

An Introduction to Wood Products

Manufacturing Risks and Coverages



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Executive Summary

This eBook is designed to help you become a more knowledgeable and trusted resource for your clients when it comes to identifying and insuring wood products manufacturing risks. By presenting a clear picture of how to identify more favorable and stable clients, offering insight into common underwriting questions, and reviewing key coverage options that can help protect wood products manufacturing clients, this eBook will leave you better prepared to increase your writings of wood products manufacturing accounts.

Introduction

Whether you are new to writing coverage for wood products manufacturers or you have written dozens of policies in the past, the tips in this guide are designed to help you be more effective in building or expanding a profitable book of business.

Ask any agent who has written commercial insurance policies, and they'll likely tell you there are many nuances when it comes to commercial clients that can determine whether it is worth pursuing the entity's insurance needs, regardless of industry. That holds especially true when it comes to wood products manufacturers.

Rather than providing a "deep dive" into every factor related to underwriting risk, this eBook seeks to instead merely identify those factors to give you some context for evaluating prospective new business.

Keep in mind that any client could potentially have a negative impact on your overall book of business and on the profitability of your agency. Therefore, it is to your benefit to be deliberate up front when identifying and choosing to work with clients who are likely to have lower loss ratios.

Identifying Opportunities

When you are working to grow your book of business of wood products manufacturers, there is a world of opportunity out there. Given the broad nature of the industry, there is no need to find yourself stuck in a rut of just working with one particular segment of the industry. Common types of wood product manufacturer's accounts include, but are not limited to:

- Ash barrels (i.e., whiskey barrels)
- Cabinet makers
- Fencing
- Furniture
- Molding and trim
- Mulch
- Ornamental wood products (i.e., knick-knacks)
- Picture frames
- Railings
- Retail and storage shelving
- Siding
- Sub-components
- Windows and doors
- Wood pellets for use in smokers

While this list is broad and diverse, the good news for insurance agents is that you don't need to be an expert on every one of these types of accounts in order to be successful. While every business is different, all of these accounts share certain characteristics when it comes to risk and insurance needs. So, as an agent, you can expand your reach to include other related businesses as potential clients fairly easily once you are familiar with the industry.

Agents can find success with any segment of the wood products manufacturing industry, but historically, certain types of accounts have been more attractive and profitable from an underwriting standpoint than others. Some of those accounts include:

- Cabinet makers
- Molding and trim makers
- Ornamental wood products (knick-knacks) manufacturers
- Windows and doors manufacturers

To help identify prospects, search online for 'wood products manufacturing' or an individual category of manufacturer (such as cabinet makers, windows, doors, etc.) in your area. Some classes of business tend to be more regional in nature; however, good, stable wood product manufacturers can be found in almost any geographic market.

“ Given the broad nature of the industry, there is no need to find yourself stuck in a rut of just working with one particular segment of the industry. **”**

Assessing Prospects' Risk Levels

When you have identified a prospect, you may be tempted to reach out right away to begin conversations about their insurance needs. However, doing so may be premature. As with any commercial lines prospect, your evaluation of the risk starts long before you make your first contact with a business.

Regardless of what specific types of wood products a manufacturer makes, if it is a well-run business with a history of success, it is likely to have a lower loss ratio. Some types of business, such as those who manufacture furniture, can be more difficult to underwrite based on the complex nature of the risks they face. Still others are less attractive because of their less-than-average loss control practices or the inherent risks associated with their operations.

You can begin evaluating risk by doing some initial due diligence on your own and then by asking questions to learn more about the business directly.

Initial Due Diligence

First, take some time to do your own research on the business. Things you can assess before ever introducing yourself include:

- **Website** – Does the business have a professional presence online? If so, does it appear to be up-to-date and well-maintained? The absence of a current website does not, by itself, mean the business is not a good prospect. However, along with other factors, it might be an indication to think twice before trying to win the manufacturer's insurance business. The business website can also be an indication of whether the business's financial and marketing strategies are focused on sustainable business practices for the long-term. Lastly, the website can alert you to any potential unique exposures that exist.
- **Community reputation** – How is the business regarded in the community? When you search for the business online, is there any indication that the business has a bad reputation or is not well-regarded in the community? If a large number of recent online complaints or issues are returned in your search, it could be a red flag.

