

PROTECTING AGAINST FIRE AND OTHER PROPERTY LOSSES

Here's some good news: RecycleGuard® program participants seem to be experiencing fewer property losses each year. For every \$100 million of insured property value, the program experienced just over nine losses in 2012; in 2015 that fell to about five and a half losses. Unfortunately, at the same time the frequency of losses is falling, their severity seems to be increasing. In the past five years, the average cost per claim was lowest in 2013, at about \$30,000, rising to more than \$74,000 in 2014, then falling slightly to about \$60,000 in 2015.

Fire has been the greatest contributor to scrapyard property losses. About \$12.4 million, or 44 percent, of the \$28 million in property losses in the RecycleGuard program since 2012 were due to fire, even though fire-related claims are only 18 percent of all claims. Fire losses have an outsized impact due to their average cost of about \$121,000 compared with a nonfire property loss average of about \$33,000. It's also troubling that even though the total number of property losses is falling, the number of fire events may be rising. RecycleGuard program participants experienced 12 fire-loss events in 2013, 31 in 2014, and 25 in 2015—and we estimate the program will experience 36 fire losses this year.

In addition to the loss of buildings and equipment, fires impose other costs, including business interruption, customer service and retention losses, employee impacts, damage to your firm's reputation, deductibles and/or coinsurance, and injury to people on site.

How can you protect your facility from fires and other property risks? Take these three steps: **Adopt loss-prevention practices.** Create a culture of safety in your company and implement good housekeeping practices, especially regarding industrial machinery and materials that could ignite easily and propagate a fire. Preventive maintenance for building systems, industrial machinery, and mobile equipment is essential. It's also prudent to have adequate space between fire-load materials—such as shredder fluff or paper—and your buildings and equipment. If you install fire protection systems, make sure they are scaled to provide adequate protection and have them inspected and serviced regularly.

Create a business continuity plan. A small fire loss can

result in a large loss of business income unless you have developed a business continuity plan to reduce downtime and related losses. Such a plan often includes the following elements.

n Business impact analysis. Identify key elements of your operations that would impair your business significantly if they were damaged or destroyed. These might be essential equipment, electrical transformers, and critical component parts that require a long lead time to obtain.

n Recovery strategies. Use the information from your business impact analysis to document the resources you would need to recover from a loss, and identify key contractors, vendors, and suppliers that can provide those resources.

n Plan development. Identify the employees responsible for company operations such as information technology, maintenance, electrical systems, and payment approval. Keep their contact information with the plan.

n Testing, review, and improvement. Test your business continuity plan periodically to make sure all parties involved understand their roles and responsibilities and to identify areas for improvement. During this review, make updates to reflect any changes in your business, such as new equipment or additional locations.

Assess your insurance coverage. Ask your insurance broker to visit your company to identify all exposures and confirm that your policy covers them properly. Clarify whether your current basis of coverage is replacement cost, actual cash value, or agreed amount. Ask your broker about property coverage beyond the basics, such as business income and extra-expense coverage as well as ordinance or law coverage should repairs or rebuilding require you to bring your property up to current code. As a final step, solicit deductible options to assess the trade-offs and potential savings difference between first-dollar coverage and a per-occurrence deductible. ■

Dan Curran is senior vice president and underwriting officer for AmWINS Program Underwriters (Portsmouth, N.H.), which underwrites RecycleGuard®, the ISRI-sponsored insurance program. Reach him at 603/334-3027 or daniel.curran@amwins.com. RecycleGuard has prepared this article for informational purposes only. It is not intended to provide legal advice. Readers should not rely on this document or act upon any of the information it contains without first consulting competent legal counsel.



Even though the total number of property losses is falling, the number of fire events may be rising.

