INSURANCE: A CRITICAL LINK BETWEEN THE SUPPLY CHAIN & YOUR BUSINESS

Guide to Managing & Mitigating Risk

A reliable, optimized supply chain is the foundation for continued success. When a supply chain experiences unforeseen delays, these disruptions can cause ripple effects that intensify and worsen up the chain, leading to end-product delays or absences in crucial markets. Such disruptions can trigger unanticipated financial and reputational consequences for numerous supply chain members.

With the increasing complexity of supply chains, it is becoming more and more necessary for businesses to purchase insurance coverage to protect themselves from potential losses and disruptions. Fortunately, there are various types of insurance available to business owners for supply chain risk.

INSURANCE OPTIONS TO EXPLORE WITH YOUR ADVISOR

Business Interruption (BI) Insurance
This type of insurance provides protection for the business if they are unable to operate due to a covered event, such as a natural disaster or power outage. It's important to note that many BI policies will only cover a claim if there is physical damage from an event like a natural disaster. However, if a strike causes a shipping delay, this event likely won't be covered by a BI policy, as it probably will not cause physical damage to the business.

Contingent Business Interruption (CBI) Insurance
This coverage can be particularly important for businesses that have a heavy reliance on one or two key suppliers or partners. If your direct suppliers experience physical loss, damage, or destruction to their property and this impacts your business operations, you could make a claim to cover the resulting losses. Much like with a BI policy, this coverage usually only covers physical damage. Many carriers only cover "direct" suppliers, and not second or third-tier suppliers.

Non-Damage Business Interruption (NDBI) Insurance
NDBI is a type of insurance that provides coverage for financial losses incurred by a business due to an interruption in its operations that is not caused by direct physical damage to the property. These events may include labor strikes, production issues, closure of transportation infrastructure, regulatory action, and political or civil unrest. In instances of named exclusions, there may be specialized coverages that can fill in the gaps.

Product Recall Insurance
If your business produces and distributes products, you face the risk of a recall due to safety concerns or defects. This can result in significant financial losses due to the reverse logistics costs stemming from collecting and disposing of unsafe products, as well as extended downtime, lost sales, and reputational damage. Product recall insurance can provide financial protection against these types of losses, reimbursing your company for the costs associated with the recall.

Stock Throughput (STP) Insurance
STP insurance is a coverage that addresses not only the transportation, but also the storage and handling of goods throughout the entire supply chain. It combines the protection of goods in transit (also available as a standalone coverage with cargo insurance) with coverage for goods while they are stored at warehouses, manufacturing facilities, or other storage locations. STP policies cover goods from the point of origin until they reach the end customer, including all intermediate storage and transportation stages.

Trade Disruption Insurance (TDI)
TDI is tailored to protect businesses from cross-border losses resulting from delays or non-arrival of goods due to events, such as political risks, labor disputes, natural disasters, or other events that disrupt international trade. This type of insurance is a specialized named-peril form of insurance that can help address gaps in BI insurance. TDI can provide coverage for businesses in the event of disruptions to their trade and supply chain operations that result in cross-border losses.

Political Risk Insurance
Businesses that operate internationally may face political risks, including changes in foreign government policies, expropriation, confiscation, political violence, and currency inconvertibility. This type of insurance is designed to provide financial protection for businesses operating overseas against these types of risks and can be customized based on specific needs. While the types of coverage mentioned before can address some of the most common types of supply chain risk, some businesses may also face greater challenges related to geopolitical risk and civil unrest due to the nature of their operations.

Terrorism Insurance
Terrorism insurance can provide coverage against losses resulting from acts of terrorism, including the disruption of supply chains. While this type of coverage is sometimes included in other policies, such as property or BI insurance, it may be necessary to purchase standalone terrorism coverage to ensure adequate protection. With terrorism insurance, businesses can receive coverage for losses resulting from physical damage, business interruption, and other related costs.

Cyber Insurance
Cyber threats pose a significant threat to supply chains. The technology that makes supply chains faster and more efficient also poses a threat to their cybersecurity, with attacks to software within the supply chain becoming more commonplace over the years. A software supply chain attack occurs when an attacker targets trusted third-party vendors with access to systems and data who offer vital services or software to the supply chain. Cyber insurance can provide coverage for losses resulting from cyberattacks, data breaches, and other digital threats that could disrupt the supply chain, though insureds need to be aware of exclusionary language and sublimits for these cyber supply chain events.

With any insurance policy, the details matter – be sure you review common exclusionary and restrictive language regarding your coverage, as well as specific terms of coverage with your insurance advisor to avoid being on the wrong side of insurance should a claim arise.

IMPORTANT TOPICS TO DISCUSS WITH YOUR INSURANCE ADVISOR

Exclusions
Some policies may have specific exclusions regarding the types of events that are covered, such as war, terrorism, cyberattacks, or pandemics.

Named suppliers/customers only
Some coverages may only apply to named suppliers and customers in the policy, leaving companies exposed if an interruption occurs with an unnamed critical supplier or customer.