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Questions to Ask:

Business-related

Next, you should look at other factors and aspects of the business to help you determine whether it would be a good fit for your agency's overall book of business. Things to look at and questions to ask about the business include:

- **Business operations** – What type of wood products does the business manufacture? Certain types of wood products manufacturing can have a higher risk profile due to various hazards associated with their operations. You will find that each business will deal with risk mitigation differently.

Some commonly occurring hazards that can elevate a business's risk profile include:

- Improper spray booths or improper use of the correct booth including an NFPA-33 booth if applying/spraying stains, varnishes, or adhesives
- Lack of central dust collection system
- Improperly stored chemicals and solvents
- Guards being removed from equipment
- Lack of or improper safety warnings related to hazardous equipment
- Not having formalized safety procedures or a safety training program
- Fire hazards related to raw materials or finished products being stored closely together, thus increasing fire risk
- Trip/fall hazards related to raw materials or finished products being stored closely together and risk associated with retrieving materials either by hand or with materials handling (forklifts, etc.) equipment
- Non-employees in work (manufacturing) space

**This is not an all-inclusive list; additional information may be needed for underwriting purposes. Additional underwriting questions or supplements/questionnaires may be required. Please contact your underwriter for additional information.*

- **Discontinued products** – Has the manufacturer stopped making any of its products in the past seven years? If so, is there potential outstanding liability for recalled product or customer returns?

“ Certain types of wood products manufacturing can have a higher risk profile due to various hazards associated with their operations.”

- **Ownership and insurance continuity** – Has the business been operating under the same ownership for the past three years? Has the owner had insurance in place continuously over that same time period? Has the business operated under any other name in the past?
- **Product function** – Consider the wood product(s) the manufacturer produces. What function(s) do those products perform? Different finished products have different levels of risk and liability than others. For example, kitchen cabinets and knick-knacks or toys, while all made of wood, serve very different purposes and are used differently. Therefore, the potential liability associated with them is different and must be considered from a risk standpoint.
- **Service offerings** – In addition to manufacturing wood products, does the business also provide installation or other services? If so, who provides coverage for the materials, equipment, and finished products awaiting installation?
- **Transportation of products** – Are goods transported in company-owned vehicles or through contracted carriers? If company-owned vehicles are used, the business may have a need for commercial auto coverage.
- **Loss history** – What is the company's overall loss history? Very few businesses are loss-free every single year, but a company that has a history of year-over-year losses may present a higher level of risk.
- **Materials inventory** – What is the total value of the raw materials and finished goods maintained on premises? Is this number significantly different during peak seasons than in off-peak times of the year?
- **Use of subcontractors** – Does the business use subcontractors for any portion of its operations? If so, is the business named as an additional insured under the subcontractors' insurance policies, and are there proper risk transfer documents in place?
- **Raw materials** – Does the business have processes in place to inspect and either accept or reject raw materials? If not, risk is increased. Does the business depend on a limited number of suppliers for their raw materials? If so, the manufacturer may struggle if their supplier is unable to meet demand for any reason.

“ If materials are imported directly by the business, the import process may create a higher degree of liability.”

It is also important to evaluate whether any raw materials are imported from outside the United States. If materials are imported directly by the business, the import process may create a higher degree of liability. Smaller companies are often unable to effectively evaluate the stability of an overseas supplier. Liability laws also differ from country to country and may be difficult to enforce. Some insurance carriers will exclude losses associated with imported materials or goods or will rate the risk so high that the company may not be able to work the cost into their business model. Per United States law, any firm that imports goods to the United States and resells those goods has the same product exposure as a manufacturer of the goods.

- **Equipment** – What type of specialized equipment is used in the manufacturing process, and was that equipment purchased commercially or was it custom-manufactured for the business? If possible, try to get a complete equipment list and cost inventory. Businesses that apply paints or finishes should have properly operating NFPA-33 spray booths, and wood products manufacturing should use properly functioning NFPA-663 dust collectors. If the business does not have the appropriate equipment, it may present a higher level of risk.
- **Product design and assembly** – Does the company design products, or do they assemble products according to customers' specifications? A "yes" answer to either of these questions may raise the company's risk profile.
- **Component parts production** – Does the company manufacture component parts to customers' specifications, or are parts all "standard?" Is there a quality control process in place to examine and test those components prior to shipping to verify they meet the customers' specifications?
- **Employment** – What has the company's experience been with workers compensation claims? Manufacturing employees using dangerous equipment will have a higher workers compensation classification rate than employees whose responsibilities are strictly administrative in nature. Review overall payroll records to confirm workers are classified correctly for workers compensation insurance and to gather detail on job functions and crossovers. It's also important to evaluate the turnover rate for employees, especially those operating dangerous equipment.

