



While lean production has become a cornerstone of successful supply chain management and a way for businesses to stay flexible and responsive to changing tastes in their markets, the dependence on and relationship with suppliers resulting from outsourcing and minimizing stock creates a host of exposures. Successfully navigating and managing the risks presented by a complicated supply chain that spans across regional, national and especially international territory is a complicated endeavor considering the countless precarious factors that can cause disruptions or liability issues across the entire supply chain.

### Compounded Risk

A key supplier or buyer can be debilitated for a number of reasons: natural (e.g., floods, pandemics, earthquakes and severe storms), human (e.g., terrorism, civil disorder and electronic security breaches) or technical (e.g., power failure and hardware or software viruses). These events can have dramatic effects on supply chain partners both upstream and downstream.

A single disruptive event in Europe, for example, could initiate a customer service nightmare in the United States. And disruptions are more common than one might imagine—a survey of corporate risk managers and supply chain risk managers by insurer Zurich Services Corporation revealed that 74 percent of respondents had experienced a supply chain disruption within a 12-month period, not only affecting top and bottom lines but also damaging their brands and relinquishing

market share. Potential effects of supply chain disruptions could include the following:

- Reduced market share
- Loss of customers

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A supply chain that spans across multiple regions and countries can add unpredictable risk to your business. Disruptions can damage your brand, bottom line and market share.

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- Damage to image, reputation or brand
  - Higher cost of capital
  - Potential breach of contract
  - Failure to meet legal or regulatory requirements

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- Decrease in sales and increase in costs, from which many companies never recover

## Your Liability in the Chain

Even worse, companies can be held liable for their supply chain partners' mistakes. A defective or inherently dangerous product or part can cause liability issues for its designer, offshore manufacturer, shipper, wholesale distributor, retail seller and installer, who are collaboratively and jointly responsible. In fact, even though a seller has exercised all possible care in the preparation and sale of the product, it can still be held responsible. Wholesalers or finished product manufacturers can be sued by an injured third party individually or together with any or all other parties involved in bringing the product to market and selling it to the consumer.

## Reducing Your Exposure

What can a risk manager do to effectively mitigate risk in such an environment? Fortunately, there is a growing body of best practices for risk management across the supply chain. One of the most important things is to stay abreast of every development in your environment. Consider the following steps you can take to mitigate your business's risk:

- Choose suppliers carefully, and conduct regular audits and inspections if possible to ensure that their commitment to business interruption prevention matches yours:

- Check the Moody's or S&P rating of potential suppliers.
- Verify suppliers' insurance coverage. Remember, a certificate of insurance is evidence of insurance only when the certificate is written, and not at any time after that moment.
- Clearly define contract scopes and draft contracts carefully with the assistance of specialized legal counsel. Consider indemnification, hold harmless and defense agreements.
- Work with USI Insurance Services to understand the extent of your exposure, and create a business interruption worksheet to quantify as accurately as possible the effect these exposures could have on revenue and profit.
- Re-evaluate the worksheet on a regular basis to account for changes in the market or your business model. Focus not only on the inherent risk of a broken link in the supply chain, but the interdependencies between links throughout the chain:
- When there is a global event, examine your supply chain to see if any part of it might be affected.
- Be aware of developing risks, e.g., cyber warfare, climate change, nanotechnology and synthetic biology.

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# Supply Chain Risk Management

- After identifying risks, put a plan into place. While it is easy to prioritize speed over follow-through, identifying risks is of little use if steps are not taken to mitigate these risks. Plans might include these components or others:
  - Business continuation plan
  - Geographical diversification of servers
  - Plan to relocate business to an alternate location
  - Sourcing of goods from alternate suppliers
  - Business Income Disruption
  - Marine and Cargo coverage for long voyages taken by commodities, components and finished products
  - Liability coverage, including Commercial General Liability, and Directors and Officers Liability
  - Other special endorsements specific to your exposures
  - Carefully read your policy and ensure that it includes coverage of loss of supplier, stoppage of supply and interruption of service.

Of course, some supply chain partners may have several locations that could keep the flow of raw materials going in the event of a disruption. Investigating these factors is an important component to creating a supply chain risk management plan:

Transfer your risk by purchasing appropriate coverage, which could include the following, depending on your exposure mix and risk tolerance:

## Working Together

Engaging supply chain partners and insurers in your effort to minimize supply chain risk and regularly reassessing exposures can help you to successfully manage your business's risk from beginning to end of the supply chain. USI Insurance Services can help you every step of the way. Contact us today to get started.



*Contact our Transportation Team to learn more*

***Pictured from Left to Right:***

Joseph Talbot, Kevin Racine, Patrick Tracy, Chris Abboud, Michael Beckett, Josh Doolan, Shawn Lee, Karen Morgott, Tim Geiger, Rob Anderson,

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