



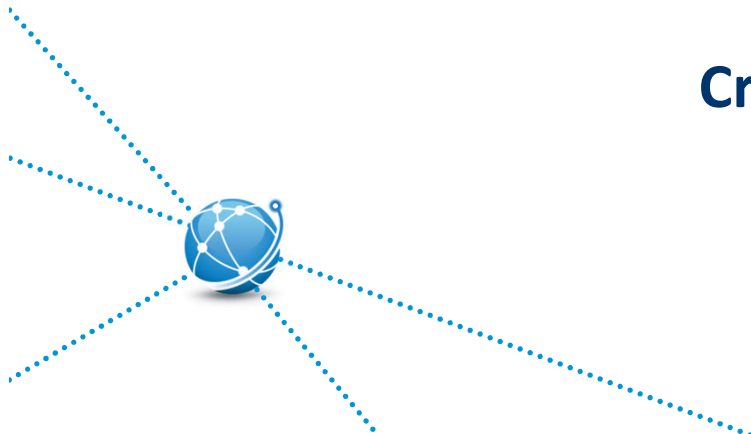
Business Interruption & the Supply Chain

Ian Hasson

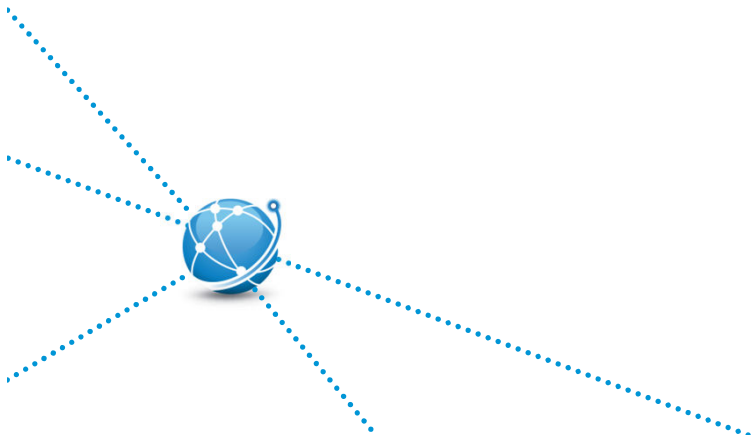
Head of Forensic Accounting

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Crawford & Company

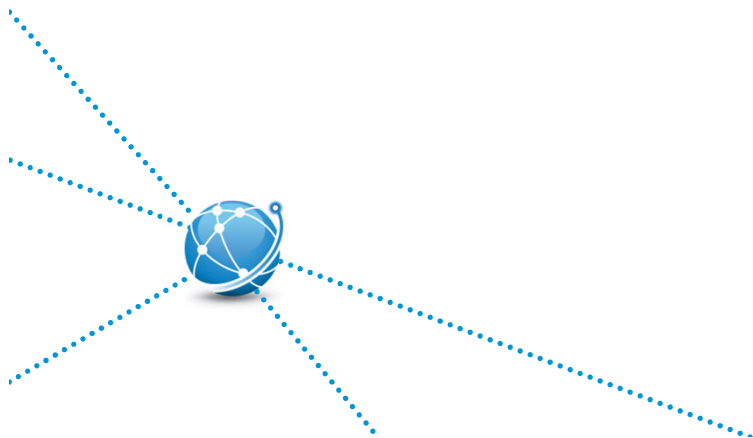


“Red faces over child labour balls-up”



