

The Chartered Institute of Loss Adjusters



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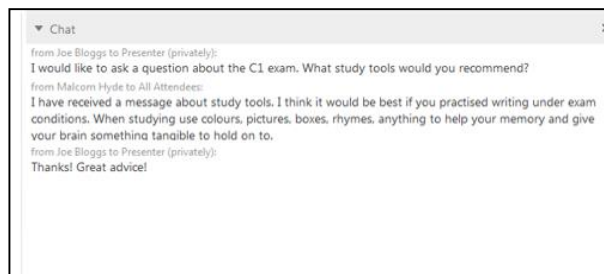
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*The Chartered Institute
of Loss Adjusters*




Spotlight on: BI and the Waste Industry

CILA Business Interruption SIG

Aruna Chandrapalan ACMA, Adv Dip CILA, Sedgwick

Melissa Cunningham ACA, Adv Dip CILA, Marsh



Webinar
14th March 2019

Introductions



Aruna Chandrapalan

Sedgwick

Qualified accountant and adjuster working with insurers, with prior experience at a broking business.

Melissa Cunningham

Marsh

Qualified accountant and adjuster working with insureds in pre- and post-loss quantification and policy review.

Poll



Question 1 – Who has worked on an energy from waste or recycling facility claim in the past?

- a) Yes
- b) No
- c) Maybe..?

Objectives



- Define waste and recycling in the context of an insurance claim
- Understand the process and flow of revenue / costs
- Identify how claims arise
- Understand the specific issues around this industry
- Apply the above through Business Interruption Case Studies

Waste Digested

Situations when a material is considered to be waste include when it's:

- mixed with another waste material - the whole mixture will be waste.
- deliberately and illegally abandoned or dumped, for example fly-tipping.
- accidentally, unknowingly or involuntarily discarded, for example when a fuel is leaking from a service station storage tank into the ground beneath and the producer or holder is unaware of the leak.
- required to be discarded by law.

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Question 2 - A construction company excavates land for development and realises that some of the extracted soil may be suitable for reuse at a site other than where it was extracted. Is that extracted soil considered waste?

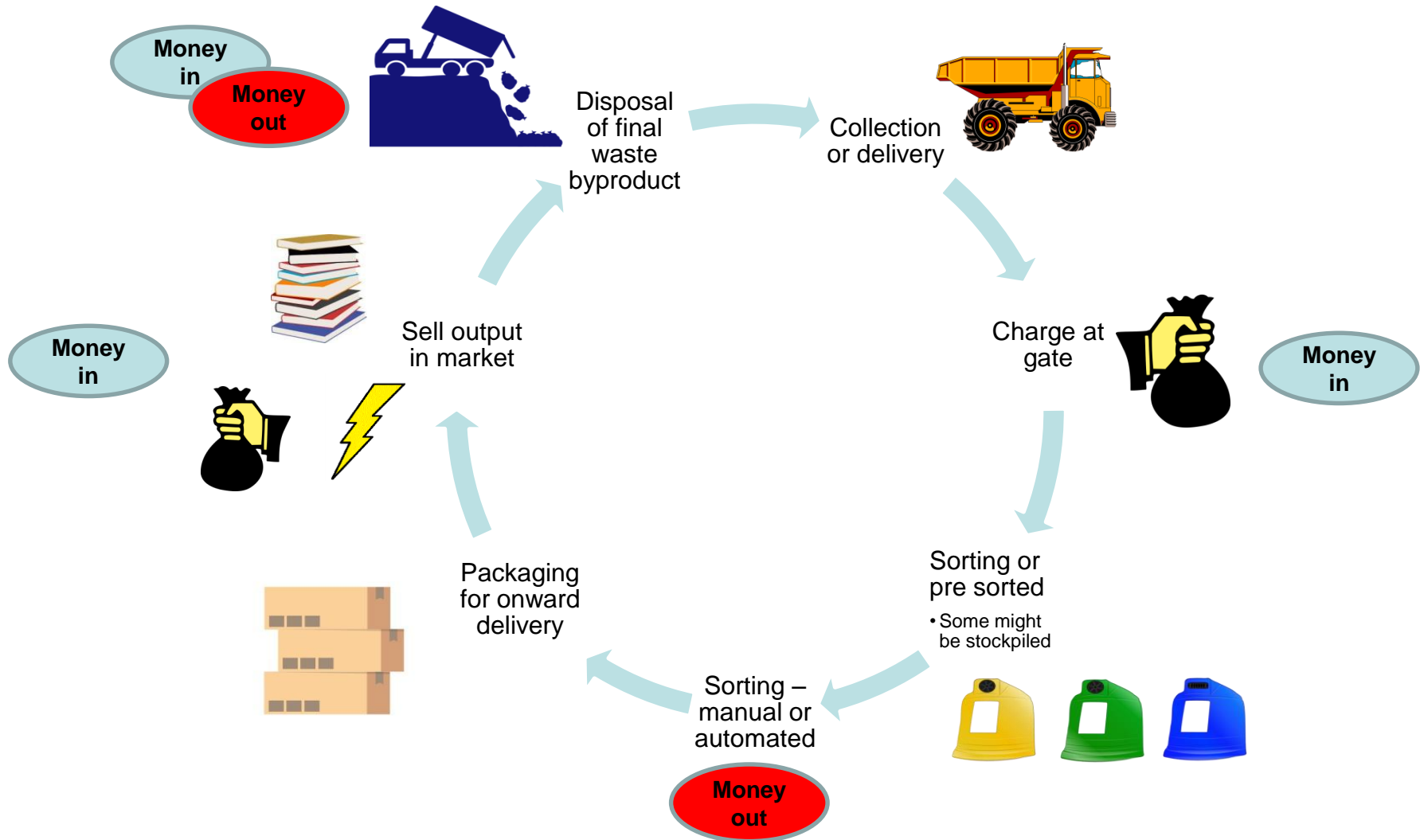
- a) The soil is waste.
- b) The soil is not waste.
- c) The soil is likely to be waste, depending on its use.

