

GRAHAM ADVISOR

NOTES FROM THE PLAYBOOK

Businesses in high-risk industries have been turning to The Graham Company for more than 50 years for our help with preventing losses, training employees, managing claims and developing tailor-fit insurance programs. Companies in the manufacturing and distribution industries, like many of the other industries we serve, face a very complex set of risk management challenges.

In response to these challenges, we've invested in hiring the best consultants in the industry and regularly training and educating our employees on the latest and most effective risk management solutions to help our clients stay ahead of the curve. Today, thanks to the trust our clients have stored in us and our dedicated team of professionals, approximately 25 percent of all of our clients that turn to us as their outsourced risk manager are in the manufacturing and distribution industries. Each day tens of thousands of employees go to work for our clients in these industries. Our mission is to ensure they go home safely every night.

At The Graham Company, we believe that effectively managing risk requires a proactive approach. In this issue's feature article, our advisors will discuss Contingent Business Interruption Insurance and explain why this often overlooked insurance option can be advantageous for mitigating the risk of potential liabilities.

I encourage you to read this issue and get a feel for our expertise in this industry. If you're interested in learning more, please contact the authors or contact me at feedback@grahamco.com.

Best Regards,


KENNETH L. EWELL
President & COO



Business Continuity Plan Considerations

Disasters strike every day, and their effects can be severe and far reaching. While you can't predict when they'll occur, you can prepare for them. One of the best ways to do this is by having a business continuity plan. Regardless of your industry, all companies can face a crisis, and having an emergency plan in place ensures you know what to do should a disaster occur. It's always better to be proactive in these situations rather than reactive.

While every business continuity plan should have Business Interruption Insurance, in some cases Contingent Business Interruption Insurance can be a critical tool to have in your insurance program. Even though many companies are aware of the need for Business Interruption Insurance, what they don't realize is that this coverage is strictly limited to a loss that occurs to their property, not one experienced by their suppliers or customers. This is why Contingent Business Interruption Insurance is an important consideration, especially for those in manufacturing and distribution.

Net Income vs. Revenue

A common misconception is that Business Interruption Insurance replaces revenue. It doesn't. As a component of property coverage, it replaces net income and continuing fixed expenses derived from your company's revenue while you've temporarily ceased operations because of a disaster. Once your business is up and running again, Business Interruption Insurance, for all intents and purposes, stops.

Contingent Business Interruption Insurance vs. Business Interruption Insurance

In addition to knowing what Business Interruption Insurance covers and what it doesn't cover, it's also important to know how it differs from Contingent Business Interruption Insurance. Business Interruption Insurance is set up to protect your business when it's directly impacted by a hazard or peril that causes you to cease operations and suffer a loss.

Contingent Business Interruption Insurance covers your lost income and continuing fixed expenses resulting from property losses that occur at a supplier's or customer's location. For example, if you have Contingent Business Interruption Insurance in place and one of your supplier's facilities ceases activity because of a disaster of some kind and this adversely impacts your operations, your financial losses are covered. One key consideration for coverage is that your supplier's property must be damaged by a peril that is covered by your policy. For example, if your supplier's property is damaged by flood, earthquake or mechanical breakdown, and your policy does not provide coverage for these perils, the Contingent Business Income would not respond.

When Is Contingent Business Interruption Insurance Necessary?

It is typical for manufacturers to create a variety of products where the parts can be easily sourced from multiple suppliers. But what if this doesn't describe

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ASK THE EXPERT



Bill Selman on how to overcome globalization challenges.

Q. What's the top globalization challenge I should be concerned about?

A. A company's first challenge is understanding the unique risk factors posed by operating in areas outside the United States. A common mistake is to assume that both the risks and the means for addressing them are the same in Europe, for example, as they are in the United States. In fact, both the risks and some of the means for addressing them can be very different from country to country.

Q. If my international exposure is primarily just the shipment of products overseas, what considerations do I need to keep in mind?

A. The first step is to understand how your product is actually insured as it makes it way from your facility to a port of embarkation, to a warehouse overseas and ultimately to your customer's location. There are many ways to insure this property, including putting in place your own Ocean Cargo Policy or relying on coverage provided by a freight forwarder. Many companies find they are most comfortable with placing this coverage themselves. This gives them certainty about terms and conditions and can also provide some economies by managing it themselves. It is also important to understand customers' expectations as it relates to a loss of product during transit. Just because they purchased their product from you "FOB point of shipment," they may in fact expect to have their product replaced should it be lost in transit. Your insurance broker should be able to match your sale conditions and your insurance program to insure both your needs and those of your customer are addressed.