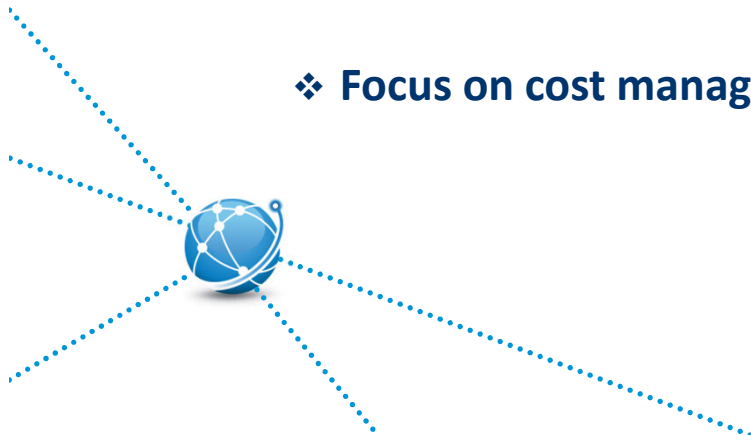
Agenda

- ❖ Features of supply chains
- ❖ Limitations of traditional BI insurance cover
- ❖ Contingent BI Coverage
- ❖ Limitations of CBI Coverage
- ❖ Alternative measures



Features of Supply Chains

- ❖ **Designed for efficient management of costs and margins**
- ❖ **Reliant on global sourcing across borders**
- ❖ **Supply of bespoke components from distant markets**
- ❖ **Complex international transportation and logistics issues**
- ❖ **“Just in time” and “just in sequence” inventory management**
- ❖ **Complex supplier contracts with penalties for failure to supply on time**
- ❖ **Increased reliance on key customers and key suppliers throughout chain**
- ❖ **Focus on cost management, not risk management**

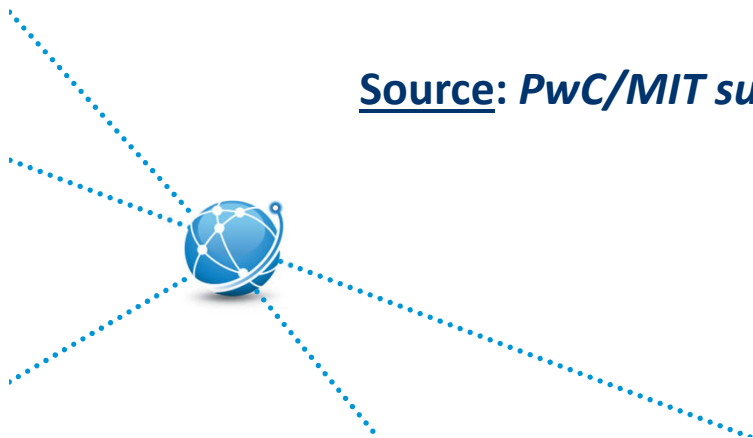
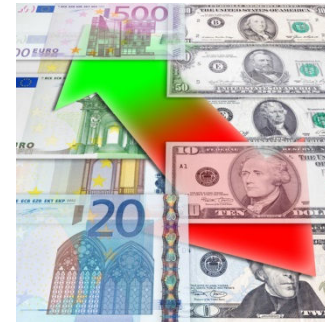


