



RISKONET

- MASTER THE UNEXPECTED -

# THE INSURANCE INSPECTION: LEARN HOW TO COME OUT ON TOP

WHAT BUSINESS OWNERS NEED TO KNOW

ABOUT SUCCESSFULLY PREPARING FOR AND COMPLETING AN INSPECTION BY AN INSURER  
WHEN PURCHASING FIRE AND TRADING LOSS INSURANCE

## CONTENTS

ABOUT INSURERS AND RISKS	3
PREPARING FOR THE INSPECTION	4
AFTER THE INSPECTION: RESULTS AND RECOMMENDATIONS	5
TERMS & CONCEPTS	6
CHECKLISTS	7
IS IT TOO COMPLICATED AND COULD YOU USE SOME PROFESSIONAL HELP?	8

## AN IMPORTANT DAY

**If you have taken out a fire or trading loss insurance policy for your business, or are interested in doing so, there is good chance an insurance inspector will want to pay your company a visit.**

That will be an important day, as the information collected by such an insurance inspector will be used to determine the terms, conditions and exclusions of the potential policy, as well as the amount of the premium – and whether or not you qualify for coverage in the first place. In other words, it is most certainly in your best interest to effectively prepare for the inspection.

Which information will the inspector be looking for, how can you improve your 'score' at this stage and what are the do's and don'ts? This Riskonet white paper is intended to help you prepare for an inspection.

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## ABOUT INSURERS AND RISKS

**MORE OFTEN THAN NOT, ON-SITE INSPECTIONS WILL BE REQUIRED FOR POLICIES COVERING MATERIAL DAMAGE AND TRADING LOSSES OF ANY REAL SCOPE. WHICH MAKES SENSE. IF YOUR COMPANY IS LOOKING TO INSURE ITSELF AGAINST PROPERTY DAMAGE AND TRADING LOSS, IT'S ONLY REASONABLE TO EXPECT THE INSURER WILL WANT TO GAIN AN IDEA OF THE RISKS AT PLAY AND WHAT YOU ARE DOING TO MANAGE THEM. THEY'LL LIKELY SEEK TO CLARIFY ASPECTS SUCH AS THE PRECISE OPERATING ACTIVITIES AND THE SECURITY MEASURES AND TYPE OF CONSTRUCTION FOUND IN YOUR BUILDINGS.**

After all, taking out insurance against property damage and trading loss is like submitting a financing request to a bank: there are larger interests at stake. In much the same way that, when you apply for a line of credit, a bank will want to know how financially sound you are, when you request an insurance policy, the insurer will want to know how solid your company's risk management practices really are.

Information is therefore key in answering the question of whether an insurer will extend coverage, or in other words, whether the insurer is prepared to 'reserve' financial resources for a potential pay-out in case of damage or loss. It is easy to imagine that an insurer will want access to basic information on the company, such as the physical location and type of construction, its activities and production processes and various value reports.

### **CURRENT TRENDS NECESSITATE VIGILANCE**

The fact that inspections are taking place more frequently is also a result of a recent 'hardening' trend within the insurance market, thanks in part to losses suffered by the sector in the past few years. Insurers maintain keen vigilance of the risks they insure and will critically examine the pros and cons before issuing any new policies or making updates to existing ones. More than ever, business owners are well-advised to not only ensure proper information provision but to open (preemptive) lines of communication with the insurer as well.

More frequent inspections are symptomatic of the new commercial attitude among insurance companies. The inspector arrives, observes and identifies matters that may pose or exacerbate risks. The best advice Riskonet can give is to take the inspection seriously, prepare yourself for it and then be prepared for a frank discussion regarding the findings. Show them what goes on in your organisation, but keep a bit of self-awareness as well: it's best to take charge and be up-front about your own interests and how those can be aligned with the interests of the insurer. In that sense, the inspection visit is part of the acceptance procedure – and in reality, part of the negotiations and/or dialogue and interaction between the company and the insurer, by which they arrive at an insurance policy that is acceptable to

both. Having all your ducks in a row, so to speak, during an inspection can work quite strongly in your favour!

Perhaps the procedure and the inspection can (or even must) serve as the starting point for a more integral perspective on risk management. A starting point for company-wide evaluation of commercial interests and risks, and of stakeholders with requirements and desires of their own, such as government and supervisory bodies and insurers.

### **INSURERS: INFORMATION AND GUIDELINES**

Insurers will decide whether or not to do business with you based on the information they are able to collect on the risks you are seeking to cover. The acceptance policy of a given insurer is formally set out in that insurer's internal guidelines. These are the result of strategic agreements between the insurer's own executives and with its owners and/or shareholders, but certainly also arise from contracts the insurance company has entered into with its reinsurers.

