pricing and market entrants

The contraction of XS capacity in transportation has led to pricing challenges. In many cases, insureds must secure standalone XS auto liability policies or multiple layered policies to reach the same coverage levels they previously obtained from a single carrier, increasing costs. While there have not been significant new market entrants, some notable carriers have pulled back.

Some carriers that typically focus on site pollution coverage have expanded into the tank space, possibly due to tightening conditions in the site market. However, these moves have been relatively limited rather than signaling a major market shift.

Coverage limitations and exclusions

While no new exclusions have emerged in recent months, existing limitations remain significant. The PFAS exclusion continues to be mandatory across the market, particularly in light of ongoing regulatory uncertainty. The recent withdrawal of an EPA rule that had set strict PFAS discharge limits has created temporary relief for some industries, including chemical manufacturers and carpet producers, but insurers remain cautious. Additionally, wildfire exclusions are becoming more common for contractors operating in California and other high-risk states, reflecting the growing unpredictability of wildfire exposure.

For older locations, higher deductibles are becoming more common, as insurers seek to reduce their exposure to aging infrastructure risks. However, for businesses that require coverage to meet financial responsibility mandates, policies must still comply with strict regulatory requirements, limiting the extent to which insurers can impose coverage modifications.

Inflation and economic factors

Economic inflation continues to influence the market, particularly for environmental and energy contractors whose revenues are tied to oil prices. Because oil is a traded commodity, price fluctuations can cause significant swings in insured exposures. When revenues decline, securing coverage at favorable rates can be challenging due to minimum premium requirements.

While social inflation has had a significant impact on manufacturing risks—particularly in relation to PFAS and other high-profile environmental concerns—it has been less pronounced for contractor-based accounts.

At the same time, businesses facing inflationary pressures are adjusting their coverage strategies. Some insureds, particularly in dealer auto servicing and similar industries where pollution liability is discretionary, are choosing to go bare or increase their deductibles to control costs. This trend highlights the balancing act businesses face between financial constraints and risk management.

Key considerations for retailers

Retailers should be especially mindful of insured fleet controls, particularly for accounts involving XS auto coverage. Auto-related losses continue to drive underwriting decisions, and the more controls an insured has in place—including strict fleet safety measures and policies around employee vehicle use—the stronger the case for securing favorable terms. Additionally, retailers should expect continued challenges in finding broad lead XS capacity for larger fleets, particularly for lead $5M XS limits. Early market engagement with complete submission information remains critical, especially for accounts with significant auto exposure.

Retailers should also work closely with insureds operating aging locations and tank systems. These insureds must have proactive risk management strategies in place to help ensure that they can continue securing coverage, particularly as more carriers tighten their appetite for older infrastructure. Insurers may eventually decline coverage based on aging equipment, so insureds should have a long-term plan for system upgrades. Additionally, reviewing policy endorsements closely is critical, as each carrier has unique terms that may allow businesses with older tanks to maintain coverage under specific conditions.

Looking ahead

As the environmental insurance market adapts to new pressures, insureds must be prepared for continued shifts in coverage availability, pricing and regulatory focus. While XS capacity constraints—particularly in auto liability—are a persistent challenge, other factors, including aging infrastructure and emerging contaminants, are shaping the future landscape.

Insureds should remain proactive in addressing environmental risks, particularly as state-level regulations continue to drive litigation trends. The impact of inflation on insureds' coverage decisions, the potential for further PFAS-related regulatory developments and the evolving role of state funds all bear watching. Businesses should be prepared for heightened scrutiny and increasing claim activity. Engaging with specialized brokers, staying ahead of regulatory changes, and implementing strong risk management practices will be essential in securing the best possible coverage outcomes.

Partner with Amwins

Our environmental practice is dedicated to understanding where environmental mitigation or risk transfer is needed; from the obvious to the obscure to ensure your insureds are protected. With expertise in industries as diverse as Manufacturing, Construction, and Healthcare, we understand where your clients are vulnerable to environmental losses and are focused on bringing you innovative solutions.

We work together across divisions, teams and continents to secure coverage for your clients' most niche, complex needs. Bring us your environmental insurance needs — we'll bring you the right solutions.

Insights provided by:

- Daniel Drennen, VP, Amwins Brokerage
- Kyla Holmes, VP Marketing, Amwins Brokerage
- Mason Klaus, Senior Program Underwriter, Amwins Program Underwriters
- Brett Pollard, VP, Alta Risk
- Kay Zito, Managing Director, Amwins Program Underwriters