Supply chain risks

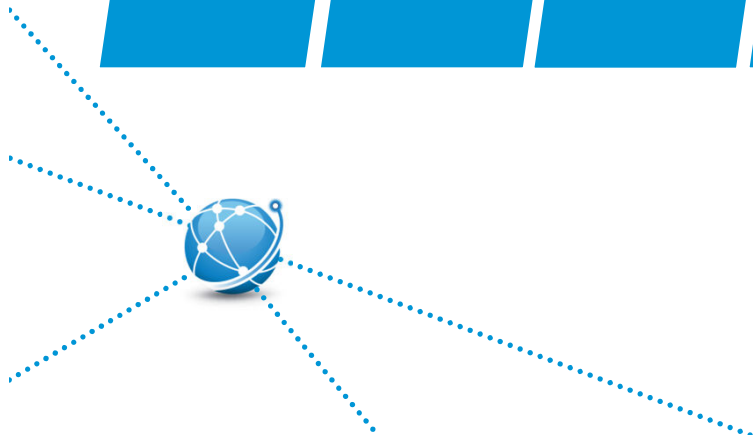
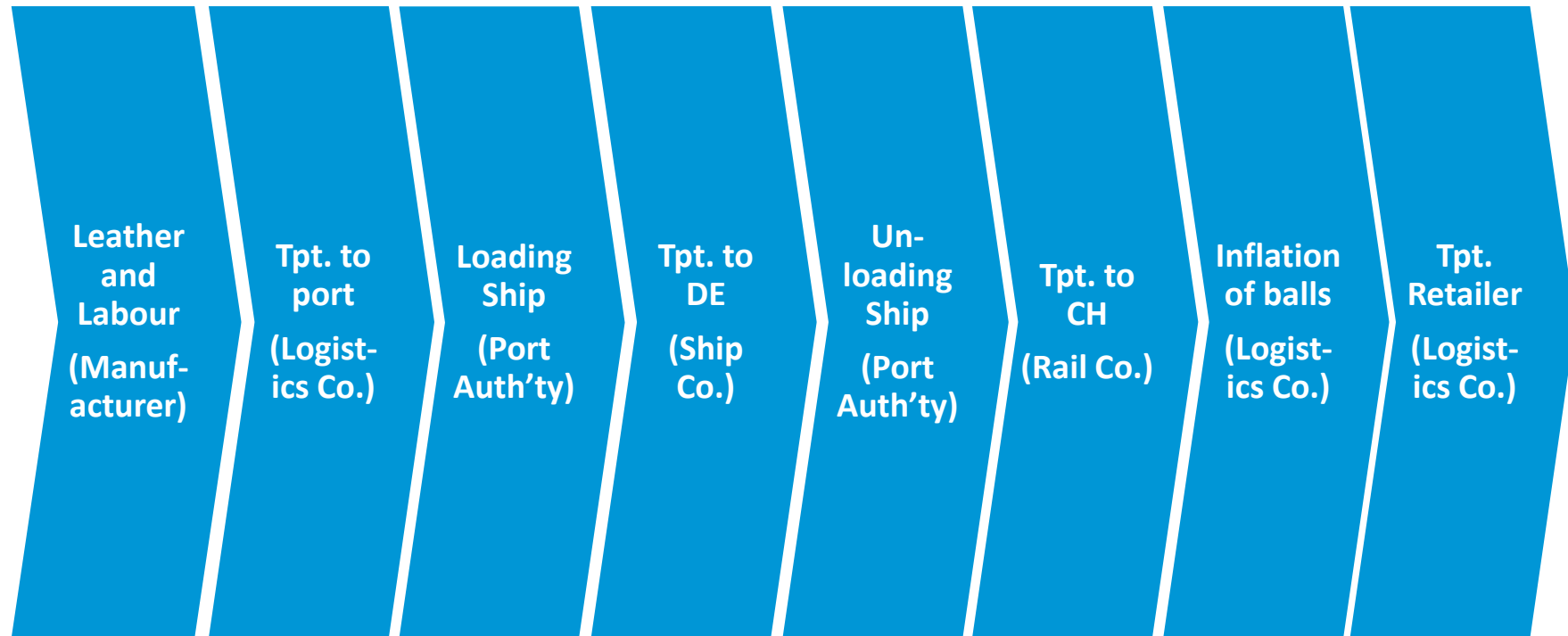
❖ Top 5 supply chain risks:

- ❖ Raw material price fluctuation
- ❖ Currency fluctuations
- ❖ Market changes
- ❖ Energy/fuel price volatility
- ❖ Environmental catastrophes

