

FutureSet Systemic Risk Masterclass Series

Masterclass 3: Understanding the vulnerabilities of global supply chains to systemic risk

Key takeaways

Supply chains have become increasingly complex and therefore businesses struggle to have visibility of all their suppliers, carrying significant risk as a result. There are several major risks to supply chains:

- **Natural catastrophes:** The \$210b Tohoku earthquake in Japan affected 740,000 business and halted production for Toyota, General Motors and Nissan.
- **Cyber attacks:** There has been a 50% increase in cyber attacks since 2018 and supply chains are becoming increasingly vulnerable as they become more digitised and cloud based.
- **Epidemics:** Early estimates show that most major global economies lost at least 2.4% of their GDP in 2020 as a result of Covid-19.
- **Geopolitics and trade barriers:** Illustrated by the five-mile queues at Dover, ahead of new Brexit restrictions this year.
- **Terrorism:** Border restrictions after the 2015 Paris Attack led to a \$3.5m increase in goods sent to Belgium shippers in the first month.

Systemic risks have the potential to further expose vulnerabilities in global supply chains. For example, the impact of accelerated climate change and increasing average temperatures has been shown to increase the frequency and intensity of natural disasters, including storm events and cyclones, floods, droughts and wildfires.

In addition, COVID-19 has shown the far-reaching effects of a sustained impact to supply chains. The crisis is said to have fuelled "localisation thinking" which may change the supply chains of many industries.

What can the insurance industry do to help customers managing their supply chain risk?

- Supporting customers to move towards proactive and forward-looking supply chain risk management, enabled through greater supply chain visibility to better understand where they are exposed.
- Leveraging data and conducting scenario analysis to help customers understand the potential impact of systemic and other major risks.
- Developing new and innovative products and risk management solutions to fill the insurance gap. Many existing policies provide cover for named suppliers only, which poses a challenge as supply chains become increasing complex.

The value of **world merchandise trade** is estimated to have fallen by 9.2% in 2020, largely due to the challenges and restrictions imposed as a result of Covid-19

The 2017 global **WannaCry ransomware attack** is estimated to have cost around \$4bn

According to FEMA, close to **90% of smaller companies fail** in the year following a disaster, unless they can resume operations within 5 days

It is estimated that only **13% of businesses have insurance that fully covers** the financial impact of supply chain disruption and **43% of businesses have no cover**, (Business Continuity Institute)

Thoughts from our expert panel

We need data to understand the complex supply chains that already exist and the risks to which they are now exposed. It's about being curious and asking what does the crisis plan of your suppliers look like? It's about being curious and thinking through the common foreseeable threats.

The importance of primary, secondary and tertiary suppliers and even suppliers beyond those, have come into scope for the risk manager.

John Ludlow
CEO, Airmic

We could see a retreat from globalisation and acceleration of trends towards localisation of sourcing, with supply chains shortening and becoming less complex.

Andrew Coburn
Chief Scientist,
Cambridge Centre for Risk Studies

We tend to think of risk factors as independent, e.g. cyclones are hurricanes, but there are some factors, such as geopolitical risks, which flavour the whole supply chain.

Sharon Palmer
Divisional Director and Head of Centre of Excellence,
Willis Towers Watson

The insurance industry has a key role to play in addressing climate change. The first is through investment - there is an opportunity to direct investment to support the transition towards the greener economy.

Isabelle Santenac
Global Insurance Leader, EY

Whilst banning non-environmentally positive industries may be the right thing to do by principle, we need to consider how we can support the transition.

Franck Baron
Chairman, PARIMA and Group Deputy Director Risk
Management & Insurance, International SOS

Relevant reading

Supply chain risk:

- Lloyd's risk insight video: [Increasing global supply chain resilience](#)
- Lloyd's risk insight report: [Evolving Risks In Global Food Supply \(lloyds.com\)](#)
- Lloyd's risk insight report: [Hidden Vulnerabilities in Supply Chain Risk \(lloyds.com\)](#)
- Business Continuity Institute report: [BCI Supply Chain Resilience Report 2019](#)

Systemic risks:

- Lloyd's risk insight report: [Catastrophe modelling and climate change \(lloyds.com\)](#)
- Lloyd's emerging risk report: [Cloud Down - Lloyd's](#)
- EY webcast: [COVID-19: why real-time visibility is a game changer for supply chains](#)
- EY report: [COVID-19 impact on third party resilience](#)

Skills and capabilities:

- CII Assess: [Introduction to managing change](#) (sign-up required)
- Flux / CII: [Innovation Starter Kit](#)

Futureset Systemic Risk Masterclasses

Delivered in partnership with the Chartered Insurance Institute (CII) and Lloyd's Market Association (LMA), the Lloyd's Futureset Systemic Risk Masterclass Series explores a number of elements of systemic risk, to support greater understanding and capability across the industry. Each masterclass combines technical content on a specific element of systemic risk with the knowledge and insight of business leaders and risk experts to help you build a body of knowledge and understanding of the systemic risk landscape.

To view the full schedule and register for upcoming Masterclasses, click [here](#).
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