

CLAIMS FOCUS

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Effective claims preparation starts long before a loss happens

The ongoing plight of dairy farmers fighting to secure a profitable price for their milk proves just how tight margins are in the food & agri sector. In this lean operating environment businesses have to manage any large insurance losses well and prepare their claims professionally to have the best chance of getting back on their feet quickly. But to do that, they need to buy into the insurance process early and take some time to properly consider pre loss planning and survey work.



The old adage that time spent in preparation is never wasted is an unassailable truth when it comes to insurance, but the daily reality is that too many companies still believe the worst will not happen to them.

If you do not take the time to investigate what would happen in a loss, how your insurance policy would respond and the practical steps you'd have to take in preparing a claim, then it becomes very difficult to get the best out of your

insurance cover and protect your ongoing operations.

At a superficial level pre loss work with a broker will identify the key people in the business that have responsibility for completing various tasks and providing particular information when proceeding with a claim. This is not a difficult task, but creating clarity in the roles and responsibilities that people have expedites a swift and assured response when problems arise.

UNDERSTANDING BUSINESS INTERRUPTION

Looking past the practical considerations of who does what, there are more technical benefits in carrying out pre loss planning and survey work. This is particularly true in regard to the level of business interruption cover (BI) that is in place.

An important area to assess and the first is the time that a business would need to return to as close to what was planned in

the business as possible, including reaching expected profit levels. Many BI policies have a standard indemnity period of 12 months after which the policy stops paying out, but is that really long enough for your company?

LOCATION

It is important to consider where your business is located and the types of buildings it has in its property estate and equipment used. For buildings, are they in urban areas or listed? If so, it is likely that securing planning permission following a major loss will take time. Planning applications can easily run to months and this immediately eats into the time you will have to carry out remedial work before the BI indemnity period comes to an end.

KEY CUSTOMERS

Food & agri firms are working in a very competitive market and where they go toe-to-toe with commercial rivals it is very easy to quickly lose market share. Following a loss, it is difficult to win back the customers and revenues you once attained and often the journey for recovery is longer than management teams expect, especially with regard to non-branded products.

This is particularly the case where you rely on major contracts with big customers like supermarkets. These arrangements are not up for tender on a regular basis and if a loss means you cannot fulfil a commercial agreement then you might have to sit tight for upwards of a year before you have a chance to get it back. If you don't have the right indemnity period in place on your BI cover then it is likely to end long before you have got your product back on the shelves and that level of underinsurance will be costly.

BUSINESS STRUCTURE

The structure of your business will also have an impact on the BI cover required. However it is increasingly less common for manufacturers to have mirrored sites and even less common for them to have spare capacity to ensure seamless production post loss. Not to mention whether or not it has been cleared by the impacted supermarket or customer.

If you operate from a single site key questions to ask are 'where would you move production to if it was closed by a loss?' and 'how long would it take to put the arrangements in place?' You might strike a deal with a competitor to use one of their locations, but this then throws up potential issues around safeguarding intellectual property and giving unwanted insights into your operations and customers. Prior conversations and confidentially agreements are essential to assure the position here. You may have an idea of setting up a temporary site in rented premises. The detail related to this are worth working through.

SUM INSURED

In terms of finances, the biggest mistake that most firms make around BI is on the

sum insured. To calculate the sum insured it's necessary to provide your gross profit, but the figure used for insurance purposes is not the same as that used for accounting purposes. An accounting gross profit will usually not include, for example, staff wages and some factory overheads and these clearly this can be a major expense.

Much of the outcome of a BI claim is determined by the approach adopted both by the insurer's experts and by the policyholder. The best advice we can offer those whose businesses have been affected by an incident is to fully understand the operation of the policy, determine how best to present the claim arising, and ensure sufficient evidence is available to support the quantum of loss claimed.

Quantification of a BI claim is a complex matter and your ability to document and support the claim will have a direct impact on the settlement value received from insurers.

UNDERSTANDING YOUR OBLIGATIONS

Away from the BI loss and considering the insurance programme more generally, it is essential you understand and adhere



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to any warranties and conditions on the policy. In the food & agri sector there are numerous clauses that can cause problems and we see two coming into play on a regular basis.

