Eliminating the weakest link
HOW THE TIANJIN EXPLOSION HAS PUT SUPPLY CHAIN VULNERABILITIES UNDER THE SPOTLIGHT ONCE AGAIN

Kieran Rigby, Crawford chief executive officer for Europe, asks whether organisations are building more resilience into their supply chains.

The huge Tianjin Port explosion is the latest in a growing list of catastrophic events that have impacted global supply chains and disrupted their ability to function as intended. Latest estimates from Guy Carpenter put the insured damage from this event as high as $3.3 billion, before consideration of claims for business interruption (BI) and contingent business interruption (CBI).

Factory closures in the immediate aftermath of the explosion were reported, including the lockdown of a Toyota assembly plant and a cessation of production by John Deere. There will likely be significant BI and CBI losses, but it will be interesting to see if some of these have been mitigated by proactive steps to build in greater supply chain resilience.

Supply chain risks have moved up the risk management agenda in recent years. 2011 was the turning point, when major factory closures in the aftermath of the Tohoku earthquake and tsunami in Japan highlighted the vulnerability of supply chains to natural disasters.

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How have evolutions in the risk landscape complicated the risk manager role?

The world is rapidly changing. Globalization has led to shifts in economic power and stability, and an ever-increasing ability to harness worldwide capability to deliver services, manufacturing and secure natural resources. This creates complex supply chain dependencies and highlights the conflicts between differing regulatory requirements, cultures and business ethics. As a result of the economic pressures of the last five to ten years, regulation across most industries has become more focused and regulators have a greater willingness to act. This places risk management processes at the heart of effective corporate governance and compliance systems. Reputational risk has also evolved. Heightened by the impact of social media and the attitudes of the younger generations, corporate reputations can be enhanced or diminished rapidly. The risk around conduct and ethics are increasingly relevant to corporate reputations, and I only see this increasing in significance. Companies now have greater accountability. Following a number of corporate failures and events, it is clearly evident that effective risk management has become a board and executive responsibility. Corporate negligence is increasingly penalized and personal accountability is reinforced by increasing regulators’ powers to penalize directors and senior management. Thus, developing risk maturity and enterprise-wide understanding of the need for effective risk management frameworks is increasingly important.

What does the risk and insurance industry need to do to prepare risk managers for the risks of tomorrow?

Risk managers need to think beyond just the procurement of insurance coverage and support risk mitigation efforts, knowledge and techniques so that insurance solutions are positioned in the context of overall risk exposure. The industry must train and educate its risk managers to approach the role with this in mind. We also need to take an entrepreneurial approach to the assessment and underwriting of new risks. We need to deliver certainty and clarity in terms of wordings, claims outcomes, process and delivery. And the industry would benefit greatly from adopting a “no surprises” ethos by improving communication and developing the partnership between the risk manager, advisor, broker and insurer.

How can the industry attract new risk managers and provide support in an increasingly complex risk landscape?

It’s important we enable risk managers to effectively contribute at board level, which will in turn give corporations and their C-suite more awareness of the value proposition of insurance and risk transfer. The goal is to align risk and insurance to organisational strategy and opportunity, thus driving improved outcomes.

It is our responsibility as an industry to support education, learning, development and continual professionalisation among risk managers. We must also strive to enable flexible and innovative solution design, so that insurance has a place in the broader transactional procurement process based solely on premium variance. It’s important we enable risk managers to effectively contribute at board level.

Do you think, on the whole, that organizations fully recognize the benefits of diversity?

On paper, the benefits of diversity are acknowledged, with the introduction of quotas for instance. However, in reality, I believe we have a long way to go for organizations to fully recognize the benefits of diversity. Women and minorities are still significantly underrepresented in corporate boards and C-suite, as well as in government, and are often paid less for the same work. This creates an environment in which individuals are prevented from reaching their full economic potential. I firmly believe that diversity, if managed effectively, can add great value to organizations. Although we are not there yet, this gives me confidence about the future.

What more needs to be done to promote diversity and to help organizations create a working environment which fosters variety?

