



Logistics Risk Management Review

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Note from the editor

As we conclude 2008, we hope you have found our newsletter helpful and we hope you have a wonderful holiday session. We look forward to working with you in 2009 and continuing to provide solutions that protect what is important to you.

Insurance news

Fireman's Fund has just introduced a new enhancement to their Warehouse Logistics Insurance Program which covers certain liabilities assumed under Fourth Party Agreements. The new endorsement provides Warehouse Contingent Legal Liability. This protects the 3PL in the event the 4PL's insurance does not respond properly to a warehouse legal liability claim that would have been covered under the 3PL's policy. The reason for this stems from the fact that every insurance carrier has their own Warehouse Legal Liability policy form, most of which provide very limited coverage and many exclusion. This Warehouse Contingent Legal Liability endorsement will address the difference in conditions of the 4PL's warehouse legal liability to match the 3PL's policy terms and conditions thereby protecting the 3PL from many uninsured claims that their customer could hold them responsible for. Fireman's Fund is currently the only insurance company to offer this protection and endorsement. Keep in mind that adding a 4PL location to your current warehouse legal liability policy does not work. This is a common misunderstanding of many insurance brokers and a problem we run into continually.

For more information please contact me at 888-739-5518 or william-clark@leavitt.com.

Warehouse Robbery

This year we have had two losses arising from warehouse break-in and theft. Both these were committed by the same ring that has been targeting electronic products warehouses across the country.

There modus operand is too thoroughly case the facility prior to break-in which can take place on a weekend or at night. They know the products in the warehouse they want and know just when they are coming in or going out.

On our most recent loss we actually have video tape showing a pick-up truck pulling up to a man hole in broad daylight. Two men emerged from the truck and proceeded to remove a manhole cover. They left and a few minutes later a second truck pulled up and a man proceeded down the manhole. He cut all the alarm lines and left the scene after securing the manhole cover. Approximately three hours later the warehouse was broken into and a truck load of flat screen TVs were stolen.

These people have an extensive network of spotters who watch the entire operation and advise the people breaking in just what is going on. We had just about an identical incident earlier this year.

Where they get their information on what is in the warehouse is unknown however there is good speculation that they have contacts within the various customers facilities that alert them to product movement.

How do I protect my facility?

Both these facilities had full perimeter alarm systems including motion detectors and central station monitoring systems and video surveillance.

There a few things you can do to protect your facility;

1. Make sure your alarm system is a loop system that sets of an alarm if a connection is lost.
2. Have a battery back up dial in system in the event of power loss or interruption of a connection.
3. Meet with the company that monitors your alarms and determine their measures when an occurrence happens and also more detail on just how they address the above two items.
4. We suggest that you review their procedures as to who they notify and how quickly. Normally there is a call list consisting of managers and or owners. They should confirm if no one can be reached that the authorities be notified immediately. This entire procedure should not exceed a twenty minute response time.

5. If a response is made and an inspection of the facilities reveals no break-in, make sure someone remains on premises at all times until the alarm system is repaired and fully functional again. In some cases the authorities responded, found no evidence of break-in and left the scene. Shortly thereafter the thief's returned and broke into the facilities.

Am I legally liable?

This comes down to the degree of care doctrine. What would a prudent person do in a situation like this and what degree of protection should be in place for the product stored?

This has always been a grey area in warehouse legal liability and can go either way. Basically if the warehouse is aware of the exposure, what have they done to protect the property? Target items such as electronics and other high value marketable commodities require a very high degree of care. Also where they are located is another factor. Are you in a high crime area or low crime area?

In both the above cases the warehouse was sued by the customer for loss of product.

We further suggest you meet with your insurance agent or broker to discuss this exposure and how your current policy would respond. Also discuss with them what other warehouses have done to protect themselves from this type of loss. A court of law would accept testimony from warehouses with similar products and how they protect the goods.

Contacting and meeting with local authorities could help especially in territories that have special units dealing with cargo theft. They could provide you with valuable insight of past break-ins and trailer thefts.

In our next issue we will discuss the issues of dropped and loaded trailer thefts.

