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On Tap: Beer Brews Up Unique Risks

Innovations in Insurance

By Maryanne Sherman

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Beer drinking has been part of the human experience since the dawn of civilization. It first appeared nearly 10,000 years ago, when mankind settled down in one spot and began farming the land and growing grain. No one is sure exactly how the process of beer making was discovered, but it is thought that some bread or grain got wet and fermented into a pile of mush. Rather than toss the mush out, some brave person took their first taste of the resulting brew. One has to wonder how they responded.

By 2000 B.C., the ancient Babylonians were brewing at least 20 different varieties of beer. All citizens were entitled to a daily beer ration, calculated by the person's social standing. Beer was also used for barter and, in some cases, a portion of a worker's wages was paid in beer.

Religious orders got into the beer brewing business around the year 700. They refined the methods used for brewing. The oldest known brewery still in operation today is the Benedictine Weihenstephan Breezeway in Bavaria, Germany. The brewery opened shop around 768 and by 1040 it was officially licensed by the City of Freising for making beer.

During the Middle Ages, it became a lot safer to drink beer than to drink the water. It was consumed by people of all ages and classes, and along with bread, became a staple of most people's daily diets for centuries. Today, beer is still one of the most popular beverages globally, just behind water and tea.

A $100 Billion Market

In 2013, according to the Brewers Association, the overall US beer market was about $100 billion, with the majority of US beer production controlled by two companies: Anheuser-Busch InBev and MillerCoors. Light beer is the largest beer category, making up nearly 50% of US beers with the craft beer market becoming an increasingly bigger percentage of the overall beer production.

While we drink beer today for the fun of it, the process of brewing and distributing the beer to the consumer is not fun-filled. Alcohol and beer production are among the most regulated industries in the US. Each state has rules about the manufacturing and delivery of alcoholic beverages.

Whether a brewery is huge or is a start-up craft operation, the risks of brewing and distributing beer are plentiful. Among them:

Supply chain risk:

Beer-making supply chains are complex. At MIT's Sloane Business School, students continue to learn about supply chain management complexity in the Beer Game. Originally designed in the 1960s, the game continues to be played to learn about the growing complexity of supply chains and management. It's played like any board game, on a board that portrays the production and distribution of beer. Each team consists of four sectors: Retailer, Wholesaler, Distributor, and arranged in a linear distribution chain.

The game highlights the complexity of the beer supply chain. What if a brewer's supply chain is disrupted? What if they can't get an ingredient they need? Consider hops. Partially blamed on the proliferation of the craft brewing industry, hops are getting harder to come by. It has brewers, especially the smaller ones, scrambling to find the crop that adds aroma and flavor to their brews. As a result of the shortage, the average price of hops has nearly tripled in recent years.

Examining supply chain risks helps brewers make sure there will be no disruptions in production or distribution, or unanticipated costs that could affect profit margins, among other things.

Equipment breakdown:

A winter storm – or series of them, like those Boston has seen this winter – could include power outages, resulting in drastic temperature changes inside a brewery or storage warehouse. Often property insurance coverage may offer some business interruption insurance that would address operational disruptions as a result of property damage. But what if equipment conks out without the help of nature's wrath?

"Temperature, humidity and the overall atmosphere in a brewery are extremely important. Without a controlled temperature, the beer – wine or spirit – could spoil. In addition, there are huge risks associated with packaging and bottling beer and alcoholic beverages," says Brian Strain, Head of XL Group's Equipment Breakdown insurance.

If equipment fails or is damaged, the equipment breakdown insurance pays to repair or replace it. Equipment breakdown coverage can be bought as part of a brewer's property coverage or as stand alone coverage.

"One of the added benefits of our standalone equipment breakdown coverage is the risk engineering that accompanies it," notes Mr. Strain. "We work with our clients to keep equipment up and running by helping them address regular maintenance procedures and making sure they have contingency plans in place to get things fixed quickly."

Product contamination:

"Contamination is a real concern for brewers," says John Turner, Head of Product Recall for US and Canada. "While the brewing process itself will generally remove harmful bacteria, there are potential risks of contamination from the gases used in the process as well as foreign materials in the bottling process. These risks are well known and have resulted in numerous large and small recalls over the years and they remain an ongoing threat to both product and brand."

"Our coverage helps brewers address the costs and loss of profits associated with a contamination incident," explains Mr. Turner. "More importantly though, our expert Response XL consultants work closely with clients to help them make the right decisions in a crisis. And from a pre-incident perspective, we help them manage their risk to mitigate against possible recalls and to boost their preparedness for a recall situation. Advance preparation helps brewers address potential contamination quickly and can minimize the financial and reputational toll that a recall can take on a company."

Cargo:

Beer is certainly a global product. And many beer drinkers are brand sensitive. Approximately 10 percent of the US beer market is imported and it's a fast growing segment. According to a Beverage Industry report, imported beers grew in volume by 4.5 percent in 2013.

