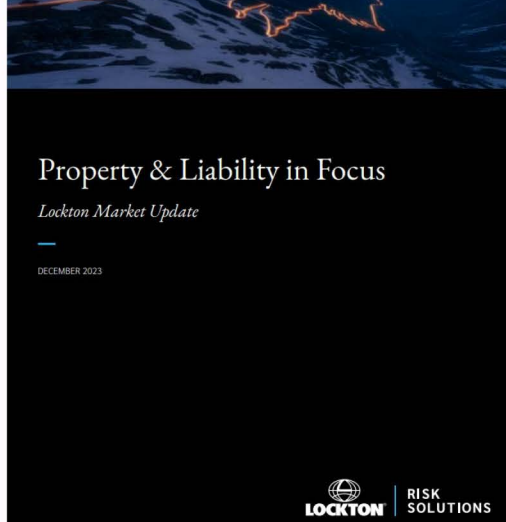




December 2023

Lockton Market Update - December 2023



Although commercial insurance market behaviors were largely unchanged in the third quarter of 2023, the effects of social and economic inflation continue to accumulate, adding pressure to insurers' liability reserves and pricing. Liability lines are now in the spotlight for insurers and buyers as much as property, which remains difficult for many buyers.

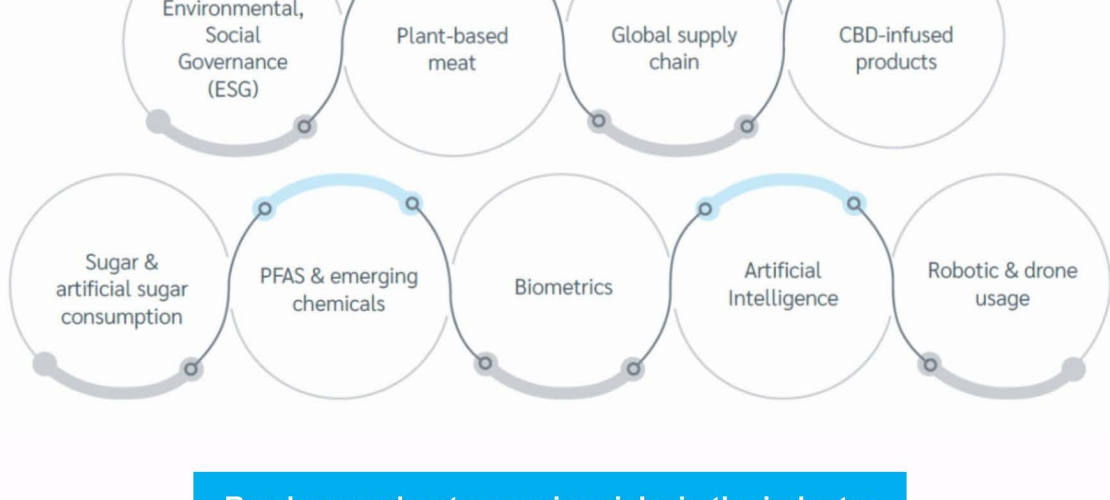
In this dynamic environment, tailored analytics and creative program design are now table stakes for our clients.

Explore our December 2023 *Lockton Market Update* for more insights on the state of the market.

[Latest Market Update](#)

Food, Agriculture & Beverage: Emerging Risks

Lockton's TIER Practice focuses on understanding emerging risks and issues impacting companies and on developing proactive, innovative solutions that help our clients mitigate and transfer their exposure to these fast-evolving and emerging issues. The Emerging Risk team focuses on identifying solutions by working with a wide cross section of coverage and industry experts at Lockton and across the industry. Through analysis of existing case law, tracking of industry trends, and in-depth policy language examination, we will proactively identify potential opportunities for coverage enhancements and solutions to adapt to changing exposures and laws. Some of the key emerging risks we are tracking for the food, agriculture, and beverage industry include:



[Read more about emerging risks in the industry](#)

NFPA 13 2022 Edition Changes & their impact on property insurance renewals for food processing clients

Most property insurers view the standards of the National Fire Protection Association ("NFPA") as defining the minimum level of protection for Property risks. NFPA 13, Standard for the Installation of Sprinkler Systems, for example, has broad implications for whether a given facility is considered adequately protected for insurance purposes. As the standard is revised over time, food and beverage companies may find insurance markets viewing their own risk quality differently as well. Read on to learn about some of the recurring issues with 2022 sprinkler standard that have impacted our food and beverage clients, and how to best prepare for your upcoming property renewals.