Data Dump

- Revenue of up to **£11bn** pa in the UK
- UK Government aims to generate up to **3.6 TWh** by 2020
- Municipal waste to landfill - **7.4 million tonnes** in 2017
- Aggregates Levy - **£2 per tonne of aggregate**
- Landfill Tax - **£88 per tonne**
- ROCs – obliged to source **40%**



Waste to Wealth: The Recycling Operation



Recycling Methods



Manual
Sorting

1



Mechanical
Shredding

2



Advanced
Processing
Plants

3



Materials
Recovery
Facility (MRF)

4



Anaerobic
digestion

5



Refuse
Derived Fuels
(RDF)

6



Biological
Treatment
Plants

7



Incineration

8

Causes of Claims



Stray items in waste materials



Spread of fire



Stock piling



Arson



Mechanical / electrical



Self-heating



Hot works



Impact / Accidental Damage

Case Study 1: The Case

The Case:

- *Fire at a timber recycling depot*
- *Weighbridge at entrance - £50-£70/tonne*
- *Waste timber is shredded and used for*
 - *Reprocessing into chipboard*
 - *Use for electricity production*
 - *Export to Russia for heating*



Key Points:

- *Stock piles accumulate between April and September in time for shipments*
- *Environmental agency investigation estimated to carry on for 3 months before site was usable*
- *The Insured has claimed loss of profit, increased costs and fines and penalties.*
- *Stockpile increased to 6 metres.*

Case Study 1: Policy Cover

- *Gross Profit and Increased Costs* - **£5m**
- *Stock Debris limit* - **£50k**
- *Fines and Damages* - **£1 m sublimit**
- *Interdependency limit* - **£100k sublimit**
- *Indemnity period* - **12 months**
- *Warranty Conditions:*

External Storage Condition, “combustible materials stored outside of any building must be kept at least 5m away from the building and limited to a stacked height of 3.5m”

Case Study 1: Heads of Claim

Loss of Profit

- *Loss of profit - **£300k** for 6 months at affected site*
- *Loss at other site owned by Insured - **£200k** for 6 months*

Increased costs

- *Landfill costs to dispose charred material - **£80k***
- *Incinerating costs- **£100k***
- *Fire Water treatment cost - **£10k***
- *Fines & Damages - Payment to council for incremental costs for waste disposal – retain contract*

Case Study 1: Issues

Impact of Loss Event:

- *There was **only smoke damage to bunkers** used for wood chip stock pile*
- *Damage to Woodchip – **No value** for stock*
- ***Environmental agency investigation** carried out for 3 months before site was usable. – Extended GP loss, but for this site would have been operational in 3 months.*
- *The Insured has claimed **loss of profit at another owned site**. Is cover sufficient?*
- ***Increased costs** claimed – Are they recoverable?*

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Question 3 - Which costs do you think would be recoverable under the policy?

1. Landfill costs to dispose charred material
2. Fine paid to council to retain contract

- a) 1 and 2
- b) Only 1
- c) Only 2
- d) None of them

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Question 4 – Was the claim accepted?

- a) Yes
- b) No

Case Study 2: The Case

The Case:

- *Biomass plant takes poultry waste and converts to electricity via incineration. Oil is used as a secondary fuel when firing up the plant or to supplement waste. Prior to the loss, the plant generated at **60% of capacity** (38 MW total capacity).*
- *BI loss triggered after significant outage due to a fan catching fire – plant shutdown for two months.*
- *Date of loss: **1 December**.*

Key Points:

- *Remaining waste had to be **stockpiled** while plant was repaired.*
- *ICW required: **purchase of oil** to fire up the plant.*
- ***Secondary revenue** stream of selling the byproduct as phosphate-rich fertiliser also lost.*
- *Plant had several instances of **non-planned maintenance** in the year due to parts unrelated to the loss, which had affected performance and generation.*
 - *Non-planned maintenance dates: 1 Aug – 4 Aug; 10 Sept – 13 Sept; 5 Oct – 15 Oct; 20 Nov.*



Case Study 2: Claim and Measure

Head of Claim	Calc	Insured's view	Adjustment
		£	£
Period used as comparative	A	6 weeks pre-loss	16 weeks pre-loss
Generation Capability (max 38 MW)	B	23 MW (60%)	15 MW (40%)
Price Per kW	C	6p	6p
Days Outage	D	30	30
Lost Revenue:			
Generation	$B \times C \times D = E$	41,400	27,000
ROCs @ 5%	$E \times 5\% = F$	2,070	1,350
Lost Fertiliser Sales	G	5,000	3,000
ICW:			
Fuel	H	10,000	6,500
Total	$E + F + G + H$	58,470	37,850

Case Study 2: Issues

- *The key driver to this calculation related to the potential generating capability of the plant, but-for the loss.*
- *The difference between the Insured and Adjuster was the inclusion (or not) of the unplanned maintenance period.*
- *Should the claim include or not include it?*

Poll

Question 5 - The key driver to this calculation related to the potential generating capability of the plant, but-for the loss.

The difference between the Insured and Adjuster was the inclusion (or not) of the unplanned maintenance period.

Should the claim include or not include it?

- a) Include
- b) Not Include

Summary of BI Issues

- Interdependency
- Capacity and issues within an emerging industry
- Revenue generated up front
- Market prices can fluctuate
- (Non)contractual penalties
- Legislation
- ICWs



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