

Environmental Risk: What you need to know and how to manage it effectively



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The COVID-19 pandemic has been the dominant factor affecting businesses in both the UK and around the world for more than a year. Its impact has been profound in its geographical scale and duration.

Not surprisingly, many companies have been focused almost exclusively on managing the pandemic - but that does not mean other risks have gone away.

Indeed, the risk landscape continues to evolve and companies ignore those other issues at their peril, with many exposures heightened further as a result of the pandemic.

Environmental risk is certainly one area which businesses cannot afford to overlook, particularly for those which are now reopening or restarting operations after a

prolonged dormant period, or are ramping up productivity to pre COVID-19 levels.

If not managed properly, the effects of an environmental event can be devastating - both in terms of the actual damage caused and the consequences for the business involved, financially and reputationally.

The biggest mistake companies often make is to assume wrongly that they do not have environmental exposures or that these are in some way limited simply because they are not typical “polluter” businesses. This misconception can be costly because even relatively benign industries still carry potential environmental liability issues - as the box on this page illustrates. Risk might, for example, relate to the historic activities of a business which was a previous occupant of the building another company now owns.

Who is Exposed to Environmental Risk?

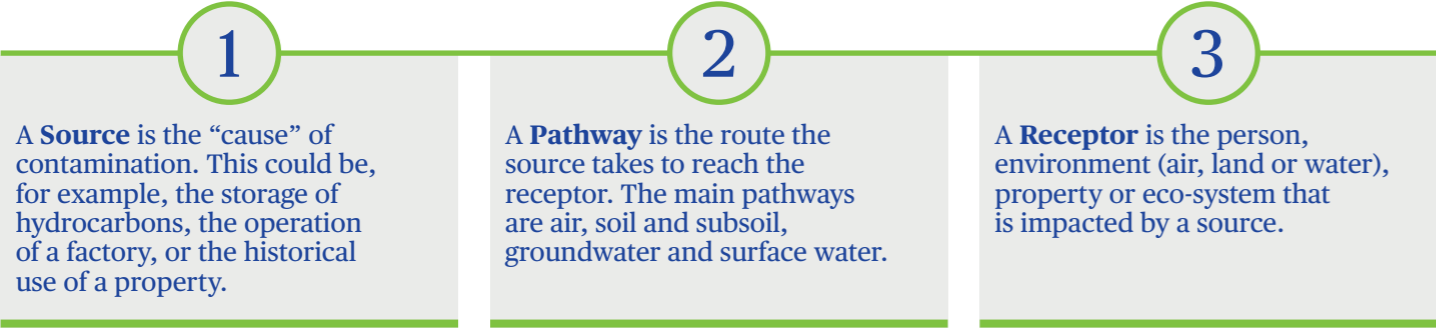
Businesses which:

- Own, operate or buy and sell property
- Operate on third-party premises
- Use, store, transport or produce a substance that may cause harm to the environment
- Create solid, liquid or gaseous waste

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Identifying Environmental Risk

A chain of events is required to create an environmental risk:



Managing Environmental Risk

Environmental risk can materialise at a site or property by the pollution of water, air, soil, or groundwater from past or present activities.

Dealing with this risk effectively requires three important steps:

- 1. Preventive measures.** These can reduce the likelihood that the environmental risk will materialise. Staff training, for example, is an essential preventive measure.
- 2. Proactive measures.** The goal is then to act quickly to limit the severity and impact of the risk if it occurs. In particular, containment measures for products to recover them before they spread into the water or soil.
- 3. Insurance.** Given the potential scale of risk, once Preventive and Proactive measures are in place, it is important to look to effective and responsive policy coverage to help limit the possible damage to a company.

All businesses are affected by Environmental Risks

Almost any business can be the source of pollution, even if its activity appears to be less risky. Wherever it is located, the company can generate pollutant emissions that will be diffused or dispersed in the environment.

Larger companies and heavy industry generally have a good level of understanding and awareness around their environmental liabilities. This is not always the case for smaller or medium-sized firms that might not identify this potential exposure as a core concern. The consequences of overlooking these risks can have a substantial impact on the business and lead to financial, operational and reputational damage.

It is however virtually impossible to remove all hazards. Even with strict protocols in place, exposures can result from human error such as a poorly closed valve, a transport accident, dust from a fire or even a fuel leak from a buried tank.

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Think beyond basic insurance programmes

In most instances a general liability or property insurance contract are insufficient to deal with environmental risks. In fact, under a traditional general liability policy, only third parties can be compensated in the event of a claim and only for sudden or accidental pollution events.

A specialist environmental liability insurance policy provides cover for gradual pollution events, such as undetected leaks, as well as those that are sudden and accidental. In addition, it will cover the high costs incurred for regulatory imposed clean-up, both on the

company’s own property and also where the pollution has migrated to an off-site location.

Specialist policies also provide valuable extensions such as first-party business interruption insurance in the event operations are suspended while an environmental risk is managed, plus non-pollution biodiversity damage and crisis management support to help mitigate reputational damage.

It is therefore important to find specialist environmental insurance adapted to this type of risk.

How do you identify potential Environmental Risks?

There are many potential exposures to consider, these may include:

- Following the acquisition or purchase of real estate or land it is crucial to know the past activities and uses of the site so possible historical pollution can be identified;
- Daily operation of the site with all its production, storage and treatment processes;
- Construction, development or maintenance work carried out on the site which can generate pollution or damage to biodiversity;
- Transport and distribution of goods, in particular during loading and unloading operations;
- Work undertaken on third-party sites;
- International development and expansion which requires detailed knowledge of environmental regulations, particularly in the area of compulsory insurance.

Underestimated risk can lead to a significant financial impact. The following scenarios demonstrate the potential effects and cost of an environmental incident.

Environmental Liability / Environmental Damage

A beverage manufacturer extracts local groundwater. During a particularly dry summer, groundwater pumping causes a nearby pond to dry up and decimates a protected species of frog. The operator is liable for the environmental reintroduction of the frog species and a subsequent monitoring programme lasting several years.
Total cost: **£250,000**

Environmental Civil Liability / Third-party and Environmental Damage

A fire originating at an adjacent site, spreads to a logistics warehouse. Smoke extends for miles with ash fallout contaminating neighbouring agricultural land and livestock. Income loss for the farming community is severe with soil and land needing to be decontaminated.
Total cost: **£3,750,000**

Operating loss

Delivery of a fuel oil storage tank at an industrial bakery causes a spill, polluting the nearby river. Noxious and unpleasant fumes fill the site and the bakery has to close while the premises are cleaned. The loss of income for the bakery is covered by the environmental insurance policy.
Total claim: **£1,000,000**

Transport

A 100-litre chemicals drum falls from the bed of a lorry transporting hazardous materials, spilling onto the road. Two local residential properties are affected and 35 specialist firefighters are called to the scene for several hours to make the area safe. The bill for the emergency services is **£75,000**

With so many potential exposures to consider it is crucial companies increase their awareness of environmental risk and create an effective mitigation plan and risk transfer strategy, working with insurance brokers and carriers to help facilitate better understanding and provide alternative options. Environmental incidents may be relatively rare but when they happen the consequences can be long-lasting and far-reaching.