

## Unpredictability - a chink in the supply chain



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Director of Canada

A greater focus on Business Resilience is needed in the face of increasingly large and unpredictable business interruption and supply chain risks.

As businesses become more reliant on technology and global supply chains they have become far more vulnerable to disruption. Whether it's an earthquake on the other side of the world, a fire at a supplier or a major cyber attack, business interruption events can stop a business in its tracks.

## Interconnectivity

At the heart of increased business interruption risks are changes in business models and supply chains, which leave companies exposed to a complex array of unpredictable risks. Over half of firms surveyed by the Business Continuity Institute have experienced at least one interruption in their supply chain in the past 12 months.

According to QBE's Unpredictability Index, businesses are operating in a far less predictable world, in large part a reflection of heightened political and economic risk. Almost all of the 'least predictable years' in the Index have occurred in the past 20 years, with the majority since the global financial crisis. One of the most striking findings from the Index is the interconnectedness of factors

driving unpredictability. Volatility in one area can have repercussions in another, prolonging periods of uncertainty.

**For every \$1 spent on disaster prevention, \$4 or more will be saved on response - European Commission**



## Nat cat

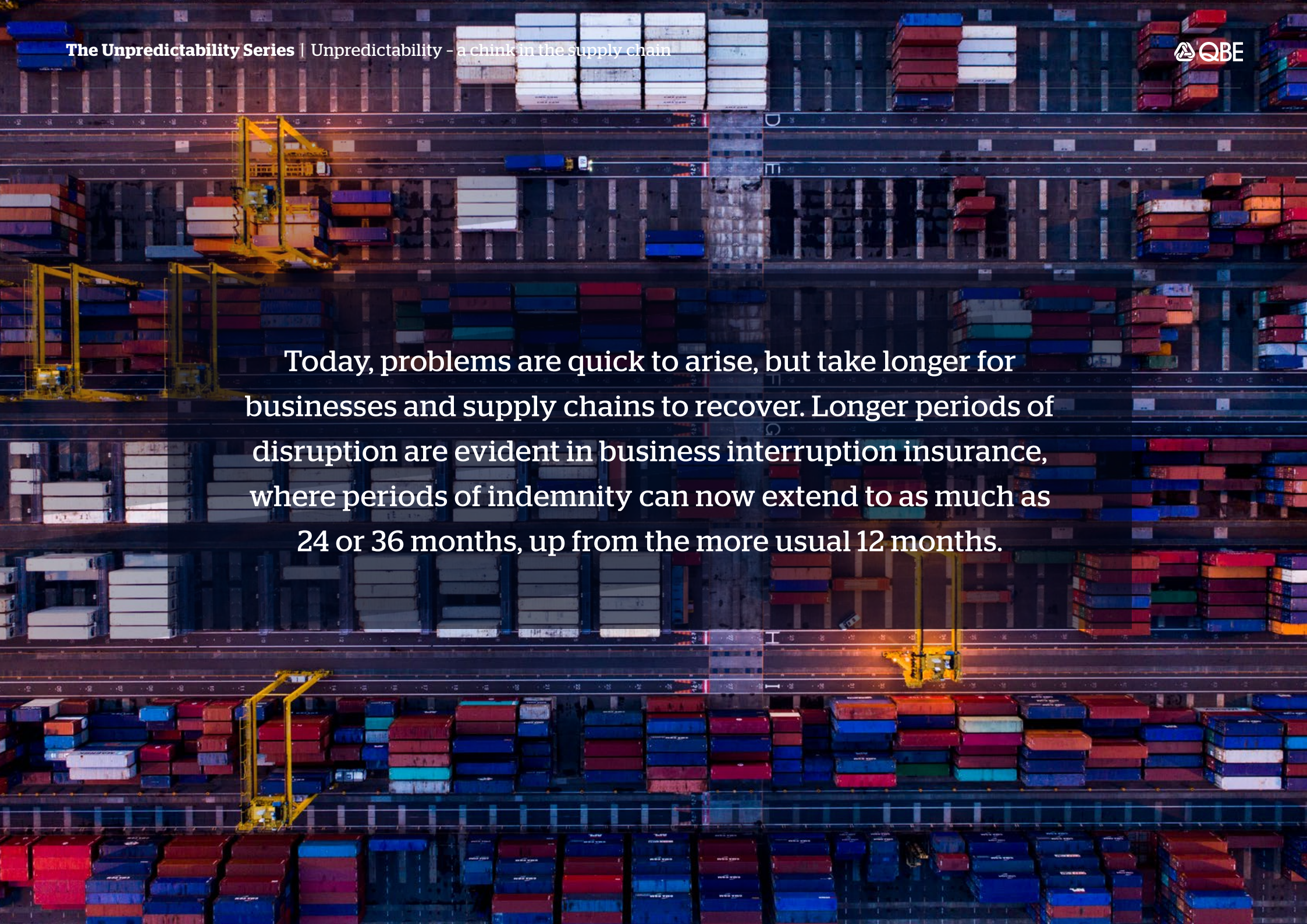
With increased unpredictability and complexity, business interruption is becoming more and more relevant for business - it was ranked fourth by the most recent Aon Global Risk Management survey. Around 50%-75% of property damage claims are now taken up with business interruption, almost double the proportion of just a few decades ago.



