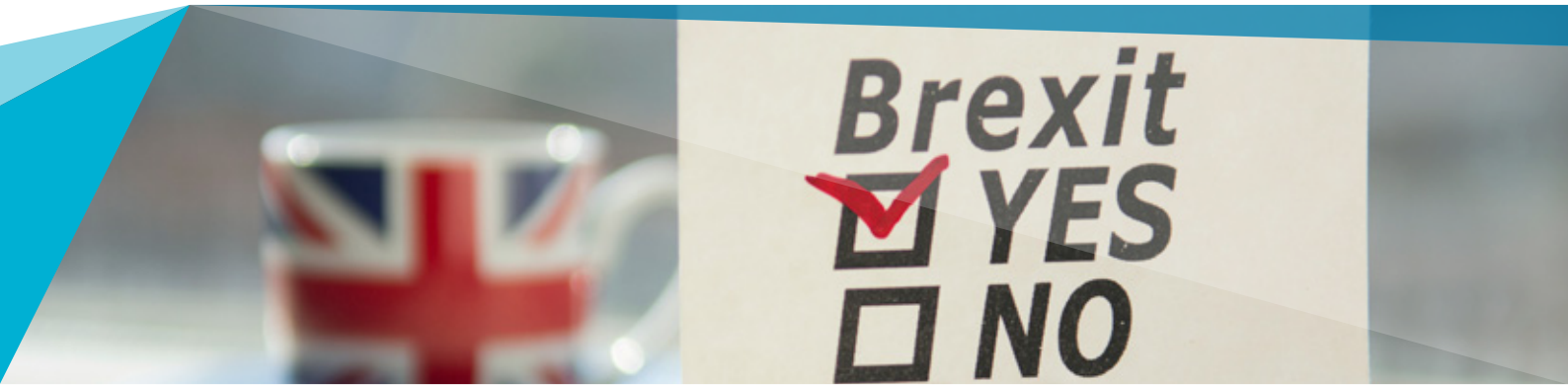


THE BREXIT CONUNDRUM – POTENTIAL IMPLICATIONS FOR UK WASTE



EU direction has been instrumental in transforming UK waste into a 21st century industry, but the regulatory burden of the process has been high. National policy is entwined with international frameworks, including long-term environmental and climate change targets. The UK now exports a significant volume of processed waste for recycling and fuel recovery as well as hazardous waste to Europe, all under European treaties, and regulation is central to the business model and economics of the industry.

Any revisions to the waste regulatory framework may take far longer than the suggested two years for EU exit contemplated under Article 50. Meanwhile, current statutes remain in place and debate over the future of national waste policy focuses on the presumed benefits of greater regulatory autonomy.

NEAR-TERM RISK AND INSURANCE CONSIDERATIONS

Firstly, there is no need to panic. Insurers are highly regulated and can be expected to weather any economic impact in the months ahead. The near-term impact on corporate insurance programmes – insurer appetite, capacity, and pricing – is expected to be limited.

PASSPORTING ISSUES

The right of insurers and brokers to passport (that is, to carry out business in other countries from a single country licence under the European Freedom of Services Directive) into the EEA (European Economic Area) may be restricted. More information on this can be found in our paper, [Insurance implications following the UK vote to leave the EU](#). Anything that impacts on the ability of UK insurers to operate

under the Freedom of Services framework may, in the longer-term, affect those UK waste companies with complex international programmes; how markets, for example, are accessed as well as programme design.

CAPITAL CONSIDERATIONS

Using core capital (debt and equity) to fund meaningful deductibles may reduce exposure to the insurance market and provide cheap contingent capital. However, the regulatory uncertainty resulting from the decision to leave the EU may restrict access to core finance. Insurance will become increasingly important, although insuring with comparatively low retention capacity is already a problem for the waste sector and the availability of cover could contract further.

SUMS INSURED

Waste management companies should also review their sums insured. A weaker pound and medium-term currency fluctuations could mean that reinstatement values for plant and equipment sourced from Europe become too low, thereby under-insuring the assets.

MATERIAL RISK CHANGES

Consider your risk profile – how might existing exposures change and what new risks may emerge as an exit is negotiated?

In particular, consider uninsured risks – input availability over the lifetime of an asset, planning delays, etc. How might these impact on corporate strategy and your financing of risk, and how can risk management help you enhance your organisational resilience?

Areas where uncertainty and change can be expected to impact the waste sector include:

- **Finance:** Weaker investor confidence is expected in the near-term, in addition to project delays, increased plant costs (if imported from Europe), and increased competition for funding. Longer-term, there could be ramifications on how UK waste management is funded: Will changes to state aid regulation alter the dynamics of the asset development pipeline and projects' execution risk, for example?
- **Worker dislocation:** Less than 6% of those employed in the UK water supply, sewerage, and waste sectors in 2015 were from Europe¹. Nevertheless, sector-specific and wider labour market changes may impact skills availability and long-term employment costs.
- **Waste streams:** In particular, the availability, volume, and mix of waste and the effect on plant throughput, breakdown, and efficacy rates, financial modelling, and asset lifecycles. Any removal of landfill and recovery penalties may divert finance into other local service obligations.
- **Exports:** International treaties concerning the cross-border movement of waste will continue in the short term, and no near-term abatement in export volumes is expected (European energy-from-waste plants are operating below capacity, with established transportation routes, and inherent compliance with the relevant requirements).
- **Future of the circular economy:** Will the UK continue to drive this forward and how will this influence waste policy? EU regulations will still apply to those exporting to or from the UK through manufacturing, packaging, recycling, and waste standards.
- **Future influence:** If the UK remains part of the Single Market EU directives on environmental protection, water, air, noise and waste would still apply. The UK appears likely to lose any influence over future policy direction.

NEXT STEPS

The absence of a clear political pathway following the UK's decision to leave the EU is disquieting; however, change in itself is not a risk – it can create opportunity. It is therefore important that you engage with your insurance/risk adviser to understand your primary and secondary exposures, consider possible transition outcomes, and discuss any change in your insurance requirements:

- Understand your changing risk profile and the implication of impending changes, for example, loss/availability of workforce, maintenance procedures (including engineering support, parts, and repairs), feedstock considerations, and indirect implications on your construction or project pipeline.
- Understand any international operations currently underwritten.
- Review asset values and reinstatement costs to ensure appropriate insurance cover.
- Consider your long-term corporate strategy and how this might impact on risk financing requirements.
- Engage with your broker early for programme renewal and ensure the timely, accurate collation of all data required.

FOR FURTHER INFORMATION

Marsh will continue to work with insurers and the waste industry to further understand what Brexit will mean and will issue further guidance as necessary. In the meantime, please contact your local Marsh representative with any queries or visit the [Marsh Brexit Portal](#).

[Insurance Considerations for the UK Waste Management Sector.](#)

[Practical risk management guidance following the UK vote to leave the EU.](#)



The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

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