

# Adviser

## Buncefield: A year on



On December 11 2006, it will be exactly a year since the UK experienced its largest explosion since WW2, when a series of blasts and fires broke out at the Buncefield oil depot in Hertfordshire. Forty people were injured in the incident, with, amazingly, no fatalities. A year on, as an investigation is underway to establish the cause of another catastrophic blaze at one of the UK's biggest firework importers in East Sussex, with the loss of two lives, Marsh assesses the impact of the Buncefield incident. How have those businesses implicated by Buncefield recovered, and what risk management lessons can all companies, wherever their geographical proximity, learn from the incident?

### The impact of Buncefield

It was clear early on that the explosion at Buncefield was likely to create some significant business interruption issues. Buncefield handled 8% of the UK's oil supplies, and 20% of supply to the customers in the South East. In addition, the terminal was a main pipeline transit point to meet 40% of Heathrow's demand for aviation fuel.

The scale of the operation is reflected in the estimated claims made by affected businesses since the explosion. Third party damages are estimated to be between £600m and £650m. Although the insurance industry has been stretched, it has responded well. The quality of claims handling has been robust and of high quality.

One particular issue that may threaten to compromise the on-going recovery of businesses is the fact that the Health and Safety Executive (HSE) has yet to fully report on all elements of the explosion. Until it does, planning permission for rebuilding premises will be compromised and typical business interruption indemnity periods may be put to the test. While Hertfordshire Oil Storage Limited (HOSL) continues to refute liability for the explosion until

such time as the investigation is complete, it has agreed to pay personal injury claims for those individuals that have suffered physical or psychological harm from the disaster.

In the interim period, the Health and Safety Commission (HSC) has set up a website to update all interested parties on the progress of the investigation, and to provide assistance to businesses, members of the press and the general public. This can be found at <http://www.buncefieldinvestigation.gov.uk>. In order to learn from the disaster, the UK Petroleum Industry Association, which represents the oil refining and marketing industry in the United Kingdom, has established the Buncefield Safety Standards Task Group to focus on issues emerging from the Buncefield Major Incident Investigation Board reports, the Competent Authority Safety Alert and the Environment Agency findings.

Companies considering pursuing a claim against HOSL are being advised to join the action being coordinated by the appointed firms and to be prepared to have detailed and accurate information regarding their estimated losses from the incident.

## Companies that have successfully recovered – what did they do right?

Business recovery was a particularly pertinent issue following Buncefield. The size and scale of the incident meant that it would not be long before a large number of companies were vying for the attention of a limited pool of insurers, lawyers and other advisers. The quicker these companies could facilitate a business recovery, the better their chances would be of minimising Business Interruption (BI) insurance claims. The fact that the incident happened so close to Christmas did not improve matters for those companies affected by seasonal surges in demand – in other words, there was even more to lose.

Fourteen Marsh clients were directly impacted in the immediate vicinity of the explosion.

Several others were affected in the nearby area, either through building damage or through being denied access to their site. In total Marsh has provided claims consulting advice to twelve clients. The projected losses on these claims alone are in the region of £100m.

There are several observations that we can make from being at the coalface of Buncefield for the last twelve months, and several consistent features we recognise of companies with successful claims strategies.

- One clear observation was that most of the crisis management plans we evidenced being invoked worked. These plans had two consistent features – they had been regularly tested and frequently updated.
- Companies that sought advice early, profited. The longer companies left it, the more problematic it became to obtain detailed information – vital in a claim of this kind.
- Those companies that organised their data collection and addressed their strategic issues early also benefited. Marsh worked with a number of companies that quickly established that they did not want their business recovery to simply equate to a rebuild at their existing site. These companies were therefore able to align their claims strategy with a broader, re-engineered business plan. Decision-making such as this requires clear, delineated responsibility, with the right blend of senior leadership and people that can implement action.
- Companies that organised their claims management process efficiently and methodically, as well as setting expectations with insurers regarding their recovery, found it quicker to engage with HSOL and the insurers.



### Case study – When a claim worked

Our client, a logistics company in the food and drink sector, had a large distribution centre and head office near to the Buncefield explosion. Immediately following the explosion, Marsh's Major Loss Practice contacted the client, both at its UK operation and at its global US base. Within 48 hours we had presented our approach to managing their claim and had been appointed to project manage the entire process, including the preparation, submission and negotiation of the buildings, contents, stock and business interruption claims. Marsh also seconded accounting resource to the client for a six-month period.

