

STRENGTHENING THE SUPPLY CHAIN

Speakers:

Tim Press, Director - Special Risks, Miller

Dan Trueman, underwriter, Kiln:

Voice over:

In recent decades businesses have had to become leaner and more agile.

Companies have sought to gain competitive advantage by stockpiling fewer goods, using just-in-time processes and re-locating operations to emerging markets in today's outsourced and interconnected world.

Increasingly then businesses operate using global supply chains.

But as Tim Press, director of Special Risks at Miller, points out these methods of working may leave businesses vulnerable.

Tim Press:

Today businesses are walking a tightrope. A snap in the supply chain can have disastrous financial consequences, can impact the share price and will become a boardroom topic.

Voice over:

Doing business in the modern world involves dealing with a range of risks from terrorism and political violence to the effects of global warming.

But of course while individual companies may not be the direct target of a catastrophic event, they may be significantly affected by its broader impact.

Lloyd's recent report, written in conjunction with the Economist Intelligence Unit, shows that 30% of business leaders believe their companies are exposed to collateral damage from a terrorist attack on another target or could be impacted by violence on energy and other supply lines*.

Concern is even greater among larger companies and those based in the US.

So are businesses adequately building supply chain issues into their risk management thinking?

Tim Press:

In a word, no. You tend to think it is going to happen to your neighbour next door and not to yourself. Businesses should have continuity plans in place. A Lloyd's study showed that many still

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don't. In my experience, those that do tend to focus on the domestic, their domestic risk, and not the overseas issues of the supply chain.

Voice over:

And the potential vulnerability of supply chains has been seized on by political and terrorist groups. In February 2007 Al Qaeda called for attacks on all UK oil supplies as part of an economic jihad. In the Niger delta and Saudi Arabia there have been increased attacks as militant groups have realised their ability to affect oil prices.

In 2006 the conflict in Lebanon also demonstrated how supply chains could be impacted with attacks being made on the transport infrastructure in Lebanon and Northern Israel resulting in damage and delay to goods being transported within the region.

Lloyd's report found that terrorism and political violence has led 16% of all companies and 24% of larger businesses to increase the resilience of their supply chains*.

And yet, as Tim Press points out, there are many other factors that can have significant impact on the supply chain.

Tim Press:

There are physical risk elements. Take for example, Hurricane Katrina which ripped up New Orleans and caused devastation through the artery of the United States, being the Mississippi. Also one can look at the recent disaster in Minneapolis, the bridge collapse. If we put that into context of the only bridge out of an island with hundreds going back and forwards each day, if the trucks can't get out any more, you haven't suffered any physical loss or damage to your own business, but you've got serious supply chain consequences.

Voice over:

Dan Trueman, underwriter at Kiln, agrees that problems affecting the supply chain should be one of the greatest concerns for business.

Dan Trueman:

These factors that are out of their direct control is what is really now keeping risk managers awake at night. Moreover, risk managers have to be much more aware of the bottom line impact to problems within their own supply chains, and this is further exacerbated by the leaner nature of the modern supply chain using just-in-time manufacturing processes.

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Tim Press:

There are serious financial consequences that could arise from a snap in the supply chain, and this could damage a company's brand and reputation.

If people see you can't get your goods through, they will know you've got a supply problem, and this can have an effect on share price and become a boardroom matter, so there is a need for business to protect themselves.

Voice over:

Kiln and Miller have been working together to develop a product that provides balance sheet protection throughout the chain from factory gate to delivery point, covering loss of profit.

Dan Trueman:

Businesses can be exposed to a loss of profit because of late deliveries or cancelled contracts. Those loss of profits may only be crystallised once those goods are sold to an alternative market at a discounted price. Or a business outsourcing to a politically unstable region may find that deliveries are disrupted due to a change in political circumstances.

Traditionally companies could only buy insurance for physical loss or physical damage to their own assets. TDI, or Trade Disruption Insurance, looks at protecting the revenue that would be derived from those assets, so physical loss or political problems that occur along the supply chain, can now be protected for bottom line revenue.

Voice over:

The most astute companies are taking steps to protect their increasingly global supply chains.

But it is clear that companies need to take a more thorough approach.

The issue of supply chain risk is of great significance to the economy and deserves serious consideration by companies of all sizes.

But through innovation and expertise the insurance industry is developing new products that can help and support business in this ever more inter-connected world.

*Source:

'Under Attack? Global Business and the Threat of Political Violence'

Lloyd's and Economist Intelligence Unit, May 2007