

Property Risk Management and Insurance Strategies for Metalcasters

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ABSTRACT

The metalcasting industry faces unique property risk management challenges that require specialized insurance and risk engineering strategies. By understanding the market dynamics and adopting proactive risk management practices, metalcasters can improve their insurability, change the industries' loss history narrative and secure more favorable insurance terms.

Keywords: metalcasters, property risk management, risk insurance, market dynamics, foundries

INTRODUCTION

In the evolving landscape of property risk management, metalcasters face unique challenges that necessitate specialized insurance and risk engineering strategies. This paper explores the critical aspects of property risk management, focusing on the increased frequency of catastrophic events, the reinsurance dilemma, and the proactive steps metalcasters can take to improve their insurability and secure favorable insurance terms.

MARKET UPDATE AND UNDERWRITING CONCERNS

INCREASED FREQUENCY OF CATASTROPHIC EVENTS

There are several attributing factors impacting the property insurance market. One of the most substantial factors is the frequency and severity of catastrophic events that have surged, significantly impacting the property insurance market, especially for perceived high hazard classes of business. In 2023 alone, the United States experienced numerous catastrophic property losses, which have strained the reinsurance market and led to increased premiums and reduced coverage availability. (Figures 1, 2, and 3).



Figure 1. The premium change for commercial property for Q1 2013 through Q2 2024 is shown. (Artwork courtesy of the Council of Insurance Agents & Brokers/CIAB.)

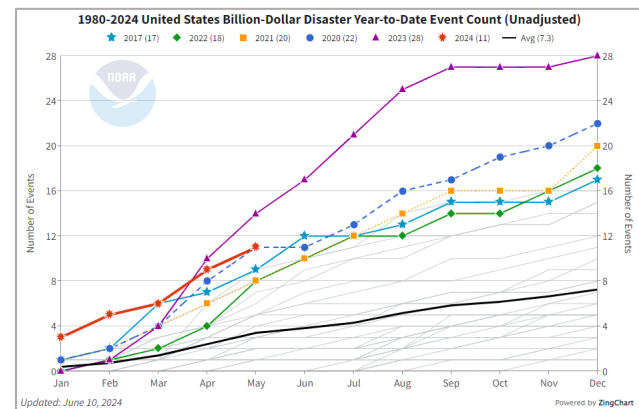


Figure 2. The 1980-2024 United States billion-dollar disaster year-to-date event count (unadjusted) is shown. (Artwork courtesy of NOAA – National Oceanic Atmospheric Administration.)

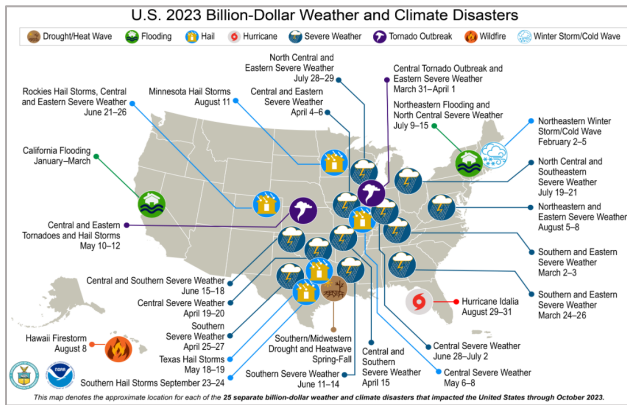


Figure 3. The United States 2023-billion-dollar weather and climate disasters are shown. (Artwork courtesy of NOAA – National Oceanic Atmospheric Administration.)

REINSURANCE DILEMMA

Reinsurance, a critical component of the property insurance market, has faced substantial challenges. The standard market property insurance reinsurance outlook has shifted dramatically from 2022 to 2023, with carriers reducing their reinsurance capacities. For instance, Carrier X's reinsurance capacity decreased from \$50 million to \$30 million, highlighting the tightening reinsurance market.