In other words, the acceptance policy may differ drastically from one insurer to another. And this, in turn, will influence the inspector's examination of your company – along with his or her recommendations.

# PREPARING FOR THE INSPECTION

**YOU'VE SCHEDULED AN APPOINTMENT. ANY MOMENT NOW,  
THE INSPECTOR WILL BE VISITING YOUR COMPANY, POSSIBLY WITH DEPUTIES IN TOW.  
THEY ARE SEEKING NOT ONLY A GENERAL POSITIVE VIEW OF THE COMPANY AND ITS ACTIVITIES,  
BUT WILL BE AFTER COLD HARD FACTS AS WELL.**

Most of the inspector's questions will relate to three domains: financial, operational and technical. It would therefore be wise to involve your manager for each of these domains in the inspection process. There are two ways to achieve this: by having the manager collect relevant information prior to the inspection (or assign someone else to do so), and by having the manager personally take part in the inspection so that they can answer questions and provide any clarification needed.

## **WHAT DOES AN INSPECTION INVOLVE?**

- *An interview with a round of questions* – here you will provide the necessary information in response to the questions, with additional information from an employee if desired.
- *A tour of the buildings and around the premises* – you will accompany the inspector as they visit your production and storage facilities. The technical areas and utilities will be viewed as well, to the extent that these are not off-limits to third parties (as is the case with transformer rooms, for instance). Roofs may also be inspected during the visit (in connection with the risk of water damage, to see the cantilevered fire barriers, and so on).
- *An evaluation* – this is when the inspector from the insurance company will share their findings and conclusions and discuss any recommendations they may have. Since financial considerations often play a role in these discussions, it is desirable to have one of the company's financial officers in attendance.

## **HOW MUCH OF MY TIME WILL AN INSPECTION TAKE UP?**

That depends on the size of your premises, the buildings and the grounds, as well as on the complexity of your production processes. You should plan on the inspection lasting at least a half-day and up to an entire day. An inspection may occasionally last even longer, for instance when your activities are specialist in nature or because your buildings (or their condition) give cause.

If the inspector is visiting your organisation for the first time, the visit may last longer. In such cases the inspector must 'start from scratch' in collecting the information they need, after all, and must potentially verify information from other or previous sources for themselves.

If the visit is a periodic reinspection, on the other hand, it will often take less time. This is because a large portion of the information is already available and it will be possible (in some cases) to omit sections of the buildings and/or premises from the inspection tour.

## **WHAT TOPICS WILL THE INSPECTION COVER?**

All manner of topics may be addressed during an inspection (refer to the list at the end of this white paper):

- type of construction
- process
- storage
- technical facilities and utilities
- security systems
- corporate security measures

In order to make a ruling on acceptance, the insurer will look at a set of risks known in the trade as 'COPE':

- Construction
- Occupancy
- Protection
- Exposure

## **OTHER DOCUMENTS YOU WILL NEED TO SUBMIT**

There are a number of specific documents the insurer will ask to see during the inspection. Make sure you have these documents ready at hand. For the most part, these will be documents:

- that indicate the current state and functionality of security installations;
- that give an idea of the activities in which the company is involved;
- that show the physical positions and relationship of buildings and vital installations on company grounds.

Particularly for fire alarms, sprinklers and other fire safety installations, you should provide access to the original design criteria, inspection reports and any certifications in order to ensure the proper evaluation of these installations.

## AFTER THE INSPECTION: RESULTS AND RECOMMENDATIONS

THE INSPECTOR REVIEWS THE SITUATION AND WEIGHS THE RISKS  
IN LIGHT OF THE MEASURES YOU HAVE ALREADY TAKEN TO MITIGATE THOSE RISKS.

While the resulting conclusions and recommendations can vary widely, they usually involve the following aspects – and in particular the points on which your company deviates from the acceptance criteria for the policy or coverage:

- Organisational measures: orderliness and tidiness, smoking policy, how work that poses a fire hazard is carried out. These recommendations can usually be followed without any significant financial investments and will be reasonably straightforward to implement.
- Investment measures: expansion and/or installation of fire safety or other safety installations, improvements to buildings or fire barriers, the expansion and/or installation of intruder alarm systems, and so on.

### REQUIREMENTS OR RECOMMENDATIONS? DECIDING WHETHER OR NOT TO COMPLY

Whatever the inspector decides with regard to your company and the insurance risks, their recommendations are not mandatory in the way that government requirements (based on legislation and regulations such as the Building Decree) are.