Q. Should I purchase policies locally through a locally admitted carrier?

A. Certain coverages are almost always mandatory and must be purchased from an insurance carrier admitted in the country where you are operating. For example, this is almost always the case with Automobile Insurance. Your insurance broker should be able to provide a country-by-country analysis of which coverages are required and how to most effectively place these. Companies operating internationally (beyond simply shipping products) generally manage international risk in one of three fashions. The simplest is to allow managers in each operating company to address this without any coordination. An intermediate step is to provide some guidance but also install an International Package Policy on top of what is provided locally. This fills coverage of gaps with Difference In Conditions Coverage, as well as linking the program to your Umbrella Liability Coverage. The third and most comprehensive approach is to establish a Master Controlled Program whereby all coverages and services are managed by the U.S. broker and normally coordinated with one or more multinational insurance companies.

Q. What role does my U.S. Insurance Broker play in this area?

A. Consulting with your U.S. broker is your first step in getting through this process. They may have international alliances, allowing them to coordinate your program with prescreened brokers in each of the countries where you operate. These alliances provide local expertise and customized service plans by country, while allowing the U.S. broker to steward your overall risk management plan.

When it comes to other challenges, a great resource is the World Trade Center (WTC). There are over 50 WTC locations across the United States. They are instrumental in helping small, medium and large businesses expand to new overseas markets by working with local executives in these foreign countries. These executives will help solve issues dealing with shipping options, real estate, hiring workers overseas, currency and language barriers and entrance strategies, among other issues.

To learn more about International Liability Insurance, please contact Bill Selman, Vice President, Manufacturing and Distribution, at The Graham Company at bselman@grahamco.com or at 215.701.5233.

GRAHAM SIGHTINGS

Experts in the News



Steve Phillabaum and Luke Foley on interconnected technologies cyber risk strategy
Control Engineering, June 2015 Issue



Carl Bloomfield and Jeff Spatz on road and highway safety
Construction Business Owner, June 2015 Issue



Kevin Smith on data privacy and security
Journal of Property Management, September/October 2015 Issue



Steve Phillabaum and Luke Foley on globalization risk
Wholesale & Distribution International, Summer 2015 Issue

Awards & Recognitions



The Graham Company Recognized as a Top Workplace
The Philadelphia Inquirer has consistently ranked The Graham Company as a top workplace on its annual Top Workplaces list for six consecutive years. In 2015, Graham ranked number two in the midsize company category.

Join the Conversation



Follow us on Twitter @TheGrahamCo and we'll deliver daily insight to keep your employees safe and your business thriving.



For all the details on the latest insurance trends and how your business can benefit, follow our "Risk Matters Blog" at grahamco.com/KnowledgeCenter/Blog

SAFETY ZONE

Powered Industrial Trucks: Is your business doing enough to keep employees safe?

If you work in the manufacturing or distribution industry, chances are employees are operating PITs, also known as forklifts or other types of lift trucks, and your business is prudent about making sure it's in compliance with OSHA standards for maintenance, training and operation of the vehicles – but is that enough to keep your workforce safe?

Consider that according to OSHA, approximately 100 fatalities and nearly 95,000 injuries occur each year due to the unsafe operation of PITs. The U.S. Department of Labor's Bureau of Labor Statistics reported in recent years that the number-one and number-two causes of lift truck-related work fatalities were pedestrians being struck by vehicles and overturned vehicles, respectively.

Given the hazards posed by PITs, employers should consider additional measures beyond OSHA standards for keeping employees safe. Here are a few considerations:

- 1) Evaluate the work areas where both PITs and pedestrians operate and closely consider visual and verbal cues as well as the physical controls that need to exist in order to protect employees.
- 2) Implement a zero tolerance policy for not using seatbelts.
- 3) Investigate all potential tip-over scenarios and address safety concerns with employees promptly.
- 4) Evaluate tools and processes to make the pre-shift inspection more than just an exercise in checking off a list so that operators can truly ensure they are going to operate a safe piece of equipment. That way, when fixes need to occur, they will happen in a timely manner.

The Graham Company can help keep your employees safe and your business thriving: Contact Andrew T. Gruber, CSP, CFPS, Senior Safety Consultant at The Graham Company at AGruber@grahamco.com or at 215.701.5303.

your operation? What if your company creates a single product and you rely on technology or parts that are exclusive to one specific supplier? Let's say you're a technology manufacturer and a key component of the product you produce can only be bought from one supplier.

