



FOOD AND BEVERAGE
PRODUCTION INSURANCE

5 food production risks to address for business resilience

NOVEMBER 2020



Insurance | Risk Management | Consulting




As Australia's largest manufacturing industry, the food and beverage processing sector is tackling the management of some of the largest volumes of fast-moving consumer goods, from multinationals through to much smaller family owned businesses servicing demand for niche gourmet items.


With the sector estimated by the Australian Food and Grocery Council to be worth \$131 billion, and a growing world population, the value of world food consumption is expected to be 75% higher in 2050 than in 2007, with increased demand projected to be strongest in Asia.


There has never been a more significant time for Australia to be at the forefront of quality food that meets the high standard of food safety regulations, delivering a competitive edge in innovation and export growth success.


While the overall outlook for the industry is positive, food producers face a number of significant risk challenges. Understanding how to prepare for these, with a focus on prevention, enables food and beverage manufacturers to manage and mitigate these risks - and bounce back after an incident - and is key to achieving business resilience and sustained success.


This guide will help you understand 5 key risk and insurance challenges and how to respond

- 

1. Insurance market and capacity
Getting the coverage you need
- 

2. Property
Protecting your premises, plant and equipment
- 

3. Cyber
Automated processes increase operation vulnerabilities
- 

4. Product recall and food safety
Covering costs and damage limitation
- 

5. People and employment risk
Compulsory insurance and related exposures

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.

1 Insurance market and capacity

Getting the coverage you need

As a result of the hard insurance market cycle, food producers renewing their business insurance cover are finding that availability of capacity has reduced and premiums have risen, particularly for property or industrial special risks cover.

Expect to provide more detail in procuring and arranging insurance cover, and be prepared for insurers to forensically examine every aspect of your business.

Insurers are requiring all food producers to undertake risk surveys by independent analysts to identify assets and exposures such as cool room construction, fire protection and vulnerabilities in processes and systems. They will also require risk engineering improvements and will want updates on agreed actions.

Unless you provide all the relevant information, insurers may

- be unwilling to consider providing a quote for a new policy, or renewing/extending an existing policy
- impose increased limits on their risks in the form of capacity and deductibles. As an example, one Australian abattoir's deductible increased from \$100,000 to \$1 million
- charge a higher premium than they otherwise would if they had all the information to underwrite the risk.

In the current climate you can't rely on the insurance market to cover 100% of your exposures and you will need to have more capital expenditure in reserve to support major investments in risk mitigation or to meet higher deductibles.

While it may be economically attractive to achieve a premium rate reduction by taking a higher deductible, you need to do some modelling and benchmarking to ascertain if this approach is viable. You should be candid with your broker about your resources and ability to integrate insurance costs into your operational budgets when considering the options available.

In the current climate food producers can't rely on the insurance market to cover 100% of their exposures.



Hard insurance market conditions continue to make access to risk and insurance solutions more challenging for SMEs through to large corporations. Partnering with an industry expert can help you navigate the complexities to achieve effective insurance renewal outcomes.





2 Property

Protecting your premises, plant and equipment

From equipment failure to compensation for consequential losses during down time, the nature of many food production processes presents significant risks to be managed.

The food sector in general has unique risks at each phase of the production process. The highly mechanised environment presents a huge risk for any food producer, with potential issues arising from numerous sources, such as pressurised equipment and chemicals like ammonia used in cooling processes, to be taken into account.

The repercussions of property damage such as a fire can be far reaching. While buildings, machines and products can be replaced, the financial and personal impact to the regional communities where most food production businesses are located puts pressure on the community as a whole. This is one of the reasons for placing high importance on protection of your property assets, as the disruption to your business far outweighs what insurance can provide in returns.

Integrating property risk improvements into your organisation's business budget and continuity plan enables you to forecast the projected costs of maintaining this focus all year round. This helps you hit scheduled deadlines for risk improvements and with documented follow-through.

EPS and hard to place risks

The use of EPS for insulation and temperature control represents a major issue for potential insurers as it constitutes a high fire risk that demands effective management. This is often linked to the age of the facility or when there are extensions to older properties with less protection (such as non-fire resistant EPS panels or lack of sprinklers). This can result in a property being assessed as high risk because a fire in the older sections could spread to the extensions, particularly if compounded by having other flammable material on site.