Source: PwC/MIT survey, 2013



Simple Supply Chain



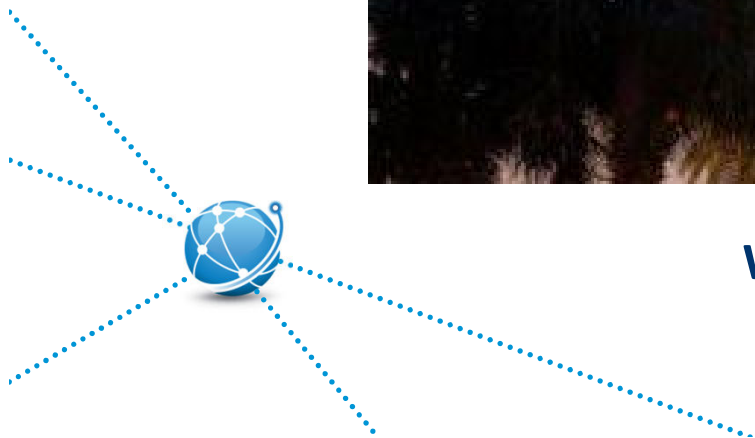
Limitations of traditional BI cover

- ❖ Concerned with losses caused by Damage (i.e. damage caused by an insured peril) to property at the Insured's Premises, used by them, where there is an insurance cover in place (the material damage proviso) and where the property damaged is not excluded property
- ❖ Purpose
 - ❖ To help a business return to the financial position it would have been in had the insured damage at the insured premises not occurred



