Food & Drink Practice Group

H2 2022 Market update for key insurance lines of business

Property Damage & Business Interruption

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We are seeing a reduction in rate increases in the property insurance market for food and drink risks, especially for those businesses that are well run and have strong internal governance. In comparison to 2020-21, where rate increases were between 10-30%, increases are now between 5-10% on primary layers. However, we are still facing challenges for excess of loss placements, especially in terms of capacity, market appetite and rate increases. The availability of Long-Term Agreements remains the exception, and not the rule.

Robust controls will assist lead insurers for this sector (Aviva, RSA, and QBE) in offering better terms and conditions. However, QBE are not offering terms for Republic of Ireland food and drink businesses, due to the deteriorating loss record and lack of emphasis on risk management. RSA have also stepped away from underwriting businesses domiciled in the territory. While there are new insurers, such as Everest and Sompo, entering the market for food and drink risks, creating additional capacity, they are remaining cautious. Risks are being treated on individual merit, with some insurers only providing limited capacity, also limiting their exposures.

Areas that underwriters are focusing on include:

- Inflation and adequacy of asset values, whereby some insurers are loading the rate if they feel that clients are under declaring values. Insurers are questioning dates of latest valuations.
- Adequacy of Business Interruption values and indemnity period.
- Robust supply chain and Business Continuity Plans.
- Approach to risk management.

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Insurers are interested in companies that have good supply chains and contract fulfilment, which enable the lead insurers to carry out their own risk profiling and modelling, mainly around flood risk, and critical catastrophe for accounts with global exposures.

Although risk management bursaries are becoming more widely available, there is a stringent set of requirements from most insurers. A full scope of works is required, and in some cases, insurers require clients to have 'skin in the game' too, i.e. 50/50 for client and market.

Any significant increase in property reinstatement costs creates the potential for underinsurance. Insurers can and do reduce property claims settlements proportionately if the sum insured is less than the actual cost of reinstatement. Best practice would be to consider undertaking periodic professional valuations.

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Product Recall

Underwriters are keen to better understand and quantify product recall exposures, as other lines of cover have suffered significant and unforeseen accumulation losses (e.g. contingency during Covid, political violence in Ukraine and aviation in Russia). This is likely to increase insurers' focus and pricing at renewal, potentially impacting food and drink clients in terms of cost and clarification of supply chain exposures.

Supply chain recalls can and do affect a vast number of customers, where the impact of a single contamination event can ripple across multiple food and drink companies. This creates an increasing aggregation/accumulation challenge in the relatively small recall/contamination insurance and reinsurance market.

In May 2022, Cranswick Country Foods identified the presence of salmonella in a number of cooked chicken products prepared at their poultry facility in Hull. The contamination event prompted the closure of Cranswick's poultry site, an investigation by the Food Standards Agency (FSA), the recall of a vast number of products by a plethora of food retailers including Tesco, Sainsbury, Marks and Spencer and Aldi, as well as a drop in the Group's share price.

The price stability of the recall market over the last five years is due to the benign loss environment and new flow of capacity attracted by the returns and growing premium base.

Capacity continues to expand with the arrival of new insurers (IQUW and Blu Niche), who have experienced underwriting teams and significant capacity. This capacity needs to be set against evidence of claims activity relating to recent well-publicised losses, such as Jif peanut butter, Ferrero Rocher and Barry Callebaut. The closure of wholefood processing plants for a considerable time not only highlighted the catastrophic loss potential of recall/contamination events, but also the fact that most loss payments are not related to the physical recall costs. The losses are rather associated with the business interruption costs of highly integrated business operations.

Directors' & Officers' Liability (D&O)

It is key that a business's specific risk profile is differentiated from the general industry.

The D&O market continues to improve, with increased capacity in 2022 driving competition and premium reductions in some cases, particularly on an excess basis. Primary competition remains relatively limited, although primary premiums are generally stabilising.

Assuming food and drink companies can demonstrate strong financials, D&O insurance capacity itself should not be a concern. However, insurers will want to better understand the business's environmental, social, and governance (ESG) targets, including disclosures, supply chain governance, workforce recruitment challenges, as well as the impact of the global inflationary environment on the business. It is key that a business's specific risk profile is differentiated from the general industry, whereby time invested in engaging with the insurance market is utilised to achieve the best outcome.

Cyber

Food and drink manufacturers have been impacted particularly hard by the market recently.

Food and drink manufacturers' exposure to cyber risks is changing as the nature of attacks and vulnerabilities in operations change. Cyber underwriters are currently quoting rate increases of between 30% and 50% - an improvement compared to over 200% in 2021 and Q1 2022.

Food and drink manufacturers have been impacted particularly hard by the market recently. This is partially driven by the fact that the sector had been spared in the past. When the risk was mainly data privacy driven, food and drink manufacturers were considered a low risk due to the low volume of data collected. When suddenly the threat landscape was impacted by the "outbreak" of ransomware, the sector has had to make up more ground than other industries, not least because it had invested less than other sectors in technology and cyber security.

The sector is increasingly relying on technology to conduct their business. This is not necessarily from a food or drink preparation perspective, which in part, could remain manual, but from a packaging, labelling, and sorting perspective. The increased reliance on technology inevitably increases the exposure to cyber risk. For example, a business could still be able to prepare sandwiches or cakes; however, if they cannot package them or label them, then the products cannot be distributed or sold.

Cyber underwriters are focusing on the security controls of the information technology (IT) system and on one of the operational technology (OT) systems. Automated technology (OT) could be the "crown jewels" for cyber criminals, as by taking control of this, the business could be substantially impacted.

In many cases, OT is not directly exposed to the internet, which means it cannot be directly attacked. However, if this is not segregated or protected from IT, which is connected to the internet, then it becomes relatively easy for cyber criminals to attack it.

In addition, and especially for fresh food and drink manufacturers, the prevalence of the internet of things (IoT) and programmable logic controllers (PLCs) within refrigeration, irrigation, and other processes, have increased the number of vulnerable entry points into a network, ultimately compromising the business. For example, if perpetrators were able to gain control of these and shut them down, the loss arising from the perishable goods could be catastrophic relatively quickly.

For fresh food and drink manufacturers (but not only for this sub-sector), one of the most important exposures is the logistics exposure and redundancies in case of a cyber-attack. With logistics, we refer to both the delivery and transportation aspect, as well as the storage management too.

While the use of biometrics is not necessarily widespread, several companies have implemented biometric readers to gain access into buildings in an effort to combat carbon emissions and remove plastic badges. However, this shift might increase the risk if the appropriate legal measures are not implemented.

The element that is not under scrutiny by underwriters is manufacturers' recovery time objectives (RTOs). The retention levels are set to where the RTOs are. For example, if a company's RTOs are 48 hours, but their waiting period on the policy is 12 hours, this will now be adjusted to match the RTO.

FOR MORE INFORMATION PLEASE CONTACT

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