



FOOD & BEVERAGE
PRODUCTION INSURANCE

Managing the rising costs of building and property insurance

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Insurance | Risk Management | Consulting



The food and beverage production industry is Australia's largest manufacturing group – and largest contributor to Australia's overall GDP. Protecting the assets that underpin these businesses is fundamental to ensuring a productive and profitable future.

This guide outlines strategic considerations that are key to any food producer's business property and operational insurance needs, particularly for those with hard to place risks which contain EPS panels. It is intended to help you to:



Meet increased risk management insurer requirements.



Implement additional risk mitigation processes.



Negotiate for the cover to meet your needs.



Negotiate reduced market capacity.



Manage the total cost of risk of premiums, deductibles and self-insured retentions.

We recommend using the above as the basis for discussion with your insurance broker, who can assist with presenting your needs and exposures to insurers.

Disclaimer:

To the extent that any material in this document may be considered advice, it does not take into account your objectives, needs or financial situation. You should consider whether the advice is appropriate for you and review any relevant Product Disclosure Statement and policy wording before taking out an insurance policy.

Working with a broker

Allow time to continually review and update the property's business risk profile

Preparing to present your business's risk in optimal terms for insurance renewals requires a planned and strategic approach, supported by detailed risk planning submissions as noted, and corporate governance information, and should be a continual process which is then shaped four to six months prior to renewal as part of an ongoing demonstration of risk management.

A strategy driven by risk minimisation will show what your business is doing to manage its exposures while also continuing to invest in infrastructure and yearly planning for continual improvements.

Bear in mind that these discussions and negotiations with insurers are now taking more time than previously, especially for abattoirs and property assets with expanded polystyrene (EPS) insulation.

*When to start preparing your insurance submission:
4-6 months in advance.*

Risk reduction planning and investment to meet insurer expectations

Insurers are looking for pragmatic, detailed information and in some cases investment in changes to risk management as part of a business risk submission that supports insurers' appetite for providing capacity on the insurance program.

Partner with specialist risk management and insurance professionals

- As well as working with your broker and the insurer it can also be valuable to have a qualified risk management professional with food and beverage production experience conduct an independent audit of your facility and make recommendations.
- A specialist food and beverage production broker can contribute to strategic planning and to the development of a detailed risk management road map with a breakdown of how results will be achieved.
- Having all parties involved in the process provides the insurers with confidence that you are aware of your exposures and are managing them in the short term while maintaining a holistic view of what needs to be achieved in the longer term.



Fire safety

Manage EPS fire risks to optimise insurance outcomes in obtaining cover, premium cost and claims

The widespread use of EPS in buildings, warehouses, processing rooms and distribution centres for maintaining consistent temperature control raises the issue of mitigating the risk it presents.

In recent years EPS has been associated with multi-million dollar claims involving Australian food production facilities, with the result that many insurers are reluctant to provide property insurance where EPS is present.

Those that are prepared to insure food production properties are subjecting EPS risks to stringent underwriting criteria and focus in terms of management, prevention, mitigation and containment measures.

An EPS assessment is critical to support insurance submissions

1. Conduct a thorough assessment of how EPS is used in the premises.
2. Identify the potential fire exposure and the key areas that could be affected in the event of loss.
3. Document measures such as retardants, fire-proof barriers, suppression systems and FM approved sprinkler systems.

'Hot work' related use in and around property with EPS is a particular area of concern for insurers – who will require detail about the protection of EPS insulation and fire risk mitigation relating to cooking, heating, welding, battery charging, gas extraction and electrical cabling.

Be prepared to provide proof of:

- hot work permits and controls
- cold work permits and controls
- thermographic imaging for all switchboards and any equipment that have rotating bearings as part of their infrastructure
- regular checks on the integrity of the EPS panels
- stringent housekeeping processes to ensure no combustibles are stored inside or outside the EPS panel buildings or in roof cavities
- detection systems for ammonia, smoke and fire events.

