

POLICYHOLDER UPDATE

June 30, 2010

Event Overview

On April 20, 2010, an offshore oil rig explosion resulted in massive fire and loss of life aboard the rig. The rig was located in the Gulf of Mexico approximately 52 miles (84 km) southeast of the Port of Venice in Louisiana (USA), and was drilling in approximately 5,000 feet (1,524 m) of water. The oil rig was a floating rig and was self-propelled. Once it is brought on site it holds itself in place by using its propulsion system guided by computers and a GPS.

The fire continued to burn through the day of April 21 until it was extinguished, and the oil rig eventually sank on April 22. Beginning April 24, an underwater robot observed oil leaking from at least two ruptured areas in the 20-inch (50.8 cm) diameter pipe at the well head.

Containment booms were deployed in an effort to control the spread of the oil. In addition, attempts were made to skim the oil into tankers and controlled burning was utilized, all in an effort to reduce the amount of oil in and on the water. Nevertheless, oil continued to spread in the Gulf of Mexico and threaten the coastlines of the various states along on the Gulf.

Policy Response Q and A

Q. Would my cleanup costs be covered if the oil washes up on shore and deposits on my real and personal property?

A. Contamination is an excluded peril under the Affiliated FM proVision policy, as described below in the policy:

***GROUP II.** This policy does not insure against loss or damage caused by the following; however, if direct physical loss or damage insured by this policy results, then that resulting direct physical loss or damage is covered.*

5. Contamination, and any cost due to contamination including the inability to use or occupy property or any cost of making property safe or suitable for use or occupancy; nor will the foregoing constitute direct physical loss or damage insured by this policy. This exclusion does not apply to radioactive contamination which is excluded in Section F, Perils Excluded, Group I, Item 1.

Contamination is excluded. Coverage for contamination, however, would be afforded under the policy if directly caused by a peril insured under the policy. Oil washing ashore is indirect to the fire and explosion. The presence of oil on insured property is the result of several intervening factors, including the inability of the well operators to stop and contain the flow of oil, the actions of the prevailing winds, the various ocean currents, and the passage of time.

In addition, land and water are not insured property, nor are docks, piers and wharves when they are not a structural part of a building. Other property exclusions also may apply.

Q. If wind blows spray onto my insured property and that spray contains oil or other contaminants from the oil well, will my policy pay for the cost of cleaning the oil from my property?

A. Coverage for this type of damage is available under the Affiliated FM proVision policy under the terms and conditions of the Flood coverage, including any applicable deductibles, limits of liability and exclusions. Flood coverage is provided for spray from bodies of water, whether or not driven by the wind. This coverage would pay the cost of cleaning the oil and other debris carried by the spray from insured property, as defined in the policy.

Q. How will the policy respond if oil-contaminated storm surge damages my insured location?

A. Coverage for this type of damage is available under the Affiliated FM proVision policy under the Flood coverage, subject to any applicable deductibles, limits of liability and exclusions. This coverage would pay the cost of cleaning from insured property the oil and other debris carried by the storm surge, as defined in the policy.

Q. How will the policy respond if wind breaks open insured buildings by tearing off the roof or breaking windows and oil-contaminated seawater is then blown into the buildings, damaging property inside the buildings?

A. The contamination damage to the building interiors and their contents would be covered as a direct result of the wind damage to the insured property.

In each of the cases above, business interruption that directly results from the insured physical damage to insured property is also covered.

Q. If there is oil on the beach and other land areas of my property after a storm surge, how will the Affiliated FM proVision policy respond?

A. As noted earlier, land and water are excluded property. The Land and Water Clean Up Expense Extension of Coverage provides coverage for the expense of removing contaminants from land and water at a described location as defined in the policy when those contaminants are due to direct physical damage insured under the policy. The presence of the oil and other contaminants when washed on the beach is not due to other direct physical damage insured by the policy. Therefore, there is no coverage under the policy for these expenses.

Q. Do I have coverage for Protection and Preservation of Property?

A. The Affiliated FM proVision policy provides coverage for the cost of preventing immediately impending insured physical loss or damage. As noted above, contamination is excluded. To the extent temporary measures are taken to prevent immediately impending insured physical loss or damage, there is coverage subject to policy terms and conditions, including limits and deductibles.

Q. How would the Ingress/Egress, Civil Authority and Contingent BI Extensions of Coverage apply in the above scenarios?

A. These coverages require direct physical loss or damage insured under the policy.

Ingress/Egress requires that access to the described location be physically prevented due to insured physical damage. As noted above, aside from the wind and storm surge examples, the oil contamination is not insured physical damage. The waters of various bays, rivers and the Gulf of Mexico are not insured property.

Civil Authority applies to the extent an order of civil authority is issued and access to the property is prohibited as a direct result of physical loss or damage of the type insured by the policy to property not excluded by the policy. As noted above, aside from the wind and storm surge examples, the oil contamination is not insured physical damage. The waters of various bays, rivers and the Gulf of Mexico are not insured property.

Contingent BI requires an event of direct physical loss or damage of the type insured to property not excluded by the policy at the premises of direct suppliers or direct customers. The same discussion above requiring direct physical loss or damage of the type insured to property not excluded would also apply to the facilities of a customer or supplier.