"Ocean Cargo insurance covers property while it is in transit, whether it's shipped via truck, train, vessel or plane to/from anywhere in the world," explains Andrew D'Alessio, National Ocean Cargo Manager for XL Group.

All risk coverage includes any normal transportation losses including breakage which is an issue of concern because many types of beer, like wine and other spirits, are still imported in glass bottles. "In buying cargo insurance for a beer or alcohol brewer, it's important to read the policy," said Mr. D'Alessio. "Many cargo forms may include restrictions for the theft of alcoholic beverages. Other considerations to address when purchasing ocean cargo insurance for perishables include temperature sensitivity, shelf life, and contamination."

Theft:

While other high-value spirits are bigger targets, beer is not immune to theft. A 140528 XL Newsletter May 2014 Motor Truck Cargo insurance policy could cover the loss of the driver's load, but not necessarily from employee theft which is almost always excluded, according to Alexander McGinley, Vice President for XL Group's Inland Marine team. Also, many policies limit coverage for non-employee theft through a loss limit or higher deductible.

"Truckers that haul beer, wine or hard liquor can request changes in coverage to ensure they have adequate coverage for cargo theft," says Mr. McGinley.

Recently, 44,000 pounds of Miller High Life beer were stolen from a truck stop in Florida. It is always important to know the value of your loads to ensure you have enough coverage in the event of a loss. In the case of the stolen beer in Florida, the cargo was at $40,000. Had the driver had a policy limit that was less than the value of the beer, then he would be on the hook for the remainder of the loss.

Refrigeration is also important in transporting many beers. Many Motor Truck Cargo policies exclude "reefer" or refrigeration breakdown exposure. Had the loss been the result of a reefer breakdown and the policy contained an exclusion, then the trucking company would have to pay this loss out-of-pocket.

"It's important to know what coverage is in place when transporting beer or any other load," advises Anne Marie Elder, XL Group's Chief Underwriting Officer for Inland Marine. " That's why, after investigating available policies and listening to our brokers and insureds, we created a comprehensive product called Motor Truck Cargo Coverage Solutions, which includes flexible limits for 23 additional coverages, plus 22 optional endorsements (including employee theft and refrigeration breakdown), multiple reporting options and payment plans."

Bottoms Up!

Beer is the adult beverage of choice in the US. According to Gallup's Annual Consumption Habits survey, 41% of US drinkers report they typically drink beer. To get their product to the consumers who enjoy a good brew, beer makers contend with a complex business environment. Fortunately, with wise risk management strategies and the right insurance, brewers are keeping up with the US' thirst for beer.

The Mash Melee

When brewers make beer, they have leftover "spent" grain. The majority of brewers either gives or sells the leftover grain to local farmers who use it to feed their animals. This practice serves two purposes: to help the brewers get rid of millions of tons of leftover product and it provides a free, nutritious food source for animals at local farms.

In 2014, United States Food and Drug Administration (FDA) however proposed, under draft Food Safety Modernization Act (FSMA) rules issued for public consultation, that brewers producing feed for animals should be subject to regulations drafted in relation to pet and animal feeds. Because FDA feared that the lack of regulatory oversight from the time of brewing to the time the grains are fed to the animals could lead to contamination. For example, many brewers store the spent grains in uncontrolled vessels that may be susceptible to contamination with foreign materials or chemicals within the brewing facility.

Under the proposed regulations, the practice of selling or giving the "spent" grain to farmers would be outlawed, unless breweries went through an expensive and time-consuming process to ensure the grain was handled according to regulation. The vagueness of the proposed rule led brewers and farmers to speculate that the FDA would require breweries to spend time and money to dry and package the grain and keep it secure.

This proposed new regulation was seen as real blow to the industry and would be particularly onerous on smaller craft and microbreweries. Because of the cost and workload the regulations would require, many brewers said they would end up just throwing the grain away, adding to landfills and cutting off a free food source for farmers.

According to some breweries, the regulations could cost up to $13 million per brewery. That figure quickly circulated around the industry. Several members of Congress wrote to the FDA asking it to reconsider the rule. Before the comment period for the rule ended, it garnered 2,000 comments from brewers and farmers.

The FDA has since clarified its intent. It now says it won't require the expensive drying and packaging process. Further, it has emphasized that the costs to breweries will be minimal. However, it is still unclear whether the rule will be a financial burden for breweries.

According to the FDA's website in March 2015, "Human food processors already complying with FDA human food safety requirements, such as brewers, would not need to implement additional preventive controls or Current Good Manufacturing Practice(CGMP) regulations when supplying a by-product (e.g., wet spent grains, fruit or vegetable peels, liquid whey) for animal food, except for proposed CGMPs to prevent physical and chemical contamination when holding and distributing the by-product (e.g., ensuring the by-product isn't co-mingled with garbage).

About the Author

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