The largest area of concern for insurers is the protection of the EPS insulation and how businesses are mitigating potential fire loss in relation to any type of 'hot work'.



Replacing or improving EPS panelling

It is also strongly advisable that if possible, old or damaged EPS panelling is replaced with fire retardant alternatives. In deciding the correct panel to use, consider the area and size of the building, as well as whether retrofitting sprinkler systems or removing old EPS panels and replacing them with fire retardant alternatives is the best way to mitigate future loss.

Documenting all of these measures and the capital expenditure undertaken demonstrates that a proactive approach to limiting and containing EPS risks is in place, which in turn should provide you with a positive outcome in terms of premium pricing.



Anticipate and respond to fire protection scrutiny

Having thorough and far reaching fire protection management procedures in place can significantly mitigate the risk of loss due to having the older style combustible EPS panels in your buildings. Taking care of these older EPS panels is critically important to how the fire hazard in its totality is assessed.

Implementing the following high standard fire protection practices into your engineering, maintenance or operations team's day to day activities reduces the opportunity for a fire event to occur.

External risks

Site security is paramount and preventing any unauthorised access to the site should be enforced with either 24/7 security or regular security patrols, to prevent any intrusion and reduce any possibility of a fire starting on external EPS panels.

Forklift charging

Situate any charging stations for forklifts or two-way radios well away from EPS walls. If this isn't achievable then install stainless steel mounting in the charging bay on the outside of the EPS panel to the height of 2.5–5 metres, depending on size of the area and the number of charging stations.

Removal of combustibles

Externally any potential ignition source, like wooden or plastic pallets, cartons or paper wrappings, should be removed and placed more than 25–30 metres away from the building. This will help ensure the building is not exposed to a heat source.

Housekeeping requirements

If the site has any kitchen facilities for staff meals or a cooking function as part of the product itself the flues for extracting hot gases and oils should not pass through combustible panels without adequate protection. Weekly cleaning of the flues and/or extraction fans should prevent build-up of grease or fats that might provide an ignition source.

Surface integrity

It is imperative that any apertures in EPS walls or doorways are completely sealed. Having no passage for a fire to spread through panel walls or doorways limits potential damage.

Fire safety systems

If fire sprinklers can't be fitted either during the construction of your building or retrofitted to an already existing and operational building, you need to ensure that you have fire detection systems, gaseous suppression systems for switch rooms, ammonia detection, fire walls and doors installed where appropriate. These detection systems also should ideally be fitted above ceilings as well as below.

Isolation from heat sources

Under no circumstances should electrical equipment or power sources be fitted to EPS walls in order to ensure that there is no heat source near the combustible inner core of the EPS panel.

Protection from electrical risks

If it's unavoidable for power sources to penetrate EPS walls they should be sleeved in a fire retardant conduit and in the case of IT cables sleeved and located on metal trays away from switchboards and panels.

Risk management strategy

An independent risk appraisal can be instrumental for risk management planning

A valuable component of a comprehensive risk management plan is engaging an independent audit of the property, including recommended rectification and mitigation of identified risks where required.

A formalised approach might look like this:

- risk identification and analysis
- review and update completed loss control surveys
- review outstanding recommendations
- document planned loss control activity for the future
- distribution of recommendations to managers to action
- checks and follow up visits to site(s) where necessary
- business continuity plan for contingencies.

Internal measures subject to review could include contracts with third parties and risk exposure modelling such as self-auditing, physical risk management, emergency procedures and incident reporting and management.

Your internal budgetary planning including risk management costs, capex improvements and increases in premiums should be reviewed, discussed and modelled where applicable. Adjusting self-insured retention may be a viable option for some food producers if they are in a position to take on higher excesses against losses. This strategy is best suited to companies with a balance sheet that can support these increases, and this is where it is vital to get advice from an experienced food & beverage broker.