The client had a significant dependence on a key global client of its own, and was keen to ensure that they were kept updated on the progress of the recovery of the business. Other potential issues identified with the claim included resolving a dispute between the client and the insurer on building reinstatement, a disagreement on salvage of stock, a weekly fluctuation in extra expense and some misalignment over the claims methodology.

As the overall project manager of the recovery, Marsh was able to ensure that the client's claim strategy was aligned with how it saw its business being reinstated going forward. As a result, we negotiated the building claim on an 'actual cash value' basis and by projecting forward the full anticipated reinstatement period of 24 months, we were able to successfully agree a settlement within 9 months of the explosion occurring.

## The lessons of Buncefield for business continuity best practice

Buncefield once again underlined the importance of effective business continuity management (BCM), and not just for the companies directly caught up in the explosion. Those companies dependent on customers or suppliers in and around the area needed to be equally prepared for the interruption. Marsh helped to develop some of the business continuity plans used at Buncefield and in the aftermath of the incident consulted with a number of other companies where we had not previously assisted them with BCM. One of our observations was that the affected companies generally had BCM in place and that it was sufficiently well-tested to enable their business to respond to the emergency and manage the crisis. In some cases, however, some plans were not quite so efficient in the longer-term recovery of the business.

### Case study – When BCM worked

Our client is an international aerospace, defence and electronics group. Some time ago the client recognised the need to develop an integrated BCM strategy, on a global basis. This involved assisting around 30 subsidiaries in the group in developing a common framework for developing robust BCM. As well as protecting the business and identifying opportunities to create efficiencies across the group, it would also provide further evidence of effective corporate governance. Importantly, the client gave overall ownership of the issue to a Board-level director, thereby demonstrating its commitment to BCM and ensuring that actions were undertaken as a result.

Marsh was appointed to assist the client in achieving its goals, beginning with an exercise to standardise the way BC plans were structured across the group. From here the client could ensure that individual businesses had plans, and that a crisis management team could be established across the group.

On 11 December 2005, the client had the first opportunity to test its plans in a live disaster, when one of its subsidiaries was directly impacted as a result of Buncefield. The plans worked. Within an hour of the explosion the Board director had been called, the emergency response element of its plan had been invoked, and the group crisis management team had gathered to discuss next steps. The business went on to make a full recovery, and was able to use its BCM as a leveraging tool with the insurers handling the claim.

Looking back at the BCM response of companies affected by Buncefield, there are some timely reminders about what needs to go into an effective programme.

- Plans should be focused on the key business processes that drive value in the organisation. Buncefield demonstrated that workarounds were perfectly possible without needing to be reinstated to a location at the site. What is important is understanding those activities that are mission critical to the business, and developing adequate contingency plans around these.
- However, Buncefield also acted as a timely reminder that not all business interruptions enable companies to quickly begin working from their existing sites. If you are a business that is dependent on facilities and IT for the running of your core operations, it is important to consider alternative premises and IT recovery within your broader BCM.
- Buncefield underlined the importance of having a phased BCM strategy that is equipped to deal with each stage of the incident. Different plans and skill sets are required for a company to manage its way through the emergency response, crisis management and business recovery stages, to full reinstatement of the business.
- Companies that see their business as an island, and ignore dependencies on critical suppliers and customers, risk overlooking major areas of exposure. At the very least, plans should be developed with suppliers in mind. In some cases, companies are now developing and exercising their plans alongside their critical dependency network.
- Plans are not worth the paper they are written on unless they are frequently reviewed, updated and exercised.
- Buncefield again demonstrated the benefits that can be realised from more carefully aligning BCM with Business Interruption insurance. Pre-incident, a company able to demonstrate that it has identified and evaluated its single points of failure and supply chain dependencies, and has developed recovery strategies, will be a better risk in the eyes of an insurer than one which has not. In the event of an incident, having this level of information to hand, and demonstrating that your business is confidently recovering, can help to expedite a claim, through building stronger relations with the insurer.

## More information

For more information on our Major Loss Practice, including the Forensic Accounting and Claims services Marsh has been providing to clients at Buncefield, contact Andrew King at

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Images courtesy of Royal Chiltern Air Support Unit

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