PARKER SMITH & FEEK

COMMERCIAL INSURANCE
EMPLOYEE BENEFITS
PERSONAL INSURANCE
RISK MANAGEMENT
SURETY

MANUFACTURING
PRACTICE GROUP

FEBRUARY 18, 2020

SUPPLY CHAIN RISK MANAGEMENT STRATEGIES

Marie Gallanar | Vice President, Account Executive

So you've worked hard to create business continuity plans for the most common disasters that threaten your organization, taking into account things like fires, hurricanes, earthquakes, and floods for all your facilities. But how do you anticipate and plan for a potential disaster that strikes key vendors in your supply chain? What happens when that disaster you're facing is an epidemiological outbreak, such as the novel coronavirus (COVID-19) in China? Effective supply chain management and understanding how limited or robust your contingent business interruption insurance coverage is are the keys to successful risk management.

Nearly 20 years ago, the SARS coronavirus epidemic emerged in China and its effects were felt throughout the world. Today, China is an even more vital part of the global supply chain, manufacturing key components used to make the cars we drive and our favorite electronics. The City of Wuhan, home to 11 million people and one of the largest manufacturing hubs in the country, is effectively shut down along with several neighboring areas as the government works hard to quarantine the outbreak. The magnitude of this current worldwide supply chain interruption may have you contemplating how long your supply chain is, alternatives for sourcing much-needed component parts, and the potential impact on the bottom line.

Understanding where your parts are coming from and what alternative suppliers you may have access to in the event a key supplier is unable to deliver are critical components in a solid risk management strategy. However, depending on your unique supply chain, risk transfer through your insurance program could also minimize the financial impact on your organization.

> While this current outbreak pales in comparison to the severity of the average flu season, the rigor of the Chinese government's mass shutdowns will affect manufacturers and distributors in the global supply chain for months to come.

CONTINGENT BUSINESS INTERRUPTION INSURANCE

Business interruption insurance is designed to cover lost profits and incremental costs in the event an insured peril (typically fire, wind, or hail) damages or destroys a covered property and interrupts production. Contingent business interruption, on the other hand, addresses a covered disruption at your supplier's facility; most insurers will require you to name these suppliers and locations on your policy. More robust policies will cover non-physical damage triggers such as a cyberattack on

continued >

your supplier or a transportation disruption that delays supplies, but keep in mind that insurers will typically require more information like detailed supply chain mapping. While supply chain mapping can be time consuming, new software offered by companies like DHL allows you to visually map your supply chain using logistics data.

While this current outbreak pales in comparison to the severity of the average flu season, the rigor of the Chinese government's mass shutdowns will affect manufacturers and distributors in the global supply chain for months to come. It serves as a reminder to examine your current supply chain and, in particular, the length of your supply chain when putting your business continuity plans in place. It's also prudent to check in with your risk management team and commercial insurance broker to understand what supply chain interruption risk mitigation strategies you currently have in place, and any that you haven't yet implemented.