In cases of extensive fire damage, insurance protects businesses with complex supply chains, large workforces, big operations and contractual responsibilities against the cost of rebuilding and pays fixed costs, including payroll, during down time, but if your business has hard to place risks you must be prepared to demonstrate strong property safety and risk controls.

Work closely and consistently to follow property risk recommendations and meet insurer requirements in respect to processes such as welding. Ensure hot work permits are current, with demonstrated protocols in place to manage risk.

A broker with food production knowledge and expertise can assist with establishing and maintaining the property risk management standards that insurers will expect to see documented and recorded.

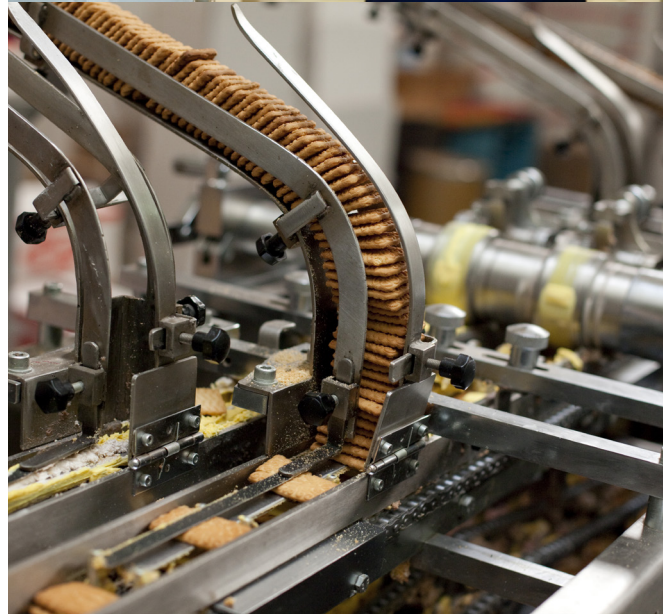
3 Cyber

Automated processes increase operation vulnerabilities

In an increasingly automated industry you need to be aware that a high level of automation represents a vulnerability to cyber events. For this reason the food and beverage sector has been targeted by cyber criminals in the past and the need for vigilance, especially for larger food manufacturing operations, is an ongoing concern.

Analysis by data security providers indicates that in organisations of all sizes at least half of cyber incidences are due to human factors, whereby staff are 'baited' to click a seemingly harmless link on email. This operational risk can be addressed by staff education around preventing fraud through social engineering and protection of the organisation's systems, and these need to be formalised from an insurer's point of view.

Negative outcomes from cyber events include contamination, harm to employees, damage to equipment, environmental pollution and financial losses. Some insurers are taking action to exclude silent cyber claims from property or ISR covers. 'Silent cyber' is where a systems failure from a cyber incident has flow on effects in damage to property, resulting in businesses being under insured. Looking to dedicated cyber insurance policies is a critical consideration to enable optimal protection from cyber losses.



A high level of automation represents a vulnerability to cyber events... especially for larger food manufacturing operations.

Recommended key controls for addressing and maintaining cyber security

Preventing attacks, through application control and hardening, updating applications by patching, and configuring Microsoft Office macros for safety.

Limiting the damage from a cyber event, through restricting administrative privileges to needs only, applying timely patching to the operating systems and using multi-factor authentication for all access.

Recovering data and system availability, through backing up critical data daily to mitigate impacts of a potential cyber event and enable faster recovery and less cyber business interruption.

4 Product recall and food safety

Covering costs and damage limitation

Australia's position as a world leader in the quality and integrity of its foods and beverages is maintained by applied standards at every stage of the supply chain from paddock to plate.

Bio security issues affecting Australian producers include

- cost recovery of meeting compliance requirements
- regulatory auditing and certification
- quality control processes
- vetting risks in imported/interstate ingredients
- competitive pressure from imports.

No contamination in food-grade products can be considered minor. Australian media publicity around listeria, malicious tampering and the safety of some products have not only had an impact on the sales of the items, such as melons and strawberries, but on the reputation of the producers. If your business relies on one major buyer as your main client, a quality control issue could jeopardise that relationship and put your future at risk.

With regard to cross-contamination in processed goods, using ingredients from multiple sources and suppliers presents challenges to isolating exactly which component is responsible for an issue after production is completed.

The transport of ingredients and products both in and out of the facility also requires scrutiny. For insurance purposes you need to be able to demonstrate in your planning and processes that you have controls in place for managing potential hazards at each step.

