Financing Environmental Risk in the Water & Waste Water Industry

The global environmental agenda is developing at a rapid pace. New liabilities are continually being created as legislative frameworks evolve in response to the changing demands of the international community. Water and wastewater utility companies face a diverse range of environmental liabilities which arise from both historical activities and from on going operations. Potentially the most financially significant exposures are highlighted below:

- Contamination of drinking water supply source by influent which is contaminated by bacteria or viruses or chemical contaminants
- Discharges of contaminated effluent resulting from:
  - A treatment process breakdown
  - Untreatable contaminants
  - Excess volume from combined sewer overflows
- The effects of improperly treated effluents discharged to surface water causing:
  - Fish kills
  - Harm to human health through contamination of drinking water source
- Contaminated effluent or improper storage of waste sludges causing soil, surface water or groundwater contamination
- Leaking above ground storage tanks of process materials or wastes
- Liability arising from the spreading of environmental biosolids on third party land
- Underground storage tanks which present several exposures:
  - Slow leaks from tanks leading to gradual pollution
  - Ruptures causing catastrophic releases
  - Spills during loading/unloading process

Demonstrating effective management of environmental risk is a governance obligation and a key priority for companies wishing to reassure stakeholders and proactively manage their corporate reputation. Environmental liabilites can arise in a number of ways, but can generally be split into; historical liabilities associated with previous activites, operational liabilities associated with on going activities and known liabilities associated with current obligations. Environmental insurance is rapidly emerging as a key tool for managing these risk exposures and complementing and augmenting existing risk management solutions.

Environmental Impairment Liability
Environmental insurance is playing an increasingly prominent role in the management of environmental risk. The market can now offer significant capacity, policies can be written with long policy periods and pricing is now realistic and competitive. There is substantial flexibility in the design of insurance contracts and the underwriting criteria are relatively straightforward.

On-Going Operational Pollution Risks
The continual improvement of environmental management systems within an organisation will reduce the probability of an environmental loss during ongoing operations, but cannot eliminate it entirely.

The growing need to address uninsured exposures has led to the development of specialist environmental insurance policies within corporate risk management strategies. These blanket programmes typically provide catastrophe protection for such exposures on a renewable basis. They are designed to "dove-tail" with the general liability programme and cover operational pollution risks such as contamination by leaking underground storage tanks, spills during refuelling, process failures during operation and associated contingent exposures.

Historical Contamination Cover
Water and waste water treatment plants have always stored, used and managed chemicals and wastes. Such historical practices could have given rise to contamination which may in the future lead to on-site and off-site clean-up obligations or third party property damage and bodily injury claims. Insurance can be arranged to cover liabilities arising from such pre-existing contamination.

Programmes for known liabilities or remediation obligations
Standard environmental insurance policies will of course only cover fortuitous events and as such, known obligations or 'finite' risks are not normally insurable.

Composite structures can be used to address these obligations and combine both risk retention and risk transfer mechanisms. These mechanisms are particularly useful in managing the timing and cost risks associated with known obligations.

Such programmes can be designed to transfer such liabilities off the balance sheet, allow investment projects to proceed with confidence, provide a financial cap on the costs of known obligations and provide stabilised cash flows.

Willis is regarded by the specialist insurance markets as one of the leading environmental insurance advisers.

"There is substantial flexibility in the design of insurance"

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