



Risk Management and Insurance Solutions for Food Industry Companies

George Minoprio

Director of the Mergers and Acquisitions Practice and Private Equity Practice

Email: gminoprio@heathlambert.com

George Minoprio has been at Gallagher Heath for nine years and is a Director of the Mergers and Acquisitions Practice and Private Equity Practice. George is also Guardian Director, Account Chairman and Account Director on various accounts both globally and in the UK. Prior to joining Gallagher Heath, George worked at Aon where he was responsible for servicing global accounts within the Global Business Unit.

George and the Gallagher Heath team have acted on behalf of various major UK and global food production companies such as Iglo Foods Group (Birdseye) and Marlow Foods (Quorn).



UK private equity houses have invested heavily in the food and beverage sector for the past few years. Between 2008 and 2010, according to figures published by the BVCA, the UK private equity community invested £359m. However by 2010, the overall appetite for investment had dropped considerably and has been superseded by more attractive sectors, such as consumer services, healthcare and heavy industrial.

Could the high cost of the risks associated with food production act as a barrier to entry for private equity houses? There has been an overall loss of appetite for the sector in the past two years within the investment community. It is obvious from the recent insurance claims records of a major insurer that property and business interruption (BI) exposures in the food producing sector have been rising steadily since 2008. In 2009, a UK insurer paid £100m in property and BI food claims and the accumulated costs of the insurer's claims from 2004 to the present day is a staggering £1.2bn.

Poor claims experience in the food production sector has led to a reduction in insurer capacity and an increase in premiums. These issues have coincided with global food shortage, the impact of prohibitive fuel and packaging costs (which has affected companies such as cheese and milk giant Dairy Crest) and of course the stresses on global currencies affecting all cross border and export trades.

BI claims remain high because of the unrelenting demand for groceries (people always need bread and milk) and major retailers will move heaven and earth to keep their stores open. Supply chain problems during this recession have also had a major effect, with trade credit defaults at the highest levels for years and continual weather-related and fire hazard risks adding to the pressure to keep feeding the consumer while out-performing the peer group.

Any private equity or venture capital house looking to invest in the sector should always implement a proper risk and insurance due diligence process.

Fire and flammable panels

Composite panels remain a major issue for all manufacturing sectors but particularly for food. The panels remain popular because they are used for insulation in walls and ceilings, are easy to clean, hygienic, adaptable and cost effective. However, the down-side to their effectiveness and cost efficiency is that they are extremely flammable and as such attract high insurance costs and increased self-insured retentions.

Fire claims and heat hazard destroy more properties than any other insurable risk and when compounded by the hazards associated with food processing - frying, baking, heat from ovens and extraction - does not help make these risks any more attractive.

Over the years synthetics and modifiers have been added to panel production resulting in varying types of materials being used. These include:

- Polystyrene
- Polyurethane
- Polyisocyanurate
- Mineral wool
- Modified phenolics
- Cellular glass

However, the cost of removing/replacing combustible composite panels can amount to hundreds of thousands of pounds and for SME businesses can cripple growth.

The main method of reducing exposure is by installing sprinklers and in the majority of cases this is the most effective way of reducing insurance costs and attracting lower self-insured retentions. But again, it will involve capital expenditure costs for the smaller enterprise.



Checks should be made on the temperatures within premises and the type of panel used in each part of the processing plant labelled accordingly. For example, a polyisocyanurate treated panel is ideal for thermal insulation and energy conservation, mitigating environmental hazards and reducing costs.

A thorough risk assessment of all premises and locations should be undertaken by a risk specialist to ascertain underlying hazards associated with a particular factory or plant.

Furthermore, it is important that food producers speak to their brokers and insurers before undertaking any development or expansion to their business so that costly errors are avoided. For example installing the wrong panels that subsequently need to be removed, having already incurred higher premiums.

Slippages and training

Food products and beverages manufacturers have some of the highest non-fatal injuries to employee rates in the UK compared with other heavy industrial sectors, with an average annual number of injuries in the past five years of 908 (source: Health and Safety Executive).

Slip and trips remain the biggest problem with spillage of fluids the most common cause of industrial accident. Risk management reviews of staff training and health and safety often suffer during recessionary periods either because of down-sizing or increasing demands on internal resources. Always assess whether the business has implemented a proper annual audit of training and competence and that it offers a

comprehensive training programme for new staff.

It is worth noting the marked correlation between poor claims records and food producers who rely on mainly casual workforces as those food producers who employ long-term staff from the local community find it easier to embed consistent health and safety and risk management standards. The more engaged the workforce the lower the likelihood of sabotage, arson and mischievous behaviour - so longevity of workforce is a key factor in mitigating risk. Though a cliché, it is easily forgotten that a happy workforce is generally a safer and more productive workforce.

Adding value

Historically this sector has been one of the first to experience a hardening of rates when soft market conditions turn and it is likely that this sector will be hit the hardest. Talking to a risk specialist that understands the business and its value chain ensures that the risk is presented to insurers in the best light.

Additionally, getting the right liability cover is essential in food manufacturing businesses. Food poisoning, contamination, extortion and global recall of products can cost millions in claims but the effects of the poor publicity associated with a claim can be much more damaging and can ruin a business over night.

Reputational risks and cyber liability risks are also on the increase in the retail space.

A robust risk management programme, matched to the client's risk appetite is always the surest way of keeping your investment safe and secure. ■

Company Profile

Gallagher Heath is an insurance broker and risk adviser offering a fresh approach to risk protection, yet our original thinking and behaviour is steeped in over 130 years of insurance history.

We mirror the knowledge and innovative spirit of founding father Cuthbert Heath who was credited with innovations in the London insurance market that addressed real risks – the first earthquake and hurricane insurances.

We expect to be measured on performance, pride ourselves on transparency and never promise something we can't deliver.

Previously Heath Lambert, Gallagher Heath is now part of the Arthur J Gallagher family, one of the largest international insurance and risk management firms in the world. It is one of the top five brokers in the world, employing in excess of 12,000 staff across 14 countries and doing business in more than 100 countries.