

Insurance Firms Carry Limited Mold Coverage

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The need for mold insurance has never been more crucial for landlords. And never has it been so hard to get.

As mold has become a big legal and financial problem for landlords, many insurers have sharply reduced or even stopped offering mold coverage in their traditional property and liability policies. Instead, a handful of insurers are offering mold coverage in separate environmental insurance policies, under the umbrella of indoor air quality.

The new coverage, however, doesn't come cheap. For multifamily housing, annual premiums for an environmental policy with mold coverage generally run about 20% higher than the cost of a policy without such coverage; for commercial buildings, the premiums are about 10% higher than the cost of a standard environmental policy. And mold coverage can come with all sorts of limitations and conditions, such as the requirement that potential policyholders have a plan for preventive operations and maintenance for the property. What's more, there aren't yet uniform standards for what such coverage should include or cost.

Environmental policies that include mold insurance tend to pay mold-removal costs and sometimes will cover the cost of rebuilding the property if the situation warrants that, says Eric T. Schake, a managing director at insurance broker Marsh, a unit of Marsh & McLennan Cos. of New York. The policies also tend to pay the costs for defense of any claims from tenants, he says. But the payouts are capped at an average of about \$20 million. Such coverage under property and liability policies had limits of hundreds of millions of dollars in the past, Mr. Schake says.

"There is something out there being called mold coverage, but it does not sufficiently cover the risk that many of my clients are concerned about," says Jeffrey R. Porter, manager of Boston-based law firm Mintz Levin Cohn Ferris Glovsky and Popeo PC.

Mold, a fungal growth found in damp or wet conditions, has been blamed for a number of health problems, including breathing difficulties, headaches, nausea, skin rashes and gastrointestinal ailments. High-profile lawsuits and big damage awards of late have shaken insurers and building owners alike.

Most insurers have reported triple-digit increases in the frequency of mold-related claims in commercial buildings over the past three years, says Robert P. Hartwig, chief economist of the Insurance Information Institute, a New York-based trade group.

Among the insurers that offer some form of mold coverage in their environmental policies, according to Marsh, are New York-based American International Group Inc., XL Capital Ltd. of Bermuda, Chubb Corp. of Warren, N.J., Swiss insurer Zurich Financial Services Group, Liberty Mutual Insurance Co. of Boston, and Gulf Insurance Group, a subsidiary of New York-based Citigroup Inc.

Following a recent [Building Value column](#) about 401(k) real-estate investments, a reader, Joseph Unger, a certified public accountant at Weiser LLP of New York, pointed out that there are tax-code exceptions under which rental income generated from properties financed with a mortgage is tax exempt. Those exceptions can be found in the Internal Revenue Service Code, Section 514(c)(9)(A).