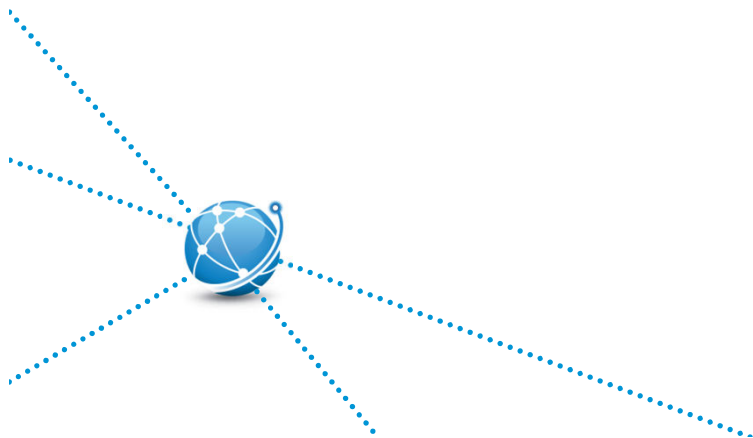


Windsor Court Hotel

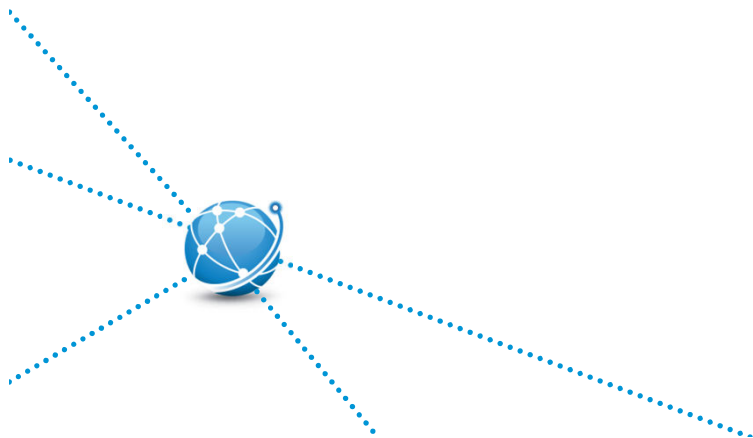
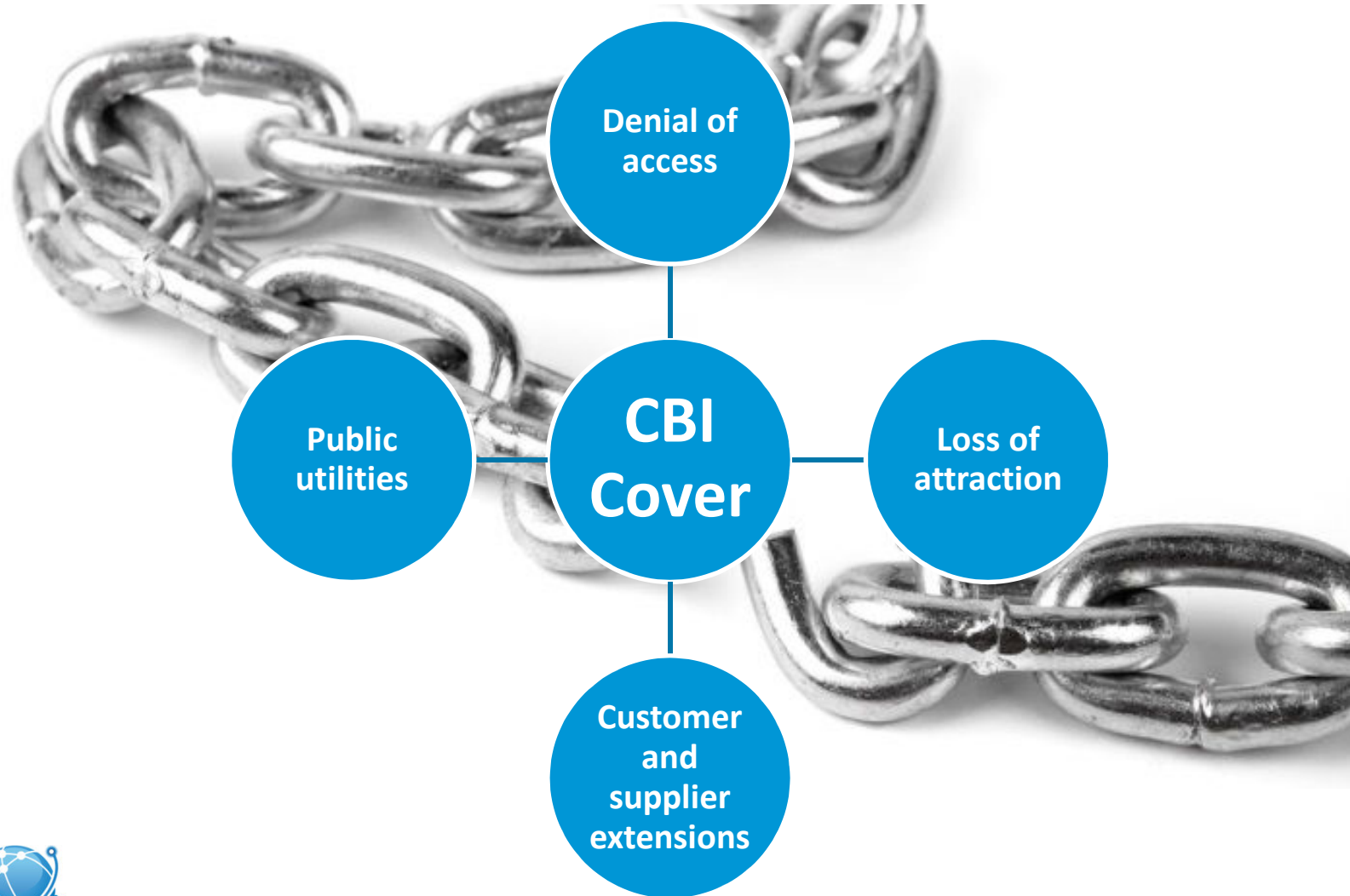


Limitation of traditional cover

“The scheme of the Policy is that business interruption losses caused by Damage to insured property are recoverable under the main Insuring Clause (as is consistent with the Trends Clause). Other losses not caused by Damage (i.e. physical damage to the Hotel) [are not]”