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Plastic Pallets

Hazards of Indoor Use and Storage

Article by Fireman's Fund Insurance Company: Loss Control Insights

Introduction

Industries have been using wood pallets for the storage and shipping of products for several years. However, the use of plastic pallets is gaining popularity. The increased use of plastic pallets is because they are:

- Lighter weight
- Durable (They do not break apart the way wood pallets do.)
- Power washable
- Resistant to vermin

Hazards

Plastic pallets represent a different hazard than that of wood pallets. According to the National Fire Protection Association (NFPA), when used indoors, plastic pallets increase the commodity classification within the building resulting in an increase in the sprinkler requirements for the building, storage, and operations. The combustibility of these pallets is different than that of wood pallets as they may burn hotter and potentially overpower the sprinkler system.

Consider these facts, which should also be considered for wood pallets:

- The higher the stack, the greater the volatility, and challenge to the effectiveness of the sprinkler system.
- Most standard facility fire control systems are incapable of handling the fire and heat generated by a high stack of plastic pallets.
- Stacking pallets outdoors against or near the side of a building creates an increased fire hazard, as storage yards are not usually protected by sprinkler systems.
- Sprinkler density requirements increase exponentially with the height of the stored pallets.

NOTE: The NFPA has specific guidelines regarding fire sprinkler density requirements based on the type (i.e., un-reinforced or reinforced), height, and number of plastic pallets stored, sprinkler



head temperature, and aisle space. If you have any questions, please contact your Fireman's Fund Loss Control Consultant for assistance.

What can be done?

The preferred method to store empty plastic pallets is in an outside, fenced yard, and a safe distance from buildings and structures.

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Outside storage guidelines

- Remove all combustible materials from the area, such as cardboard, paper, and weeds.
- Keep pallets away from propane or other fuel tanks.
- Stabilize the stacking arrangement so they will not tip over.
- Keep pallets away from regular vehicular traffic (forklifts, delivery vans, trucks).
- Store pallets well within the property line to avoid the possibility of vandalism or arson.

However, if outdoor storage is not an option, consideration should be made to provide a detached structure for handling pallet storage.

NOTE: The NFPA has specific requirements regarding the distance from walls that idle plastic pallets must be stored. Wall construction, openings, and number of pallets being stored are all contributing factors. If you have any questions, please contact your Fireman's Fund Loss Control Consultant for assistance.

Conclusions

Consider the current design of your sprinkler system. The design may have been satisfactory for operations, commodity, and storage configuration when using wood pallets. However, the use of plastic pallets changes the design requirements and your sprinkler system may now be inadequate. Before changing to plastic pallets, consider if it is practical from a fire protection standpoint (e.g., there may be the need to upgrade your sprinkler system).

Idle Pallet Storage Checklist

Confirm the following conditions for each of your idle pallet storage areas:

- Is each pallet storage area arranged in a safe and orderly fashion?
- Are pallet storage areas segregated from high value production equipment and critical utility areas, including pipe racks?
- Is the number of pallets stored in manufacturing/processing areas limited to the minimum necessary to facilitate efficient pallet storage?
- Are incidental inside pallet storage areas limited to a maximum area of 200 square feet?
- Are inside pallet storage areas limited to six feet in height?
- Is aisle spacing between indoor pallet storage areas and process equipment adequate for safe lift truck and pedestrian traffic?
- Are pallet storage areas segregated from potential ignition sources, such as electrical panels, cable trays, and maintenance areas?
- Is a minimum of 30 feet maintained between indoor pallet storage areas and other storage areas?
- Are outdoor pallet storage areas located at least 30 feet from any building or property line?
- Have boundary limits been clearly identified in facilities where automatic sprinkler systems have been designed to accommodate idle specifically production?
- Is pallet storage maintained within specifically identified pallet storage boundary limits?

From the article "Idle Pallet Storage Checklist" by Insurance Services Office, Inc.



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This is publication of Pridemark-Everest Insurance Services, a member of the Leavitt Group and a national insurer of logistics and transportation companies also representing the IWLA approved Warehouse Logistics Insurance Program.

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