Optimised risk mitigation processes, such as applying stringent product recall processes that account for every item in the value chain, with the ability to track batches, quickly identify issues and communicate with suppliers and customers, are key to avoiding product recall costs and impacts.

Product recall insurance covers direct costs and losses from problem batches, such as replacing the supply of product and manufacturing the batch again, as well as brand rehabilitation costs that involve notification to supply chain partners and distributors for removal from sale.

Given the complexity of recall risks is based on the very specific nature of food and beverage production products and processes, detailed consideration to scope the insurance cover requirements is needed.

Food producers need to be able to demonstrate that they have controls in place for managing potential hazards at each step.





5 People and employment risk

Compulsory insurance and related exposure

Food production operations involve high risks for people in the manufacturing environment, especially when high temperatures, corrosive chemicals or sharp instruments are present. Operating machinery, the working conditions (temperature or dampness, for example) and necessary proximity of employees are among the factors to be considered in formulating best practice and planning.

Effective risk mitigation might include

1. understanding your people risk factors, including legislation and how the courts are interpreting and enforcing the law
2. having an independent review of your systems by a qualified safety consultant to deliver assurance that your operation is compliant with regulations and meets industry best practice
3. conducting a high risk systems of work review to confirm that there are no foreseeable gaps that could cause significant injury or a fatality
4. conducting an anonymous survey of your workers' perception of safety in their workplace to get feedback from across the organisation.

Input from workplace risk management advisory services can provide valuable mitigation strategies and practical approaches to responding to injury incidents and return to work planning.

Effective management of work related illness and injury costs is supported by developing robust injury management process and creating policies with documented protocols for minimising preventable risks and responding to an emergency. This demonstrated risk management also helps reduce premiums.

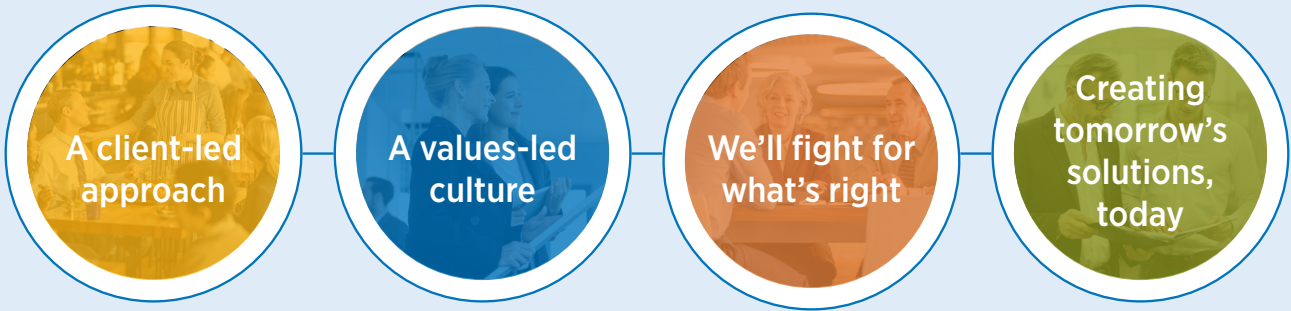


Important regulatory changes

Since 2017 there have been updates to industrial manslaughter laws in the Australian Capital Territory, Queensland, the Northern Territory and Victoria making employer liability broader than previously, with more specific definitions of negligence and gross negligence, and inclusive of workplace culture where compliance with safety requirements is not actively monitored.

For food manufacturers the need to be aware of health and safety laws and regulations that target the absence or failure of appropriate safe work practices is exceptionally important. Some jurisdictions like New South Wales are considering or have enacted other legislation that precludes insurance coverage for penalties for a health and safety conviction. This means that industrial manslaughter fines would be a business's responsibility to pay from its own assets.

The Gallagher Difference



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 Gallagher's 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.

GLOBALLY

100+
insurance and risk
management solutions

1987
NYSE listed

#435
Fortune 500 company in 2019

950+
offices in more than 45 countries
150 network partner countries

AUSTRALIA

100,000+
Clients

30+
Metro and regional locations

1000+
Professionals

GLOBAL REACH

Asia
Australia

Canada
Caribbean

New Zealand
South America

UK
USA

Talk to our food 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 that 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 on ajg.com.au/food-production



Gallagher

ajg.com.au | **Helping businesses face their future with confidence**