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Third-Party Storage Facility Product Risk Management

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Just-in-time inventory management is a strategy employed by many businesses to decrease storage costs with much success. Now with ongoing supply chain disruptions due to the COVID-19 pandemic, many organizations are once again looking to increasingly warehouse essential items to provide a buffer. In addition, many businesses, especially in the food supply chain, don't have the luxury of just-in-time delivery. Instead, they harvest during a short time period, preserve the product typically by freezing, and then store the inventory until it is sold throughout the year. In the meantime, these goods may be exposed to controllable risks at a third-party facility.

The risks at the storage facility not only pose a hazard to the product itself, but they also may affect how stock throughput carriers view covering inventory stored in that facility. Some policyholders may be surprised to learn that loss control surveys of these third-party facilities are regularly requested to confirm the stock they insure is adequately protected.

There is a lot to consider when searching for an appropriate warehouse, and risk control items are not always top of mind. However, the following items should be accounted for when vetting possible facilities.

FIRE PREVENTION

When a building burns down, many deem the loss of the building as the most significant item. But when a warehouse burns, the value of the lost products often exceeds that of the building.

Hot work at a storage warehouse is typically confined to a maintenance shop, usually with a designated hot work area. However, repairs, installations, or remodels often require hot work, including welding, grinding, torch cutting, soldering, etc., significantly increasing fire risk. Two of the most common causes of fires in warehouses are roof repairs and racking repairs.

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Anytime hot work is performed, a hot work permit procedure must be followed. The fundamentals of these procedures include:

- Employee training
- Site assessment
- Elimination of flammables and combustibles from the work area when possible
- A fire watch that extends for at least one hour after the hot work ends.

Idle pallet storage is another common fire hazard at many facilities. With all the air spaces within, pallet stacks present a significant fuel source and can lead to the loss of an entire building if they start burning. Idle pallets should be stored 50 feet or more away from buildings, and idle pallet storage inside the building should be minimized.

AUTOMATIC FIRE SPRINKLERS

Automatic fire sprinklers systems are a basic control that should be in place at a facility storing your product. Considerations include:

- Is the system maintained according to [NFPA 25](#)?
- Is the system adequate for the commodity stored according to [NFPA 13](#)?
- Are the products stored to heights and in configurations as allowed by NFPA 13 for the installed sprinkler system?
- If a dry system is installed in freezer space, are ice plug inspections performed at least annually? Have steps been taken to prevent ice plug formation, such as air dryer installation or piping in dry freezer air for the compressor?

BUILDING MAINTENANCE

In addition to maintaining and testing the fire sprinkler systems, the building owner should conduct other run-of-the-mill maintenance procedures such as roof inspections, roof drain clearing, vegetation control around the building, and electrical system maintenance. Each facility should

have a schedule (typically at least every three years) for infrared scans of their electrical equipment to check for overloads and loose connections that cause hot spots.

SECURITY

Ensuring only authorized individuals can access the property, building, and product is important for many reasons, including preventing theft and fire. Fenced, gated, and posted security personnel, electronic access keys for buildings, and monitored internal and external security cameras are common methods to ensure a secure facility.

ADJACENT EXPOSURES

An often overlooked factor is exposure from adjacent properties. Is there a fuel tank farm next door or a river that regularly floods? What is the wildfire risk for the area surrounding the warehouse? These are some of the more common adjacent exposures to consider.

REFRIGERATION SYSTEMS

For those outsourcing cold storage needs to a third party, there are more specialized risk control items to think about, including:

- Are RETA-certified refrigeration technicians onsite, or do they contract out to a third party?
- Is remote monitoring of the refrigeration system possible?
- Have ammonia detectors and alarms been installed at appropriate locations?
- Does the engine room have adequate continuous and emergency ventilation per ANSI/IIAR 2?
- Are temperatures monitored and documented daily?

Backup power for the facility may be especially important when located in hot climates to maintain temperatures adequately in an emergency, and some insurers may require it to quote coverage. Warehouses in more moderate climates may be able to use controls such as

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keeping doors closed during a power outage and arranging for portable backup power with a local vendor for extended outages.

Risk control is often overlooked when establishing a relationship with a third-party storage facility and, unfortunately, may only become apparent following a large incident. If you have questions or need assistance with these risk control items, please reach out to Parker, Smith & Feek's Risk Control Team.