NFPA 13 2022 Edition Changes

Creating major impacts on our food processing clients

Most property insurers view the standards of the National Fire Protection Association ("NFPA") as defining the minimum level of protection for Property risks. NFPA 13, Standard for the Installation of Sprinkler Systems, for example, has broad implications for whether a given facility is considered adequately protected for insurance purposes. As the standard is revised over time, food and beverage companies may find insurance markets viewing their own risk quality differently as well. Here are some of the recurring issues with 2022 sprinkler standards that impact food and beverage facilities:

MULTIROW RACK STORAGE	PLASTIC STORAGE
<p>Rack depth (front to back) which is greater than 20 feet is now classified as "solid shelving," regardless of whether the decking is solid or not. This means ceiling-level sprinklers, including ESFR-type (early suppression fast-response), are inadequate and in-rack automatic sprinklers ("IRAS") are necessary.</p> <p>Alternative approaches to IRAS include physically separating racks so the depth is not greater than 20 feet. A minimum space of 3.5 feet with no obstructions is required to qualify as separate rack storage.</p>	<p>Plastic film has wide use in food and beverage applications, but poses a higher challenge to sprinklers so has separate requirements for "exposed, nonexposed Group A plastics." FM Global conducted large scale fire testing which resulted in recommending changes to NFPA's criteria in July 2019. This testing concluded the then-current version of NFPA 13 allowed insufficient protection for this commodity where ceiling heights were greater than 30 feet. NFPA 13-2022 requires larger sprinkler heads (K22 to K20) and limits storage height to 35 feet and ceiling height to 40 feet where plastic film is in rack storage.</p>



[CLICK HERE TO LEARN MORE!](#)

Property valuations - still a hot topic!

Property Valuation

A year later, this is one of the most talked about issues in the Property market. With the challenges in the reinsurance market, the underwriters now have to also be prepared to defend values with their reinsurers. As time goes on, we are seeing the questions evolve requiring greater details to answer. Without acceptable answers, markets will decline an otherwise "good" risk.

Clients need to be prepared to confidently explain their value calculation/collection process. This includes not only understanding how values are trending year-over-year, but also being able to explain the underlying basis for which the values were originally calculated. It is important to note that the overwhelming majority of Property policies we place provide coverage on a replacement cost basis. In turn, values should be reported on a replacement cost basis. Inclusion of BI worksheets or understanding of how business interruption values are calculated is also critically important.

Client considerations	Underwriter considerations
<ul style="list-style-type: none"> Be prepared to allow extra time to work on the values story and involve third parties, if needed. Historical questions: <ul style="list-style-type: none"> What is your business seeking with respect to costs related to construction projects, equipment purchases, etc.? What is the underlying basis for valuation? When was the last time any appraisals were performed? How have you been trending values? Be prepared to provide a more complete explanation for the year-over-year change in values. You may want to review the specific as the source (FM, Marshall & Swift, etc.) for trending. How do you account for capital improvements in your statement of values? Budgets should not only contemplate rate but also estimated exposure change. In a market with rate and value pressures, both need to be adjusted for a more accurate estimate for budget purposes. 	<ul style="list-style-type: none"> Lockton's Property process also contemplates leaning into underwriters for the following: <ul style="list-style-type: none"> What is the underwriter expecting regarding trending of values? Is this across the portfolio or specific locations? Are there any other scenarios that require further value adjustment? Is the underwriter willing to exchange higher inflation or values for lower rate? This work starts as part of the post renewal or renewal strategy process, so there is time to work with the client throughout the year.

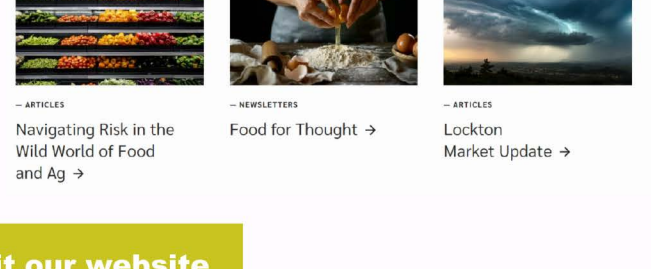


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Read on to best prepare for underwriting valuation questions for property renewals.

Check out Lockton's new FAB website!

We are proud to share our new and improved Lockton Food, Agriculture & Beverage landing page! Here you will find various resources including previous newsletters, relevant articles, and industry whitepapers.



[Visit our website](#)

Improve our recipe!

As all food and beverage professionals know, a recipe can always be improved.

[Write and tell us how we can improve this newsletter!](#)

