

# Insurability of Supply Chain Risk: Developing a Research

The point of view of an Underwriter

## The underwriter's experience

- ❑ The insurance industry has not been active in developing a risk transfer mechanism for the Supply Chain, nor active in the development of solutions
- ❑ This is a complex issue and, very often, very confidential as part of the competitive advantage that any corporate client has to create

However

- ❑ The industry will cover **Contingent Business Interruption (CBI)** as an extension of a property program with low limits...which seems to satisfy the insured in many instances...
- ❑ There is some parts of the supply chain covered with third party (product liability / product recall, not available to all industries)

- ❑ CBI: A recurrent topic in claims but often below radar screen except in Cat situation.

There is

- Frequency
  - Severity
- } => 2 ingredients that have to be dealt with by underwriters

- ❑ Very large Nat Cat (Thai Floods, Tohoku earthquake in Japan, Sandy) can trigger widespread CBI claims to extent that an account considered as non Cat can become Nat Cat driven => global event
- ❑ The insured company doesn't have to be directly impacted by the catastrophe for them to claim, the in depth knowledge of the supply chain is vital for adequate cover.  
The underwriter may also be impacted by an event without knowing it (2008, Gas explosion on the Varanus Island)
- ❑ Requesting full lists of the suppliers is becoming more common place before cover is issued. But it does not give the means for an adequate risk assessment

## Few lessons learnt

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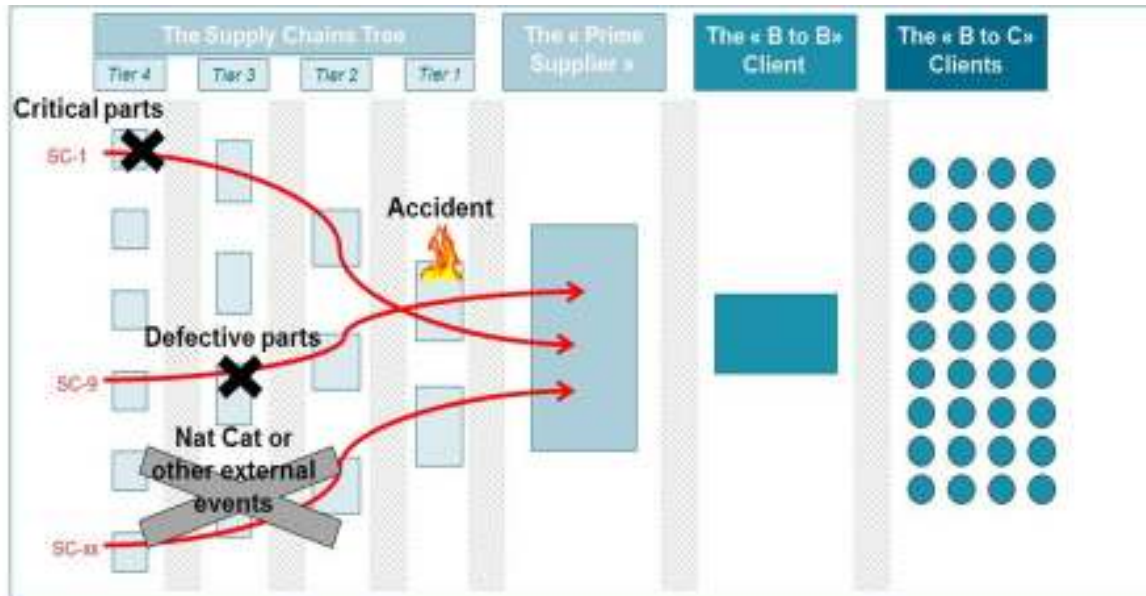
- ❑ In many instances still a functional divide between Supply Managers and Risk Managers
  - Risk Manager not always informed of the CBI events, except for a large catastrophe
  - **Business Continuity Plan (BCP)** not always linked with Risk / Insurance Managers
    - Very often designed at local level with no aggregation at Group level
  - Lack of clarity in the Supply (contractual) practices
- ❑ Difficult and labourious assessment of potential consequences
  - Claims taking a lot of time to be formalised by the insured (up to 9 months)
  - Loss adjustment not always « au fait » with supply chain practices
- ❑ Wording not always very clear in respect of the intentions
  - Nat Cat. vs. CBI / (**Contingent Time Element**) CTE
- ❑ An underwriting reaction:
  - Some wanted to exclude CBI without adequate information after a certain period of time...
  - Others:
    - Decrease the sub-limits the CBI for supplier within Cat area
    - Restriction to Flexa and named perils
    - Anti-stacking clause between CBI and Nat Cat sub-limits
  - Coverage restricted to Named suppliers for Tiers 1 ...and 2
  - No coverage or very limited to other tier suppliers

## SCM & Insurance: An unfinished business but requiring a paradigm shift?

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- ❑ A story still to write:
  - Potential global exposures with CBI impacts:
    - Nat Cat: California, Washington, Chile, Peru, New Zealand, Taiwan, China, Thailand, Malaysia, Australia
    - But also solar storms with their potential impact on communication
    - Volcanic ash clouds (cf. Eyjafjallajökul in Iceland)
- ❑ A story not limited to Property
  - But also to Liability (Product Liability / product recall) refer to Chinese Drywall in USA,
  - Political risks: social unrests, piracy,
  - Cyber,...
- ❑ A story, to be complete, which should be dealt with, under a separate cover dedicated to Supply Chain?
- ❑ But, whatever solutions the market adopts, a story subject to a robust Enterprise Risk Management with a clear underwriting file
  - This is an entrepreneurial risk
  - Risk register and a Risk Management
  - A modelling analysis
  - Stress scenarii on SCM and financial impact
    - Leading to a more comprehensive underwriting file for the underwriters and to perhaps offer a more comprehensive Supply Chain Insurance product
- ❑ Sectors with complex Supply Chain from an insurance point of view
  - Oil and gas; Automotive; Aviation and Defence; Hi-Tech; Heavy industries; Pharmaceutical....

# A comprehensive ERM framework lead to more chances of adapted, efficient and sustainable insurance solutions



## Internal risk analysis – key features

- ❑ Critical parts / key products
  - Single supplier bottlenecks and dependencies
  - Fully integrated “just in time”
- ❑ Defective parts
  - Quality Assurance / Control (“Waterfall” clauses in the contracts)
  - Audits
  - Products certification

## External risk analysis – key features

- ❑ Nat cat and other external events
  - “Supply x peril x geography” accumulations

## Global ERM framework

- ❑ In normal operating conditions
- ❑ In stressed operating conditions for the most critical scenarios
  - Nat cat events
  - Black swan scenarios
- ❑ Business impact analysis : quantification of the financial exposures
- ❑ Business Continuity / Recovery Plans and crisis management
  - Response Drills

## Insurance Solutions

- ❑ Contingent Business Interruption, as a stand-alone product
- ❑ Intellectual property
- ❑ Cyber & cyber liability