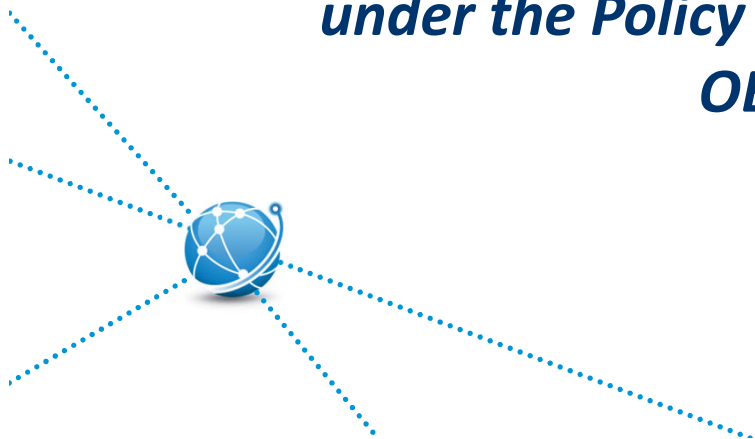


Types of CBI cover

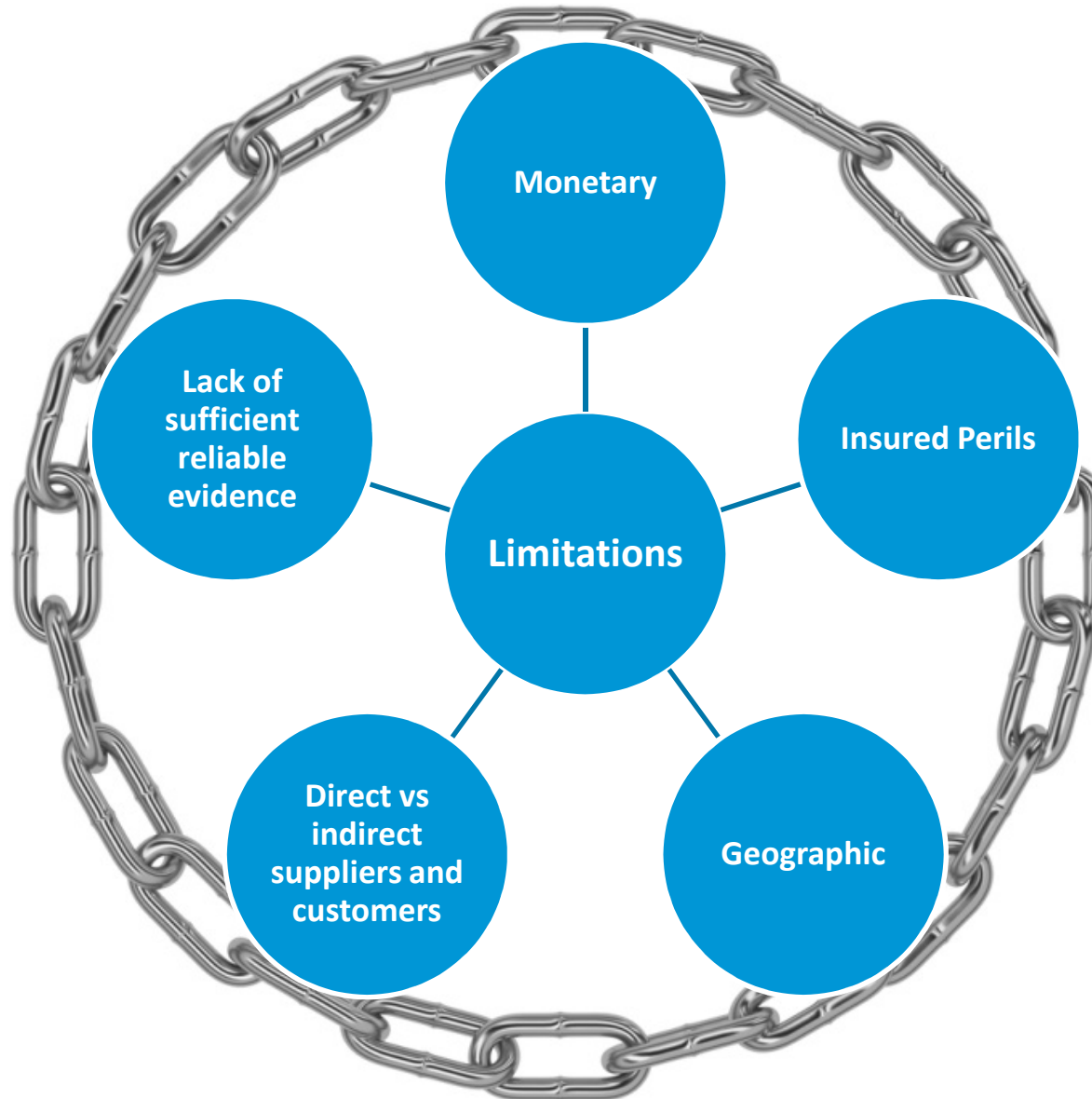


The need for CBI coverage

*“The scheme of the Policy is that business interruption losses caused by Damage to insured property are recoverable under the main Insuring Clause (as is consistent with the Trends Clause). **Other losses not caused by Damage (i.e. physical damage to the Hotel) but caused by damage to the City/lack of demand are recoverable under the Loss of Attraction and Prevention of Access extensions. That is what OEH paid premium for under the Policy and that is what the Tribunal held that OEH is entitled to recover.”***



