

food advisor

A RISK AND INSURANCE BULLETIN FOR FOOD AND DRINK MANUFACTURERS

SEPTEMBER 2011



PROPERTY INSURANCE

The importance of asset valuations

As competitive property insurance capacity remains scarce for some food and drink manufacturers and insurers increase their scrutiny of policy terms following a claim, the close monitoring of insurance values remains crucial.

The drivers for food and drink manufacturers to continually alter and upgrade their production facilities can come from many angles, such as risk improvement measures put forward by insurers, changes to satisfy specific customer requirements, modifications in line with key industry certification standards or advice from public bodies such as the HSE.

These can all involve major capital expenditure on factory redevelopment, extensions and alterations, or more regular routine investment in new machinery, plant and infrastructure maintenance.

These ongoing alterations to site specifications will impact upon the existing asset values of a business - so property sums insured should be updated to accurately reflect this.

Reinstatement as new

Most modern property insurance policies will automatically provide “reinstatement as new” or “new-for-old” cover for buildings, machinery and plant.

Therefore, asset values for insurance purposes must be permanently maintained at full current replacement price i.e. the cost the insurer would have to bear to replace the damaged goods in the event of a loss.

The onus rests with the policyholder to select and maintain suitable sums insured to reflect the correct “new for old” cost at the point of the loss. Given the high number of potential variables, this can prove very difficult to monitor and successfully achieve.

Buildings insurance

The position with buildings insurance becomes more complicated, as the sum insured should also cater for likely professional fees e.g. architects and local authorities, debris removal costs and other expenses associated with the building reinstatement - rather than simply bricks, mortar and labour.

The policy definition of buildings should also be scrutinised and amended where appropriate, to ensure adequate provision is made for ancillary items. Most standard policy definitions will expect car parks, signs, gates, fences, outbuildings etc. to be catered for in the sum insured.

The distinction between buildings and contents should also be reviewed and painstakingly clarified - particularly where premises are leased. For example, the "tenant's improvements" item might need to account for the replacement cost of many of the food industry-specific semi-permanent installations such as internal partitioning, extract ductwork, blast chillers and freezers, conveyors and even sprinkler installations, smoke detection and fire alarm systems.

In the event of a total loss, it's likely that the landlord's buildings insurance policy would simply fund the reinstatement of the building to its pre-lease condition - potentially just a four walled external shell with a roof.

Site revaluations

To ensure full coverage in the event of a loss, food and drink companies should undertake regular revaluations of buildings, machinery and plant using surveyors with demonstrable industry experience.

Food and drink manufacturing facilities are almost without exception hugely complex in terms of their construction and layout and internal/external services. These sites can also incorporate highly specialised or bespoke plant and machinery.

The chosen surveyor should be qualified to accurately understand the costs associated with the reinstatement of a complex production site to modern standards and its return to production.

The project will generally involve site inspections of physical assets followed by a detailed analysis and costing of such assets - using information gathered on site, reference to in-house databases and contact with manufacturers and suppliers where necessary.

Frequency of revaluation will depend upon the frequency of development and change within each business, but every three years should be considered a minimum. This is in line with the practices of public sector organisations and most publicly-listed companies, where there are significant external stakeholders.

Revaluations can be a relatively low cost exercise and there are a number of clear advantages in undertaking one:

- Accurate sums insured are calculated for insurance purposes
- Where over-insurance is discovered, premium savings can be achieved (often far exceeding the valuation fees) and less insurance capacity might be required, simplifying insurance programme design
- In the case of under-insurance being discovered, sums insured can be corrected - ensuring maximum settlement in the event of a claim
- Entrusting sums insured calculations to an expert third party consultant demonstrates best practice corporate governance
- An avenue for legal address is created in the unlikely event of a subsequent insurance shortfall.

Are your sums insured up to date?

- Do you or your insurers apply a standard percentage uplift to your insurance values at each renewal?
- Have you acquired sites or extended or altered your existing sites in the recent past?
- Is your site more than 20 years old?
- Is your machinery/plant available to replace "off the shelf" or is it more bespoke in design?

JLT's Food and Drink practice can offer expert advice on reviewing sums insured and can recommend surveyors with in-depth food & drink experience. The practice incorporates insurance broking professionals, risk management, supply chain and environmental consultants, plus technical claims management specialists, whom have provided industry-specific insurance and risk management solutions to the food and drink industry for over 20 years.

For further information please contact:

Ian Edwards

Practice Leader - Food & Drink
Email: ian_edwards@jltgroup.com
Tel: 0121 626 7804
Mob: 07766 603110
www.jltgroup.com/food-and-drink-insurance

JLT Specialty Limited

6 Crutched Friars
London EC3N 2PH
Tel +44 (0)20 7528 4000
Fax +44 (0)20 7528 4500
www.jltgroup.com

Lloyd's Broker. Authorised and Regulated by the Financial Services Authority.
A member of the Jardine Lloyd Thompson Group. Registered Office:
6 Crutched Friars, London EC3N 2PH. Registered in England No. 01536540.
VAT No. 244 2321 96.

© September 2011 264211