The first are waste warranties that detail when and how often waste must be removed from the insured location. The second are storage warranties that stipulate where material can be kept in relation to the commercial property. If such warranties and conditions have not been met then it is possible for an insurer to avoid claims in full on the basis that the insured has not kept to the terms of the contract.

It's therefore essential to have the right processes and procedures in place to make sure you fulfil your policy obligations.

A robust pre loss exercise will highlight all of these issues and is something that can generally be carried out from a desktop exercise. Once the business has been appraised in this way it becomes a lot easier to design the correct insurance programme and make plans to cater for potentially problematic issues.

SECURING THE SERVICES OF A PROFESSIONAL CLAIMS CONSULTANT

Even after this work has been done there is no escaping the fact that dealing with a large loss takes up a lot of management time and puts weighty demands on senior executives to make quick and commercially sound decisions when choosing the appropriate course of action.

To alleviate this pressure it is possible to appoint a claims consultant who will help prepare the claim and proactively manage communications between the involved parties including insurers, loss adjusters, lawyers, forensic accountants and disaster recover specialists.

Claims consultants bring insurance knowledge and claims expertise to the table, reduce the amount of management time spent on handling the loss and make sure the claim is prepared to the insured's best advantage. For example, they will know whether mitigation measures that might bring an upfront cost would be acceptable to the insurer and ultimately provide benefits for both parties.

They will ensure interim payments are handled properly and so protect the business's cash flow.

They will analyse and model the loss, advising on the correct level of documentation to evidence and prove the claim to insurers' satisfaction, ensuring that the claim submission includes everything you are entitled to under the policy.

If your policy includes claim preparation coverage, insurers will meet the cost of these services from professional advisers.

Too many businesses in the food & agri sector only start preparing their claim after the loss has occurred. Those that carry out the appropriate pre loss planning and survey work will quickly reap the benefits of their efforts and minimise the damage suffered by their business.



TOP TIPS

- Investing time in pre loss assessments will speed things up if the worst happens, but it will also give you a better understanding of your business's vulnerabilities and how to strengthen them.
- Don't mistake the accounting gross profit as being the figure required for the insurable gross profit.
- Consideration also needs to be given to the timeframe to recover or replace lost customer contracts as this may have a material impact on the length of the Maximum Indemnity Period required.
- Find out if your policy includes claims preparation coverage which will pay for the services of a claims consultant. If you do not have this cover then it's worth investigating the possibility of getting it covered.
- Property type and location will have a factor on how long it takes to get planning permission and specialist equipment with long lead times will impact the length of indemnity period you need for BI policies.
- Understand and comply with the warranties and conditions on your insurance policy or you may find your claim rejected.

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JLT's Food and Agri practice incorporates insurance broking professionals, risk management, supply chain and environmental consultants, plus technical claims management specialists, who have provided industry specific insurance and risk management solutions to the food and agri industry for over 20 years.

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CASE STUDY

A food ingredient manufacturer had employed a contractor to improve some of its equipment and upgrade its power supply. The plant was offline to allow it to make these capital improvements that would increase the capacity of its operations.

Towards the end of the work the contractor damaged the incoming power supply which took out a substation that affected the plant's ability to operate.

The insured hired in a large mobile generator and rigged up a temporary power supply to maintain operations at part of the plant. This power supply had to be in place for three months. The temporary supply was not sufficient to power all of the plant and the insured could run one production line but not another.

The insured was able to buy in a similar product from a competitor, although this carried the rival's profit margin and so was therefore more expensive than the in-house product. There were issues around matching the product specifications that had been agreed with the insured's own customers and details to address around packaging and labelling.

The insured had to decant and blend the purchased product into their own packaging and this added further cost to the process. In the short-term these measures introduced extra expense to the loss but helped the insured protect its long-term position and avoid losing market share and customers. This prevented any permanent loss of turnover.

After three months the switch from the temporary to the repaired permanent power supply was coincided with a seasonal slowdown in the plant to reduce any further loss in production.

The insured were very proactive in responding to the loss and within two weeks of the physical damage occurring they had the temporary power supply in place. They had also undertaken the requisite negotiations with competitors re the additional supplies needed.

The loss resulted in a delayed growth of output that had a value of €2m and the additional costs incurred for the mitigation measures were in the order of €1.5m. But without these measures the potential loss would have been many multiples of these figures had key accounts been lost.

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