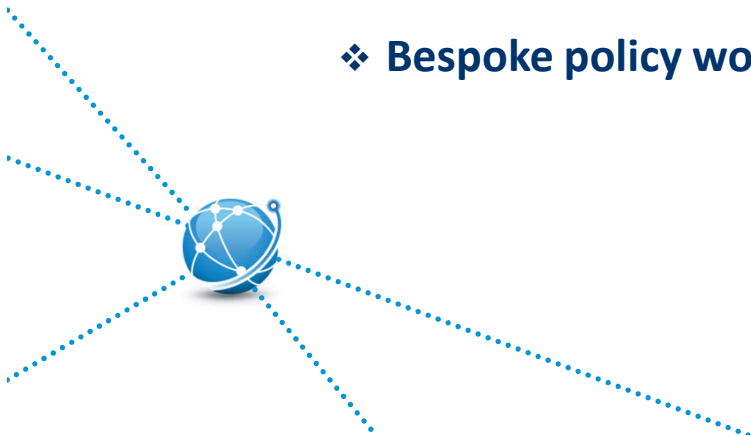
Limitations of CBI cover



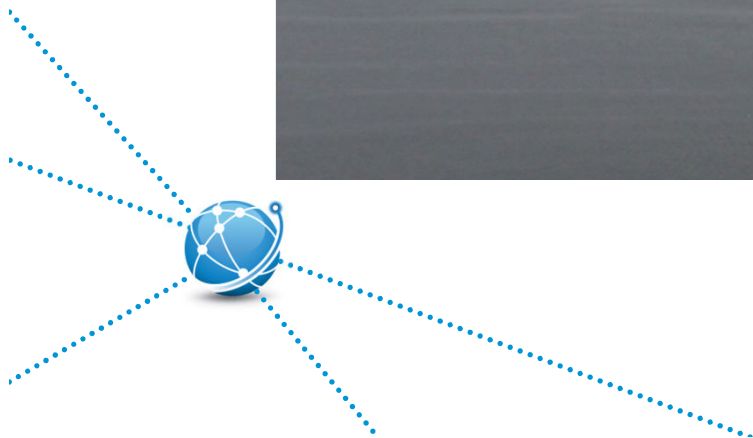
What else can be done

❖ Get the right cover

- ❖ Involve staff from multiple functions, not just risk management
- ❖ Identify critical suppliers and customers in terms of profit impact
- ❖ Assess exposures of those key suppliers and customers (perils, tier 2 companies)
- ❖ Consider the adequacy of CBI limits
- ❖ Consider interaction with other insurance coverage
- ❖ Bespoke policy wordings