When an inspector makes a recommendation, they have no way to enforce compliance. It is, however, so that compliance may be a condition for acceptance: i.e. failure to follow up on their recommendations may result in being denied coverage. The insurer can even decide to deny coverage outright if the situation observed deviates too greatly from their criteria. It is therefore vital to explore, in consultation with the inspector and/or the insurance provider, ways in which 'supply and demand' might be brought together.

### NOT ENTIRELY WITHOUT OBLIGATION!

How bad is it, really? When an inspector visits your premises in connection with obtaining an insurance quote, it's best to comply with their wishes wherever possible – or to work in consultation with them to identify measures that are both effective and feasible.

If the inspection is conducted in connection with an existing insurance contract, the outcome will in most cases have no direct consequences for the policy terms, with certain exceptions:

- If the recommendations have to do with safety installations that are among the acceptance criteria and have been specified as such in the policy.

- If, during the inspection, the location is found to pose a strongly increased risk (often referred to in insurance terms as 'a bad risk'). On the other hand: compliance with the recommendations may indeed play a role at the following renewal (extension) date of the insurance policy.

At that time, the degree and manner of compliance may impact the insurer's acceptance (whether or not to renew coverage, or to renew only if specific recommendations are implemented) or the premium and terms of the insurance coverage (amount of premium, deductibles, exclusions, and so on). You would therefore be well-advised to consult your organisation's management any time a decision must be taken regarding compliance with recommendations.

### LOSS SCENARIOS AND DISTRIBUTION OF VALUE: WHAT THE INSURER WILL WANT TO KNOW

Based on what the inspector has observed during the visit, the insurer will compile loss scenarios involving the expected losses under various circumstances. Such scenarios provide a basis for determining potential insurance pay-outs, which insurers must take into account when deciding whether to extend coverage. Constructing these scenarios requires data:

- On the insured amounts and the distribution of that value across the various buildings.
- On the values of individual buildings and (potentially) the value of building sections where relevant inventory and goods are located.
- On the alternatives, for in the event production is shut down due to a calamity.

A new insurer will also want to know about any damage incurred in the past five to ten years. This includes both claims submitted and compensation paid out during this period prior to the inspection. You will also need to indicate what caused the damage, its consequences and the amount you claimed. Won't the insurance company already have a record of the insured amounts and any previous claims? Many times they will, yes, but the inspector will virtually always still attempt to verify the information.

## TERMS & CONCEPTS

IF YOU WISH TO COMMUNICATE WITH THE INSPECTOR ON THEIR OWN LEVEL,  
IT'S A GOOD IDEA TO FAMILIARISE YOURSELF WITH A NUMBER OF COMMON TERMS AND CONCEPTS.  
A FEW SUCH TERMS ARE LISTED HERE.

- *Property damage and business interruption*  
The international insurance industry uses the abbreviations PD and BI to refer to property damage and the subsequent cessation of operations (business interruption). Losing a production facility to fire, and the trading loss you incur as a result, would be a typical example of PD/BI loss.
- *PD: property damage*  
This is a general, international insurance term for the damage or loss of material items such as buildings, equipment and goods as a result of an external calamity such as fire, explosion, flooding, earthquake, and so on.
- *BI: business interruption*  
A general, internationally-used insurance term for the interruption of a company's operations.
- *Claim expectations*  
There are two commonly used definitions here. The 'normal' scenario, in which all fire-prevention measures are functioning properly, and the 'worst-case' scenario, in which none of the measures in place has functioned as it should. Common abbreviations for claim expectations are EML, NLE, MPL, MFL and PML.
- *Normal loss/damage scenario (abbreviated as EML, NLE etc.)*  
Expected loss or damage that can occur under normal circumstances, in which fire-prevention measures such as fire barriers and alarm systems are functioning properly and the fire brigade responds quickly and adequately.
- *Worst-case scenario (abbreviated as MPL, MFL, PML, etc.)*  
Expected loss or damage that can occur under worst possible circumstances, in which fire-prevention and suppression measures fail to function and the fire brigade is absent or fails to respond.
- *Indoor fire barriers (firewalls)*  
These must comply with a number of specific guidelines, such as sufficient fire-resistance (240 minutes or longer), no openings (even if equipped with fire doors, etc.) and any cantilevered elements extending from roofs and façades must meet specific guidelines as well.
- *Fire barriers in combination with fire safety installations*  
In normal scenarios, lighter fire barriers in combination with the presence of adequate fire safety installations such as fire alarm systems play an important role. Depending on the fire resistant capacity of the building structures and the reliability of the fire safety installations, investments in these measures may lead to a lower-risk normal scenario.
- Where construction legislation is concerned, the Dutch government recognises a specific concept with regard to fire-resistant barriers: The resistance to fire penetration and flash-over (Abbreviated in Dutch as WDBDO). While insurers talk about the fire-resistance of barriers, the government uses the term WDBDO. Because insurers are concerned with preventing and limiting damage to property and business interruption, they often apply a higher standard for fire resistance than the government: government standards vary, on average, from 30 to 60 minutes, whereas in many cases, insurers recommend 60 to 240 minutes.
- *Fire-resistant barriers*  
These are referred to by a wide range of names such as firewall and fire barrier; their purpose is to prevent and/or delay the spread of fire through penetration and flash-over. 'Firewall' is more or less the official term. The chosen name often depends on the fire-resistance of the structure in question, which generally varies from 30 to 240 minutes.
- *Smoke protection barrier*  
This type of barrier ensures a localised seal against the spread of smoke. It is naturally possible to combine fire and smoke-resistant barriers in a single wall. Smoke protection barriers are becoming increasingly important, particularly in the pharmaceutical and food industries.
- *Fire compartment*  
A compartment enclosed within fire-resistant barriers (walls, floor and ceiling/roof).