While we need significant change, this change needs to be introduced incrementally, as quotas can be counterproductive. Instead, we need to build a generation of future women and minority leaders. That shift is already taking place, but we can accelerate it by investing in talent and by challenging unconscious biases, recognizing and rewarding women and minorities, and driving cultural change in businesses and society.

Why is it important to encourage more women to come into the risk and insurance profession?

The insurance industry offers a large range of carrier opportunities, whatever educational background you come from. Lawyers, scientists, engineers, actuaries, accountants can find jobs within the industry and it is an incredibly rewarding industry to work for. We help people understand and protect themselves from risks, enabling them to recover from major setbacks or take on new challenges. At the same time, there has never been a greater need for the industry’s expertise. We are living in an increasingly complex and interconnected world, with huge emerging challenges like climate change, population aging, cyber risks and so many more that require fresh new ways of looking at things. There is a huge need for smart, young talent with fresh ideas, men as well as women. And actually, we see more and more women taking on senior risk management roles.

What would you say to women starting out in their careers?

In the past women have been encouraged to conform and adapt to the structures in place. I think today women need to embrace the idea that part of what they have to contribute is diversity, fresh perspectives and new ways of looking at things. They need to assert themselves, be revolutionary, challenge old ways of doing things and confront unconscious bias wherever they encounter it. They must be self-confident, with a strong desire for success.

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Barometer cited supply chain as the top concern for risk managers, estimating that "BI and supply chain-related losses typically account for 50% to 70% of insured property catastrophe losses, as much as $26bn a year."

It is increasingly recognized that improved supply chain resilience can have measurable benefits. We expect those organisations that will emerge strongest from the Tianjin incident will be those that have invested in creating more resilient and visible supplier relationships through steps such as:

- Ensuring supply chain risks are covered in business continuity plans;
- Sourcing from multiple suppliers;
- Sourcing from multiple geographical regions – regional and global;
- Introducing multiple distribution centers;
- Increasing buffer stocks; and
- Introducing contractual penalties in supplier contracts.

Conversely, companies reliant on parts or components from affected businesses, but without property damage of their own and without CBI insurance covering suppliers’ premises, will suffer uninsured losses. As is the case with each major event, there will be winners and losers and further lessons will inevitably be learnt.

On 1 October, Crawford launched its global thought leadership magazine, On the FrontLine. Lynn Cuffley, marketing and communications director, EMEA/AP and Sue Hale, International Marketing Manager, EMEA/AP at Crawford explain the purpose of the magazine.

Tell me a bit about On The FrontLine, the intended audience, the tone of the content and what you hope it will achieve?

We felt we needed to differentiate Crawford by delivering the right message, at the right time to the right people. The world is becoming saturated with information and content and we knew that we needed to produce thought-provoking content that delivers real business value and engages with our clients globally.

On the FrontLine shares our extensive “frontline” expertise on key strategic issues and delivers real diversity of content. Our goal is to build an audience and foster trust with clients so that we are seen as true partners. Our people have some great stories to tell and we wanted to give them a voice. We hope that On the Frontline will reflect their achievements and engender a sense of belonging and corporate pride.

There are a number of risk management and customer magazines available from other organizations. How is On The FrontLine different?

On the FrontLine is the only publication that draws on the adjusting and claims management expertise that Crawford has gained from being “on the frontline”. The expertise that we have gained from handling complex claims around the world and helping people and businesses get back on their feet gives us a unique insight in how to learn from events and build resilience.

The news stories and features in On The FrontLine include interviews with a wide variety of experts, from many different industry sectors, as well as Crawford experts. Why is this important?

We wanted to provide technical and quality content in engaging ways and we meet so many talented people throughout the risk management community, Lloyd’s and London Market and global insurance sector that it was an easy decision to include the views of these experts in the publication.

If we are to achieve our goal of delivering technical and quality content focused on global claims management and business news around the world then we had to include comments from the very people in the industry. We felt it was important to reflect industry concerns and solutions so we could all learn from each other.