KEY REASONS METALCASTERS ARE ENDURING HIGHER PREMIUMS

Loss History

The metalcasting industry has experienced significant losses, with at least nine foundry fires reported in 2023. One foundry was completely destroyed and is not being rebuilt, underscoring the high-risk nature of the industry.

Higher Hazard Factors

Several factors contribute to the higher hazard classification of metalworking compared to other industries. These include the lack of sprinklers, high total insured values at each location, furnace exposures, construction types, protection classes, geographical locations, business continuity challenges, and chemical storage risks.

PROACTIVE RISK MANAGEMENT STEPS ARE CRITICAL TO CHANGE THE NARRATIVE FOR THE METALCASTING INDUSTRY

ESSENTIAL PROACTIVE MEASURES

Metalcasters must adopt proactive risk management practices to enhance their insurability.

Key steps include:

1. *Responding to Loss Control Recommendations:* Addressing and/or responding to recommendations. If a recommendation cannot be accommodated, it is helpful to have open dialogue with the broker and risk engineer to explore alternative solutions.
2. *Chemical Storage Management:* Ensuring safe storage and spill containment of chemicals is scrutinized closely by the insurance carriers.
3. *Infrared Scanning (IR):* Regularly conducting IR scans to detect potential issues is viewed favorably by insurance carriers.
4. *Interlocks and Hoses:* Carriers are familiar with hoses coming loose and causing 'fire throwing' losses. Hence, they scrutinize interlocks and hose material.
5. *FM Approved Hydraulic Fluid:* It is recommended to utilize approved hydraulic fluids to reduce fire risks.
6. *Business Continuity Planning:* Developing and maintaining robust business continuity plans is highly recommended.
7. *Emergency Response Planning:* Preparing comprehensive emergency response plans and practicing drills.
8. *Maintenance Plans:* Establishing and tracking regular preventative maintenance schedules is critical.
9. *Valuation Adequacy:* Ensuring accurate property valuations on statement of values.
10. *Sprinkler Systems:* Installing and maintaining effective sprinkler systems in non-molten areas is a recommendation often provided.
11. *Fire Department Coordination:* Familiarizing local fire departments with the facility layout and molten hazards.
12. *Near Miss Program:* Creating an internal near miss program specific to the property can help prevent larger events.
13. *Managing Independent Contractors on Premises:* Implementing proper risk transfer agreements, requiring certificates of insurance, and training are all highly recommended.

THIRD-PARTY RISK ENGINEERING

IMPORTANCE OF THIRD-PARTY RISK ENGINEERING

Utilizing third-party risk engineering firms is a strategic tool for metalcasters to assist with insurability. These firms provide detailed property engineering reports that include construction type, recommended improvements, and estimated loss scenarios. Such reports are essential for underwriters to calculate Probable Maximum Loss (PML) estimates and make informed underwriting decisions. Without these reports, underwriters are unable to truly assess and may lean towards worst in class resulting in declining to quote or higher premiums.

PROBABLE MAXIMUM LOSS (PML) CALCULATION

Steps to Calculate PML:

1. *Determine Property Value:* Assess the total value of the property.
2. *Identify Risk Factors:* Evaluate factors that could contribute to potential losses.
3. *Evaluate Risk Mitigation Measures:* Analyze existing measures to mitigate risks.

4. *Perform Risk Analysis:* Conduct a thorough risk analysis.
5. *Calculate Expected Loss Percentage:* Estimate the percentage of potential loss.
6. *Compute PML:* Multiply the property value by the expected loss percentage.

For example, if a property is valued at \$500,000 and the expected loss percentage due to fire is 20%, the PML would be \$100,000.

CONCLUSION

The metalcasting industry faces unique property risk management challenges that require specialized insurance and risk engineering strategies. By understanding the market dynamics and adopting proactive risk management practices, metalcasters can improve their insurability, change the industries' loss history narrative and secure more favorable insurance terms. Collaboration among brokers, underwriters, loss control specialists, and third-party risk engineers is essential to navigate the complex landscape of property risk management effectively.