



Protect Your Supply Chain Amid Unprecedented Challenges



When the COVID-19 pandemic started, supply chains became so unstable that new disasters had the power to shut down large companies and entire industries. Today, a supply chain crisis remains, but the causes have evolved. Many of these organizations have returned to full power, but the supply chain is not ready for them.

The U.S. does not have enough truck drivers, for example, to transport containers to warehouses, so the goods remain at the docks. The American Trucking Association (ATA) estimates that the U.S. is short 80,000 truckers — an all-time high for the industry — and the deficit could reach 160,000 over the next decade.

Until existing shipments are cleared, new ships can't come in and offload their cargo. To further complicate the problem, today's ships are so massive that a single delay can be vastly disruptive. To sum up the problem, Dr. Stephen Flynn, founding director of Global Resilience Institute at Northeastern University, said recently: "A hyperconnected world translates into a greater risk of cascading failures."¹ These cascading failures are expected to persist through 2022, according to economists at Goldman Sachs, and some experts find this estimate optimistic.

And what about future disruptions caused by events such as extreme weather, potential cyberattacks, and disasters like the Suez Canal blockage in March 2021?

These pressures could topple the global supply chain like a house of cards and disrupt not just businesses but the entire economy.

These factors profoundly affect what all organizations must do to prevent, plan for and respond to disruptions and delays. Effective risk management is the priority, followed by evaluating insurance coverage to ensure it aligns with the company's risk profile and strategy.

Have "Plan B" Suppliers in Place

It has always been a best practice to have an alternative list of "B suppliers" to use as a backup plan. This could include suppliers of raw materials for manufacturers, materials for construction companies, or products required by any organization to meet customer demands. However, according to the Chartered Institute of Procurement and Supply (CIPS), 66% of businesses currently don't have a plan B in the case of supply chain emergencies, even though disruptions can lead to serious financial and reputational damage. In addition to having B suppliers in place, it's important to have a risk management strategy.

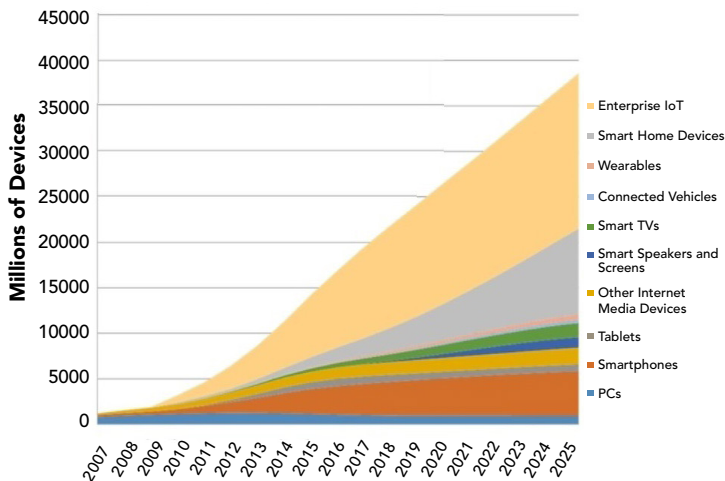
Having a backup plan is essential, but plan B suppliers often will require long-term agreements and potentially more preparation time to fulfill orders. Before making any agreements, organizations should also have a solid understanding of the supplier's capacity, quality, financial performance, and health and safety record.

Continued on next page

Invest in the Right Technology

Recent supply chain disruptions uncovered many inefficiencies and ineffective supply chain management strategies, resulting in the crucial need for enhanced real-time visibility into product status and location. This has forced many organizations to adopt new technology over a short time, including the digitalization of the supply chain.

Internet-Connected Devices Installed Worldwide: Base Forecast



Source: Strategy Analytics Research Services²

The number of devices connected to the internet is projected to be 39 billion by 2025. Enterprise internet of things (IoT) remains the leading segment, accounting for more than half of the market.²

Creating a data trail using digital capabilities such as artificial intelligence (AI) and blockchain can improve business and consumer confidence in the quantity and quality of goods that are produced, shipped and delivered. Overall, the implementation of emerging technologies adds clarity to the process and ultimately improves trust — revealing the availability and safety of goods, while accelerating their delivery.

While technology can help improve production and transport, it can also increase the risk from cyber threats. In addition to direct threats, such as malware or a data breach, an increasing number of organizations are experiencing cyber incidents caused by one of their third-party vendors. Any downtime as the result of a cyber incident can have a significant impact on productivity.

When taking steps to improve cybersecurity, take the time to also understand what cyber protections third-party vendors (including technology and supply vendors) have in place, including policies, procedures and also cyber insurance coverage.