If this supplier's facility experiences a fire, flood, windstorm or some other kind of disaster, they might have to temporarily shut down their facility, leaving your business without the key component it needs to manufacture your product. If this product is a major source of income for your company or its only source of income, not only could this incapacitate your operations for a period of time, but it could also put you out of business.

Rather than having the fate of your manufacturing business left to chance, you should seriously consider complementing your Business Interruption Insurance with Contingent Business Interruption Insurance. It will help give you peace of mind knowing that you have additional coverage in place should you need it.

This also applies to your customers. Let's say you're a clothing manufacturer and 90% of your products are sold in one store and that store is flooded and shuts down for a couple weeks. Without Contingent Business Interruption Insurance, you'd have to eat those losses. But if you have coverage in place, your lost income is protected.

Set Accurate Limits & Perils

While having Contingent Business Interruption Insurance is a smart move for manufacturers, you also need to make sure you have adequate limits in place. What is the maximum financial impact of one of your suppliers being shut down? Will you have to pay for a temporary office, business equipment or furniture during a time period when your business isn't operational? Questions like these need to be answered to accurately set your limits. In some cases, Extra Expense Insurance is needed, as it can help ease the burden by covering the costs associated with these additional expenses. As previously discussed, your key suppliers may be in a flood zone, and you may not have coverage for that risk. If the supplier is shut down due to flood loss and you do not have flood coverage, Contingent Business Interruption will not apply.

Extended Period of Indemnity

Companies should also consider including an Extended

Period of Indemnity in their Business Interruption Insurance policy because when your company resumes operations it may not be bringing in the same amount of revenue and net income that it previously did. In other words, you can be operational but still suffering a loss from the disaster, so having an Extended Period of Indemnity can help make up the difference.

To recap, rather than trying to deal with a disaster while caught in the eye of the storm, do the following:

Create a business continuity plan: As the name implies, a plan is meant for something that's taking place in the future. So before disaster strikes, create a comprehensive business continuity plan that includes all of the important details of how to continue your operations if you're incapacitated for a period of time.

Business Interruption Insurance: Make sure you have adequate coverage in place to cover net income losses and continuing fixed expenses.

Contingent Business Interruption Insurance: If you're heavily reliant on your suppliers, you might need this additional coverage. Check with your broker to be sure.

Extra Expense Insurance: Many times there are additional expenses that need to be accounted for when your business temporarily ceases operations. Having this kind of policy in place can help cover those costs.

Extended Period of Indemnity: Even after your business has resumed operations, you might need an additional cushion until you get your financials back to where they used to be. This will help you do that.

Knowing that each business' situation is unique, it always makes sense to consult with an insurance broker. Having a business continuity plan in place is essential, but there are other insurance considerations that need to be accounted for, and it can be hard to determine what you need on your own. Your broker can help guide you through the process so you're ready for the unexpected.

To learn more, please contact Steve Phillabaum or Luke Foley of the Manufacturing and Distribution Division at The Graham Company at SPhillabaum@grahamco.com or LFoley@grahamco.com or at 215.567.6300.

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EXECUTIVE ANNOUNCEMENTS

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The Graham Company Appoints New Health & Human Services Division Leader

The Graham Company appointed Carl M. Bloomfield, AAI, Vice President, as the new leader of the Health & Human Services Division in March 2015. Bloomfield was previously the co-chair of the Construction Division.

“For nearly a decade at The Graham Company, Carl has proven his ability to lead a team that consistently delivers the highest level of service to our clients across several industries, including the health and human services industry,” said Kenneth L. Ewell, President & COO of The Graham Company. “He has a wealth of knowledge in insurance products and services that will help continue to keep our clients’ businesses thriving.”

As leader of the Health & Human Services Division, Bloomfield will specialize in working with a wide variety of healthcare and social services organizations such as aging services, behavioral health, intellectual disability, hospital systems, sub-acute care and long-term acute care. The division, which makes up approximately 30 percent of the firm’s overall revenues, handles the outsourced risk management for organizations with combined annual budgets that exceed \$6 billion, tens of thousands of employees and thousands of locations nationwide.

Bloomfield previously worked in Sales and Operations for Cardinal Health’s Pharmaceutical Drug Distribution Division providing services to health systems. He managed Cardinal Health’s largest distribution center in the country, which generated approximately \$7 billion of revenue annually. Immediately prior to joining The Graham Company, Bloomfield was a General Manager for Aramark Uniform Services. Bloomfield graduated from the United States Military Academy at West Point with a bachelor of science degree in civil engineering.



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