Coverage scope
One policy may not cover every aspect of your business operations or may have specific exclusions that impact your company, which is why you should explore your coverage options so that one policy picks up where another drops off.

Waiting period
Many policies have a waiting period before the coverage kicks in, which could leave you responsible should you experience a loss during this time.

Duration of coverage
Certain policies may have a time limit on the duration of coverage, and extended periods of disruption might not be fully covered.

Insufficient policy limits
If you underestimate the potential losses from supply chain disruption and set policy limits too low, you may end up underinsured.

Geographic limitations
Carriers might place geographic restrictions that limit coverage to disruptions occurring in specific regions or countries. This can leave companies exposed to disruptions in excluded locations.

Proof of loss
You might face challenges in proving the extent of financial losses and the direct link to the third-party disruption, particularly in complex supply chains.

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MANAGING SUPPLY CHAIN RISK

Insurance can play a critical role in mitigating supply chain risks, but you'll need to be sure to address common coverage gaps, by reviewing your policies carefully, discussing your unique risks with your insurance advisor, and considering additional or complementary insurance coverage, if necessary. Though insurance can provide critical financial protection should you experience a supply chain event, it should not be seen as your first line of defense.

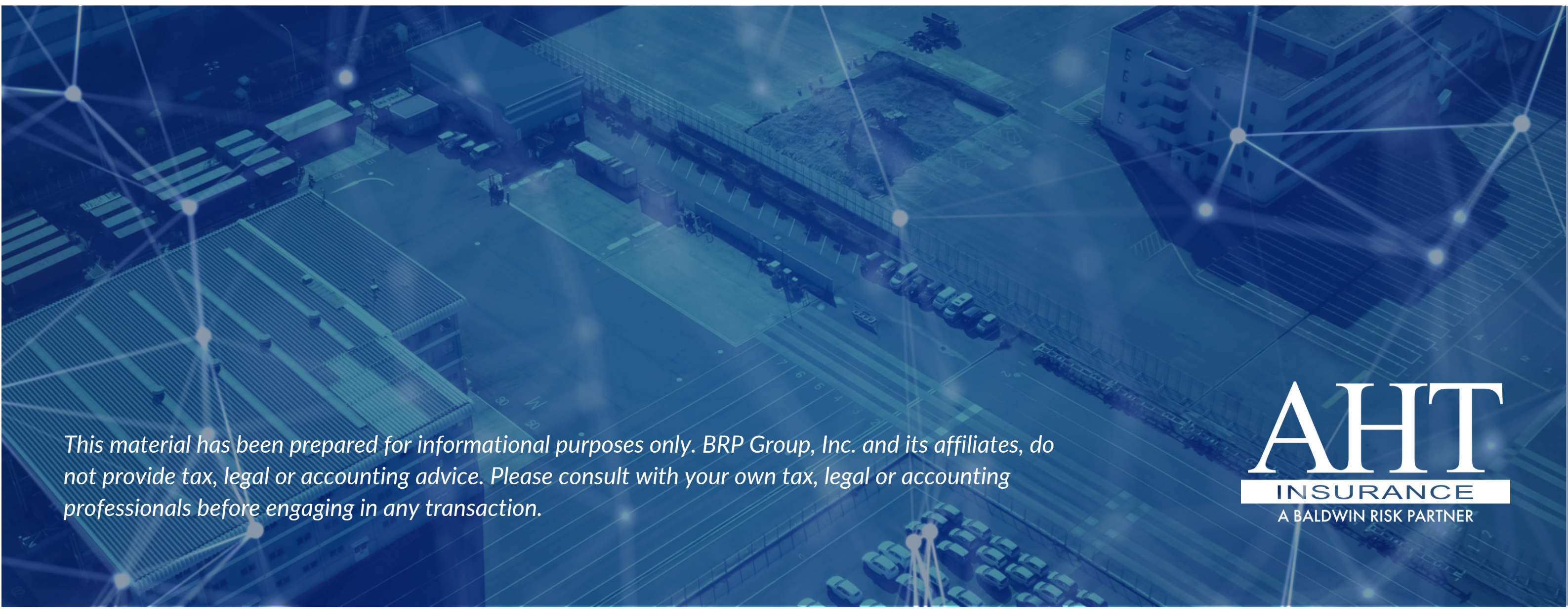
You can also help limit your organization's exposure to supply chain risk by taking the following actions:

- Assess your supply chain and identify risks and weaknesses.
- Identify back-up vendors and suppliers.
- Balance supply chain logistics, namely just in time delivery, with risk management.
- Create contingency plans and include supply chain disruption in your business continuity plan.
- Revisit procurement contracts with your legal team to potentially reduce your contractual liability.

By taking these steps, business owners can make informed decisions about mitigating their supply chain risk. Our team of commercial risk experts are available to be a valuable resource to help your business identify and contain its risks and secure proper insurance coverage.

Contact us today to learn more about how we can help.

[Contact Us]



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