// If the business does not have the appropriate equipment, it may present a higher level of risk.**//**

Questions to Ask:

Premises

Don't forget to conduct your own review of the building and the risks potentially associated with the construction and upkeep of the building as well as the parking lot/structures.

Buildings

When it comes to the building itself, you should understand the answers to following questions:

- Is any part of the building being leased to another entity? If so:
 - What is the leasing structure?
 - Are tenants required to provide current certificates of insurance showing the manufacturer is a named insured and that tenants carry limits equal to or greater than the manufacturer/landlord?
 - Are hold harmless agreements in place?
 - Does the manufacturer have a formal maintenance and inspection process in place for the leased premises?
- Consider commercial property underwriting questions such as the age of the building, construction type, number of floors, presence of elevators, condition of roof, etc.
- Is the property adjacent to other businesses or residential units? If so, know that some carriers require agents to submit a simple diagram of the building floor plan to show adjacencies of tenants.
- Consider the business's fire protection class. Are there sprinkler systems inside the building? Are there flammable liquids on site? Are hand-held fire extinguishers available? How many building occupants can there be at any given time?

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Parking

Parking lots, ramps, or garages can create their own potential issues from a risk standpoint. When evaluating a prospective wood products manufacturing client that has parking lots (surface) or garage/ramps (decks), consider the following:

- What is the condition of the parking area?
- How large is the parking area (square footage)?
- Is the parking area asphalt, cement, gravel, or a different type of construction?
- Who can use the parking area—employees only? What about customers?


As you can see, the scope of questions you should ask is broad. The answers to these questions will help you identify whether a prospective client is a good insurance risk for your agency. There is not a simple formula to help you make this determination. Rather, you should evaluate the potential client based on complete information about their business.

Optional Endorsements

You are probably already familiar with many policy endorsements for commercial insurance policies. Here are some endorsements that can be added onto policies for wood products manufacturing clients:

- **Loss of Business Income.** After a covered loss, it may be weeks or months before the manufacturer is back in business, but the expenses keep on going. During the time the business is down, employees also are not receiving a paycheck and may find work elsewhere causing the business to lose key talent. Business income coverage is designed to help with those types of expenses.
- **Equipment Breakdown.** Sudden and accidental “breakdown” of electrical equipment, boilers, or machinery. The trigger for coverage is a simple breakdown.
- **Manufacturer’s Selling Price.** Manufacturer’s Selling Price is the changing of goods from raw goods to a salable good that is of higher value than the raw goods. Insuring at the selling price is insuring the profit of the sale as well with this endorsement.

// You should evaluate the potential client based on complete information about their business. //

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- **Manufacturer's Consequential Loss Assumption.** Here is an example of this endorsement in action: A furniture manufacturing plant sells unique tables and matching chairs—the value of the complete set is worth more than the combined values of each component because it is a matched set. The tables are made at one spot and the chairs in another. If a fire destroys only the chairs, the tables would be worth far less. This endorsement provides coverage for the loss of value of undamaged property.
 - **Off-Premises Power Failure.** Loss of income and other damage can be caused by off-premises damage to the property of others. This endorsement covers loss due to lack of incoming electricity, water, or communication supply. Power supply services can source electricity, steam, or gas through utility generating plants, switching stations, substations, transformers, and transmission lines. Water supply services include pumping stations and water mains. Communication supply services (for example, telephone and radio) include communication transmission lines, coaxial cables, and microwave radio relays. This endorsement does not include overhead communication or transmission lines.

By understanding these endorsements, you will be in a better position to talk to your existing and prospective wood products manufacturing clients about adding coverage where appropriate to insure against these types of losses.

Conclusion

Wood products manufacturing risks offer a great market to your agency. Although they have to be underwritten closely they are seen as an above average risk opportunity by most insurance companies.

There are many types of wood products manufacturing businesses, but you will find that the insurance needs for these companies have many similarities. By conducting an initial review of prospective clients, you can determine whether it makes sense to delve deeper into the company's business practices and operations by asking the targeted questions outlined in this eBook. Keep in mind that manufacturing clients can also benefit from the common policy endorsements identified above.

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