

Learning from the Buncefield oil explosion – the benefits of robust Business Continuity Planning



■ The recent series of explosions and fires at the Hertfordshire Oil Storage Terminal at Buncefield, near Hemel Hempstead, has illustrated once again how disruptive disasters can be. In addition to suffering property damage to offices, factories and warehouses, a range of businesses are currently fighting to minimise Business Interruption (BI) losses – of which some are already severe in nature.

■ Some companies nearest to the explosion have lost entire facilities and may not be able to recuperate losses, given that they did not buy BI insurance.

■ The last week has demonstrated that firms with robust Business Continuity Plans have been able to respond more effectively to the disaster and minimise their losses. They have managed to cope more capably with the various issues associated with loss of offices, loss of stock, information technology and repairing damage to property so that buildings can be reoccupied.

■ A disaster such as Buncefield illustrates that there is value in outsourcing the claims management process to trusted third-parties who can save staff time and allow them to focus on business recovery issues.

Introduction

Earlier this month, Britain witnessed the largest explosion since the Second World War as a series of blasts and fires occurred at the Hertfordshire Oil Storage Terminal at Buncefield, near Hemel Hempstead.

Although fortunately there were few injuries, the explosion illustrates the unpredictable – and disruptive – nature of disasters. Many of the 30,000 people who work in the zone where windows were shattered have been unable to get to work, hundreds of schools remain closed and local transport has been disrupted. There are also environmental ramifications stemming from the burning of millions of gallons of oil.

Businesses in the area have spent the last week attempting to recover to minimise Business Interruption losses. Recovery – and a precise assessment of damage to property – has been difficult due to the creation of a four square-mile ‘exclusion zone’ around the Terminal, understandably created for safety reasons. Business recovery has also become more critical given the current period; the run-up to Christmas is typically the busiest time for business and a period in which a large percentage of yearly sales and revenues are won.

Many ramifications of the disaster are still unfolding – for instance it remains unclear who, if anyone, will be held liable for damages.

However, what is clear is that some businesses have been able to recover quicker than others due to their preparedness for disasters through robust Business Continuity Planning.

This communication briefly outlines some of the main business continuity issues around the Buncefield disaster in order that all organisations can learn from such incidents and prepare better for the future.

The importance of Business Continuity Planning

Replacement offices. Some organisations closest to where the blast occurred have lost entire offices. Well-prepared businesses who have already considered alternative premises in their Business Continuity Plans have quickly moved into fully-equipped 'serviced offices', benefiting from 'plug-and-go' conditions. As a result, they have been able to carry on operations far more seamlessly. Another advantage of this approach is that companies do not have to negotiate potentially unfavourable price and contract issues over tenancies with new landlords.

Loss of stock. The Buncefield explosion has indicated that businesses need to prepare for sudden loss of, and access to, stock in the event of a disaster. After the explosion, some businesses have been unable to obtain access to millions of pounds worth of stock, some of it perishable. Some have not prepared properly for use of alternative suppliers.

Disruption to business. Organisations are better positioned to avoid business losses if they have identified their most important business processes and have plans in place to ensure that they can carry on or recover these processes. They are able to focus on what is important and communicate quickly with key stakeholders.

Information Technology. Those with robust BCP have been able to transfer servers and switchboards to other office locations. This creates a seamless service to customers – they do not have to ring mobile phones for example in order to get in contact.

Organising repair work to property. One feature of the aftermath of a disaster, illustrated by Buncefield, is that demand for local contractors such as builders, electricians and glaziers suddenly skyrockets, especially if many domestic homes are affected. The impact is that many businesses are suddenly left without skilled people to carry out repairs. This can prove to be a major headache, preventing businesses from reoccupying damaged buildings. Organisations need to factor this into their Business Continuity Plans and agree special emergency arrangements with contractors. This also avoids having to pay contractors higher than normal prices – given the sudden rise in demand after a disaster, prices for contractor services can quickly escalate.

The importance of testing BCP. Having a BCP alone is not enough – it needs to be tested, a lesson brought home by Buncefield. Many organisations affected had identified some of the issues listed above prior to the disaster. However, because they had not tested their plans, many are encountering unfamiliar issues that have caught them by surprise and were not anticipated.

Business Interruption insurance. Some of the worst affected organisations of this disaster are those who have suffered total destruction of their assets but will find it difficult to recuperate BI losses because they did not purchase BI insurance. Such organisations may not be able to continue operations in the area given the BI losses that they are currently suffering.

Claims management. In the aftermath of a disaster, managers and employees typically have to focus on immediate recovery issues in order to minimise interruption losses. In such circumstances, there is value in outsourcing the claims management process to trusted third-parties who can save staff time and allow them to focus on business recovery issues. In addition, such third-parties can help to clarify the various issues around claims and provide management with regular updates. For instance, in the case of Buncefield, it may be possible for organisations to seek compensation from non-insurers for damages if such parties are held liable for the disaster.

As a complement to the issues mentioned above that have arisen specifically from Buncefield, organisations might want to consider some of the following that can help prepare them for disasters in the future:

- How does your organisation define, quantify, prioritise and measure supply chain risks?
- Are alternative supplier policies and procedures in place to meet your product/ingredient requirements?
- Do you require your trading partners to have business continuity management plans in place?
- Does the business identify/measure the impact and risk of inventory management policies?
- How does your organisation collect, monitor and measure the environmental practices of your suppliers and the potential impact to you?
- Is demand forecasting effectively integrated into your supply chains?

Conclusion

Disasters are never easy to deal with – and by their nature are unpredictable and catch people unawares. However the value of Business Continuity Planning and adequate risk transfer in the form of insurance cannot be overestimated in helping businesses to respond effectively to a disaster or crisis.

As Buncefield has illustrated, businesses that fail to take this seriously can pay a very high price.

For more information

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Or contact your client executive.

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