

Revealing Insurance Risk

in

Global Supply Chains

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Problem Summary:

Identifying the level of risk associated with global supply chain operations is now of significant interest to everybody involved. The transformation of manufacturing into a dynamic and outsourced global activity, feeding products into markets along a continuous conveyor-belt of ships and aircraft, has considerably increased the cost of delay or loss.

The concentration of supply chains flowing through a small number of 'megaports', serviced by container ships continually growing in capacity, highlights the vulnerability. The potential exposure (or liability) covered by the insurance industry is both significant and 'unknown'. This is primarily due to the underwriters being unaware of the location of the cargo they insure at any point in time and which has resulted in the potential for a concentration of cargo on a single vessel and therefore huge aggregated liability.

These same underwriters also need to buy catastrophe reinsurance should their exposure on any one vessel exceed a specific amount. Due to the lack of visibility of the location and value, this is a challenging exercise, but not an insolvable one.

It is proposed to address this problem through an online service that provides both the location and aggregated value of the container traffic. The technology to do this exists and is proven. The aggregation of data will also allow for more accurate 'scoring' when attempting to determine the relevant level of risk across a number of 'scenarios' or risk profiles.

This is also complimentary to the efforts of many governments to combat terrorism by focusing Customs cargo inspections onto the more 'interesting' shipments, while expediting the clearance of those shipments that have a lower risk profile. Therefore it is in the interest of shippers to accurately reflect the value of their shipments and provide the required data. If they do not, then any claims may be deemed 'void' and not liable for any compensation.

The question as to how to determine a 'lower risk profile' is very subjective and for obvious reasons, the relevant authorities will not divulge their methods. However, it is possible to determine the likely commercial risk by combining key commercial data sources with existing analysis technology and come up with an appropriate 'profile'.

The commercial structure for any such online service should incentivise participation so as to encourage the greatest number of users and therefore increase liquidity.

The Benefits:

The benefits for each of the participants are several;

For the underwriters and the insurance market in general, the ability to interrogate the service to identify their total exposure by vessel or trade lane, would enable them to ensure they have sufficient cover at all times. They would also be able to tailor insurance products more precisely, perhaps extending cover into areas that were previously deemed uninsurable.

For the shippers, they would be avoiding the possibility of claims being 'Void', the likelihood of being recognized as a 'Trusted Shipper' by the authorities and subsequently subject to reduced delays due to inspections. Finally, they may be able to obtain cover for operations, activities and shipments that were previously uninsurable.

How It Might Work:

- Commercial Structure:

A Management Company providing operations, analysis and support. This entity would be responsible for contracting the technology, negotiating SLA's with the technology vendors, delivery of the service to the members, collection of revenues and service fees.

An analytics function could also be provided for members with specific needs or interests. This would combine data from the basic service with other data sources to provide specific risk profiles across a variety of subjects. e.g. Markets, product types or trade lanes.

An Association of Members that are the principal users of the service. They also form the supervisory Board of Management that oversees the operational performance of the Management Company and recommend/approve new services for members.

- Revenue Model:

Annual membership fees to cover overheads (The fee provides access to the service for members)

Charges for access to the analytical capabilities (primarily for external parties)

- Platform:

On demand, collaborative, global

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