Other Factors and Tactics

To help protect supply chains against future unexpected crises, consider the following factors and tactics for supply chain planning:

- **Source locally.** In particular, construction companies can avoid delays by purchasing materials locally. Ordering materials overseas lends itself to possible delays in manufacturing and delivery. Both are out of your control until the items are delivered to your job site or warehouse.
- **Prepare for price inflation.** Supply chain problems have helped to create high demand and low supply, which inflates the costs of critical equipment, property values, and other products and services. All organizations should budget for price inflation while building strong partnerships with valuable suppliers.
- **Review contracts.** Existing contracts with supplies or others in the logistics chain can impact how businesses can pivot right now. Review contracts to see if they contain clauses such as a force majeure, or other opportunities to pause or cancel a contract.
- **Utilize inventory stockpiles.** Until affected factories can resume normal production, manufacturers will need to rely on inventory stockpiles. When existing inventory runs dry, expect to see shortages and/or price increases throughout supply chains if alternate sources aren't secured.
- **Diversify geographically.** The current supply chain crisis is proof that organizations need to revisit their sourcing strategies and consider reducing dependence on any one major location. Many manufacturers were already having these conversations as a result of trade policy disruptions. By shifting to a variety of supply sources, companies can reduce the impact of natural disasters or trade issues on their businesses.
- **Increase visibility.** Cargo-tracking, automated warehousing and cloud-based GPS introduce increased visibility into nearly every part of the supply chain. Surprise disruptions, which used to occur in areas where companies didn't know supplies traveled, are less common as a result. By capitalizing on these technologies and increasing their real-time visibility into every part of the supply chain, companies can more proactively identify areas of potential risk prior to an issue, or more quickly notice and respond to a disruption that does occur.
- **Optimize sales and operations.** Nearly every business has seen a change in demand. While some have seen significant increases in demand for basic consumer goods, others have seen demand shift from various products or customer types, or fall altogether as a result of the supply chain crisis and uncertain economic environment.

Continued on next page

This is an important time for companies to be agile in reacting to these changes and plan production, distribution, and inventory investments to optimize their response to these fast-moving challenges and opportunities.

- **Conduct a business continuity risk assessment.** Although companies cannot predict when a public health crisis, natural disaster or supply chain disruption might occur, they can help mitigate the effects of unexpected disruptions by carrying out risk assessments. A business continuity risk assessment may identify internal operational, financial and market risks, determine direct and indirect impacts, and help the employer generate a contingency plan in case of unexpected disruptions.



How USI Can Help

Today's unprecedented supply chain challenges require customized solutions — standard insurance products will not be sufficient. We work with clients to evaluate all supply chain exposures, including both domestic and international, as well as any continuity/contingent plans. We recommend the following approach:

1. **Risk management: Establish a program tailored for your organization.** The tactics discussed above apply to most companies, but it's important to meet with an expert to develop a plan that addresses your company's unique needs.
2. **Insurance: Design a program that aligns with your risk management approach.** Aligning the two programs will help ensure that no gaps or redundancies exist in insurance coverage.
 - Consider contractual liability: Business relationships, supply chains and operations are evolving rapidly — so too must contract language. Consider integrating a price escalation clause in your contracts to address the cost increases of materials and reflect changes in exposures.

- Evaluate and tailor stock throughput, transit, property and business interruption coverages to ensure business operations and financials are adequately protected.
- Ensure property values reflect changes in exposures.

The global supply chain crisis has exposed the limits of many types of coverage, so organizations should ensure their coverage matches their risk profiles. Companies should also familiarize themselves with their existing insurance policies so they are aware of the extent of their coverage. In the case of a public health crisis such as the COVID-19 pandemic, pay close attention to whether coverage contains a communicable disease exclusion or not.

Learn how USI can help evaluate supply chain exposures, both domestic and international, as well as any continuity/contingent plans. Email pcinquiries@usi.com to learn more or contact your local USI office today.

Sources:

¹ 2021 presentation, "Understanding Global Supply Chain Risk"

² Strategy Analytics Research Services, "Global Connected and IoT Device Forecast Update"

The USI ONE Advantage[®]

To analyze our client's business issues and challenges, our property & casualty team leverages USI ONE[®], a fundamentally different approach to risk management. USI ONE integrates proprietary business analytics with a network of local and national technical experts in a team-based consultative planning process to evaluate the client's risk profile and identify targeted solutions. Clients then receive tailored recommendations for improving their total cost of risk. To learn more about USI ONE and the USI ONE Advantage, contact your local USI team today.

This material is for informational purposes and is not intended to be exhaustive nor should any discussions or opinions be construed as legal advice. Contact your broker for insurance advice, tax professional for tax advice, or legal counsel for legal advice regarding your particular situation. USI does not accept any responsibility for the content of the information provided or for consequences of any actions taken on the basis of the information provided. © 2021 USI Insurance Services. All rights reserved.

www.usi.com