Natural catastrophes have emerged as a key driver for business interruption losses, a reflection of global supply chains, climate change and the concentration of economic activity in catastrophe exposed areas. According to the World Economic Forum (WEF) Global Risks Report 2019, disruptions to the production and delivery of goods and services due to environmental disasters have increased by almost a third (29%) since 2012.

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## Political risk

Maintaining a global supply chain is becoming increasingly challenging in today's unpredictable world of geopolitics. Political tensions in the Middle East and Asia threaten key trade routes - a number of tankers have been attacked in the Persian Gulf this year, threatening a critical supply line - while blacklisting of Chinese IT and telecoms by the US is causing a big headache for technology supply chains.

Societal and environmental concerns are also causing supply chain disruption. For example, when China suddenly banned the import of foreign plastic in 2018, US and European waste companies had to quickly come up with solutions.

The reaction of regulators and customers is becoming more relevant, yet less predictable. In one recent claim we handled, a food manufacturer struggled to get customer approval after it switched production to an alternative factory

following a fire. In another claim, a medical device manufacturer had to wait 18 months to get a new production facility certified by the regulator.

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## Dependency

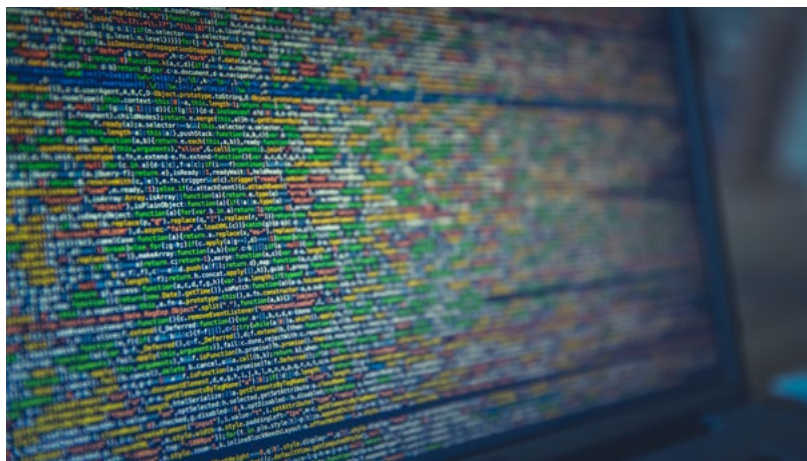
While threats to supply chains are growing, increasing levels of dependency are also proving to be important drivers of business interruption. Supply chains are now highly complex and concentrated, with entire sectors reliant on a single or small number of specialist suppliers.

The scale of the challenge is particularly evident in the car manufacturing industry, where around 30,000 individual parts from thousands of suppliers are used to build a single car. A fire at a US magnesium plant in 2018, for example, disrupted operations at five car manufacturers - the parts were so specialised the affected firms did not have viable back-up options. The automotive industry was the most disrupted sector in 2017, with the number of disruption events jumping by 30% in a year to nearly 1,700, according to a study by JLT.



## Intangible assets

The growing importance of intangible assets is also an emerging issue for business interruption. An incident could damage or disrupt the use of an intangible asset, such as data, intellectual property or a company's brand. However, such damage is difficult to quantify and policy triggers hard to define.



Cyber is already emerging as a significant business interruption exposure. Business models are increasingly dependent on technology and data, which are exposed to cyber security, technical flaws and human error. Last year millions of mobile phone and banking customers were affected by a technical glitch at technology supplier Ericsson while customers at TSB Bank suffered months of service disruption after a flawed IT platform migration.

Malware infections have also emerged as a driver for business interruption – the 2017 NotPetya attack forced hundreds of companies, including the likes of Maersk and FedEx, to resort

to manual processing. In March 2019, a cyber attack at aluminium manufacturer Norsk Hydro halted production of certain products for several weeks. Just a few months later, European aerospace firm Asco was hit by a ransomware attack, causing it to reportedly lose more than a week's production.



## Resilience

Despite growing unpredictability, and pressure from stakeholders to weather periods of volatility, many companies are not well-prepared for unforeseen events, according to the Index. Less than a third of businesses (29%) have developed risk management plans for unexpected events and just 17% say they carry out stress tests.

As supply chains have become more important, some companies have significantly invested in risk management, supply chain management, business continuity planning and crisis management. Yet major business interruption incidents continue to happen with surprising regularity, and many organisations struggle to recover from a major event.

This is in part a reflection of increased connectivity and unpredictability. But it is also down to the maturity of risk management and business continuity. Too often, risk surveys carried out by insurers reveal serious shortcomings in how organisations approach business continuity. Some companies still do not have written business continuity plans, and where they are in place, they often are not up to date or tested.

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The number of business interruption and supply chain incidents suggests that organisations need to do more to improve their overall business resilience. Business continuity planning is important, but wider business resilience, with its greater focus on risk management and what-if thinking, is needed if companies are to prosper in an increasingly unpredictable world.

## Keep in touch

If you haven't already signed-up to receive the Unpredictability Series you can do so at

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