One-Year Anniversary of Japan Earthquake and Tsunami Is a Reminder That Businesses Need Better Risk Management and Supply Chain Coverage

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NEW YORK, March 9, 2012? The devastating earthquake and tsunami that hit Japan on March 11, 2011, caused massive supply chain disruptions, exposing the complexity and vulnerability of global corporations. The disaster caused an estimated \$35 to \$40 billion in insured losses and many businesses were not adequately protected, both in terms of insurance and risk management, according to the Insurance Information Institute (I.I.I.).

Contingent business interruption (CBI) coverage, which is designed to cover losses caused by damage to or destruction of the property of suppliers and customers of the policyholder, is not enough as it generally is limited to physical damage to or at a supplier?s or customer?s premises.

CBI does not protect for all perils; nor does it protect a business when roads are closed and employees cannot get to work or when products cannot be distributed or other suppliers are affected. Significant supply chain disruptions can reduce a company?s revenue, cut into its market share, threaten production and distribution, inflate costs and ultimately affect a company?s bottom line. Global corporations and even small businesses need the proper insurance coverage to protect against supply chain failure.

Today, more and more businesses operate from a global perspective and are therefore susceptible to greater risks. Causes of supply chain disruptions can include: natural disasters; industrial accidents; labor issues (such as strikes, shortages); production process problems; political upheaval, including war and civil strife; trade disputes; health and safety concerns; credit/cash flow problems; and supplier finances or solvency. It can take two years or more for companies to recover from a supply chain failure.

Supply chain insurance is an ?all risks? business interruption coverage that is not restricted to property damage and focuses on incidents outside the insured?s control. This form of insurance offers the insured protection against both physical and non physical interruptions to the business, such as strikes, riots, ingress/egress, pandemics and more. In fact any peril that interrupts a company?s supply chain can be underwritten into the policy.

?While insurance is an important component to help protect companies, it is only part of the solution,? said Loretta Worters, vice president with the I.I.I. ?Businesses must also combine insurance with effective risk management,? she noted. ?Businesses need to identify key supply chain risks and make sure to convey those

risks to their insurer.?

Companies often have multiple tiers of suppliers, yet often only cover first-tier supply. A 2011 study by the Business Continuity Institute a global industry group, found that 40 percent of disruptions originated below the first-tier supplier. As a result, more insurers are moving towards multi-tier coverage? where the whole supply chain is insured. Business owners should check whether their insurer offers this type of coverage. Companies can also name specific suppliers on their policies, especially in the second or third tier. While this can be time consuming, it is a risk businesses should not overlook.

Insurers can provide services that can help mitigate risk such as risk engineering assessment, which studies a company?s supply chain to find ways to transfer risks. It is also important for companies to create contingency plans to ensure that risks are minimized by creating backup production and distribution plans that include second and third tier materials sources, component vendors, substitute parts and transportation carriers.

An up-to-date business continuity plan that includes suppliers and their coverage allows business owners to make informed decisions around mitigation planning, risk transfer and levels of self-insurance.

Companies need to be vigilant in this often overlooked area of the business. Recovering from a loss will depend upon how well a business and its insurance broker have identified supply chain risks, assessed those risks and put adequate coverage in place.

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