Rojana Industrial Estate



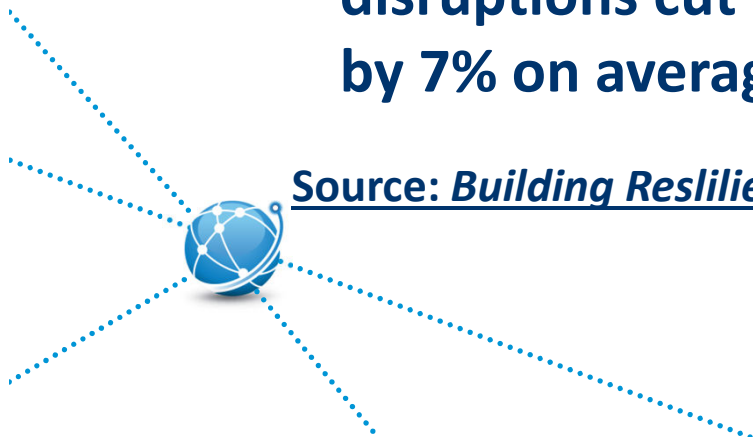
Improve Supply Chain Resilience

“Resilience is the ability of a global supply chain to reorganise and deliver its core function continually, despite the impact of external or internal shocks to the system”

Source: Global Risks Report, World Economic Forum. 2011

❖ Research by Accenture suggests that supply chain disruptions cut the share price of impacted companies by 7% on average

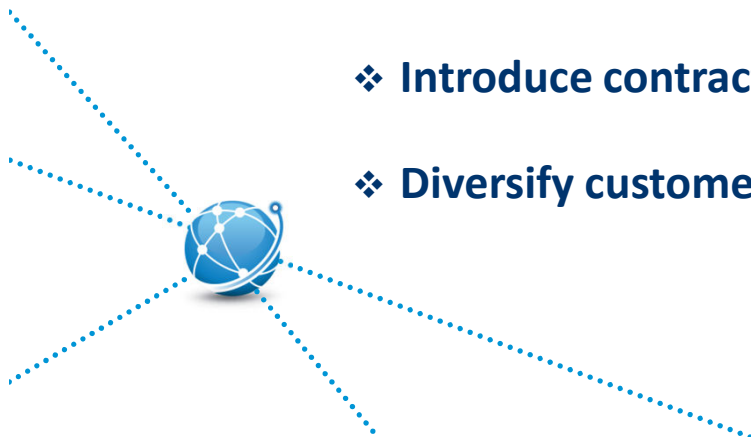
Source: Building Resilience in Supply Chains, World Economic Forum. 2013



What else can be done?

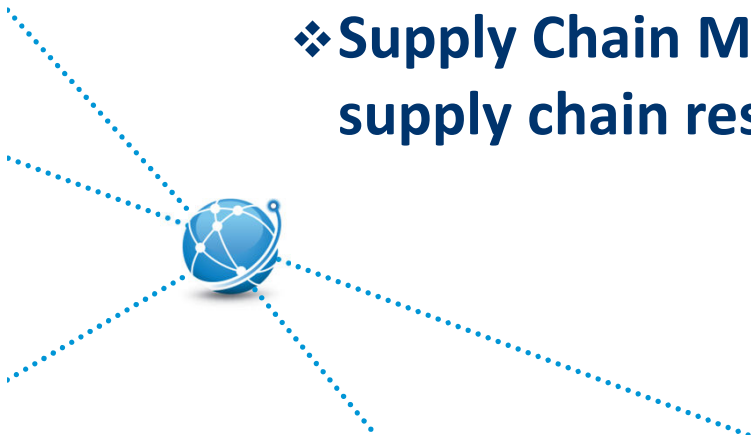
❖ Recognise that CBI is only part of the solution. Manage residual risks through other measures:

- ❖ Implement a BCP and ensure supply chain risks are covered in it
- ❖ Source from multiple suppliers
- ❖ Source from multiple geographical regions – regional and global
- ❖ Introduce multiple distribution centres
- ❖ Increase buffer stocks
- ❖ Introduce contractual penalties in supplier contracts
- ❖ Diversify customer base



Conclusion

- ❖ **CBI insurance has been developed to address some of the risks associated with more widespread use of global supply chains**
- ❖ **There is a need to carefully consider the CBI cover purchased**
- ❖ **There will remain limitations on the extent of cover provided by CBI insurance**
- ❖ **Supply Chain Management process should consider supply chain resilience as well as cost effectiveness**



Questions?