The examples above are only a few of the abbreviations insurers use to describe damage/loss scenarios.

### WHAT YOU NEED TO KNOW ABOUT FIRE BARRIERS, MINIMUM DISTANCES AND FIREWALLS

- *Minimum distances*  
This refers to the minimum distance between a building or complex and the neighbouring building or complex that is considered safe (generally at least 10 metres and free of any flammable objects). Some insurers have their own acceptance guidelines specifying a minimum safe distance of 30 to 50 metres. These safe distances are, in practice, determined in part by the projected maximum fire load in the relevant buildings.

## CHECKLISTS

### 1

#### WHAT WILL THE INSPECTOR ASK ABOUT? USE THIS LIST TO HELP YOU PREPARE

- *General*  
Brief summary on the concern/corporate activities, history
- *Organisation*  
Number of employees, working hours, holiday periods
- *Operational activities at the site*  
Production, processes, storage, internal transport
- *Premises*  
Physical location (on a river, approach route, roads, rail), neighbours
- *Structures*  
Buildings, production/process installations; fire barriers
- *Processes*  
Process risks (pressures and temperatures), process automation (hardware, software, backups)
- *Process facilities*  
Heating, cooling
- *Additional processes*  
Cleaning, injection, suction
- *Storage*  
Method of storage, fire compartmentalisation, fire loads
- *Utilities*  
Electricity, oil/gas, water
- *Building facilities*  
Air treatment (heating, cooling), electrical system
- *Housekeeping*  
Orderliness and tidiness, waste collection, smoking policy, technical areas, execution of work that poses a fire hazard
- *Acts of nature*  
Likelihood of damage resulting from storm, rain/snow, flooding, lightning
- *Forced entry/burglary/vandalism*  
Products and installations, safety and security (of buildings, electronic, organisational), in-house security and restriction of access (reception desk, gatekeeper), private security firm
- *Fire safety*  
Alarm installation, extinguishing system (sprinklers, gas extinguishers), fire brigade, water supply, organisational measures (in-house emergency response team, emergency plan)
- *Loss of operational profit*  
Reconstruction, delivery times of equipment, automation, suppliers, customers, bottlenecks, mutual dependencies (within the concern), possible alternatives (own concern or third-party)
- *Insured amounts*
  - For buildings (generally equal to reinstatement value)
  - For installations and equipment in buildings and on the premises (generally equal to replacement value)

- For goods such as raw materials, semi-manufactured and final products (generally equal to replacement value)
- For trading loss (generally based on lost profits and ongoing fixed costs)

- *Distribution of value*  
Distribution of insured amounts between the various fire compartments

### 2

#### INSPECTION DOCUMENTS: USEFUL TO HAVE ON HAND

- map of the premises (copy)
- aerial photo (copy)
- process description (copy)
- process diagram (copy)
- basic fire safety document (schedule of requirements) (original or copy)
- fire alarm installation, extinguishing system (sprinklers, gas extinguishers)
- fire safety inspection report (original)
- fire safety certificate (original)
- guaranteed certificate of intrusion protection; certificate of electronic intruder alarm system (original)
- emergency plan
- business continuity plan
- maintenance plans

## IS IT TOO COMPLICATED AND COULD YOU USE SOME PROFESSIONAL HELP?

Do you need assistance in identifying your company's specific risks, or would you like advice regarding potential safety issues you may have missed? Or perhaps you are an executive, director or business owner who'd like to know more about successfully preparing for and completing an insurance inspection? Feel free to contact Ron de Bruijn or Tom de Nooij at no obligation. We would be happy to help you find solutions.



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