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The key to nominating correct sums and sub limits

Setting liability limits that accurately reflect the value of your business assets and sub limits that enable flexibility in how claims payments are dispersed requires projected 'what if' thinking. This involves predicting potential loss scenarios such as fire or machinery breakdown and applying loss modelling to ascertain the cost of business interruption or continuing operations.

If the loss involves plant or equipment this needs to be taken into account fully: is the machine sourced from overseas, is it made to order, can it be obtained more quickly locally or from another country, and how do the costs compare, taking exchange rates into consideration?

Your loss calculations need to factor in not only replacement costs but also sub limits that include associated expenses, such as demolition and removal of debris, to be negotiated with the insurer. Partial damage situations should be taken into account also. Ideally a broker has conducted site visits to enable accurate assessments of operational risks.

Reduction in turnover/increased cost of working for business interruption covers

When making a claim for business interruption it's important to understand the relationship between reduction in turnover, or dollar value of output, and increased cost of working, and how they interact when it comes to the basis of settlement.

The basis of settlement is the actual loss of gross profit due to reduction in turnover and increased cost of working. A claim for reduction in turnover should be based on turnover before the damage or interruption occurred, over the same period of time as the nominated indemnity.

Food and beverage producers can also claim for increased costs of working to continue production after the damage or disruption has occurred.

Example 1:

Additional costs incurred in reopening the business quickly (such as transit costs involved in air freight of critical equipment and marketing costs to attract customers back).

Example 2:

Increasing output at other business locations to compensate for loss of revenue at an affected site.

Flexibility and structuring industrial special risks (ISR) solutions to suit your business

There are a numbers of ways to structure an ISR policy so it's advisable to undertake a full review with an independent food and beverage production insurance specialist to understand how your business will respond to certain risks and what financial commitment would be required to return the business to the same position it was in prior to any loss.

The role of risk mitigation in meeting the capacity challenge

Insurance markets globally and locally in Australia are in a hard market cycle, with insurers not prepared to offer large amounts of capacity, preferring to remain extremely conservative with the ISR cover released. With the expertise and risk management approach applied by the Gallagher Food & Beverage Production team, client outcomes have been consistently achieved by way of full placement of their ISR insurance requirements with rates generally lesser than our market competitors.

This is largely due to our bespoke placement and marketing strategies that are designed specifically to fit our clients' risk tolerances and appetites. This methodology goes hand in hand with helping you ensure your business facilities and internal risk management systems are as robust as possible.

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The Gallagher Difference

A client-led approach

A values-led culture

We'll fight for what's right

Creating tomorrow's solutions, today

Who we are

Gallagher is one of Australia's – and the world's – largest insurance broking and risk management companies. We're the broker of choice for more than 100,000 Australian businesses – from micro-SMEs through to multinational corporations and iconic brands.

With 30+ regional and metropolitan branches across Australia, we understand local business communities because we're part of them ourselves.

Globally, the Gallagher network of 950+ offices in over 45 countries enables us to leverage relationships with international insurance partners to create programs that achieve claims outcomes beyond the scope of many other brokers.

We're an ethical business, and proud of it

Gallagher has been recognised as one of the World's Most Ethical Companies by the Ethisphere Institute, a global arbiter of ethical business practice, since 2012, the only insurance broker in the world to achieve this distinction.

This recognition underscores our unwavering commitment to ethical business practices and is validation that our enduring core values and corporate culture are true differentiators and provide a competitive advantage in the marketplace.

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Australia

Canada
Caribbean

New Zealand
South America

UK
USA

Talk to our food & beverage production insurance specialists

Due to the highly nuanced nature of this market, it is imperative that you are dealing with an insurance broker who specialises in your particular industry. Gallagher has a vast network of specialists who understand your industry and business, along with the best solutions in the marketplace for your unique challenges.

If you would like to better understand how topics covered in this guide relate to your business, contact us at

ajg.com.au/food-production



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