



MANAGING THE RISKS OF CORONAVIRUS

IMPACT ON GLOBAL SUPPLY CHAIN

If the coronavirus has you in search of a surgical mask or N-95 respirator from your local store or pharmacy you may see depleted racks. Many of these masks are made in Wuhan, China. In fact, a wide variety of products are made in and around Wuhan and are shipped out of its port. These include everything from rolled steel, to pharmaceuticals, textiles, chemicals, plastic feedstock, manufacturing equipment, and yes, even medical products.

If your business relies on products manufactured in Wuhan or the surrounding areas, you may not see an immediate disruption to your supply chain, as most orders were filled and shipped prior to the Chinese New Year holiday and subsequent manufacturing sector shut down. During this shut down, many Chinese nationals return to their villages or travel to see family. The manufacturing holiday shut down was scheduled to end on February 9. However, many experts warn that due to illness, fatalities and travel bans, a restart in production in the Wuhan and surrounding areas may be delayed.

The Chinese government, and many other health organizations including the CDC and WHO, are recommending a **14-day isolation** of anyone infected by coronavirus. If the Chinese government applies this directive, production could be delayed until late February. If your supply chain relies on small, single-site production facilities, the loss of a key member of the management or ownership team could cripple or shut the doors. Finally, as of February 2, most U.S. air carriers have suspended flights into China until late March, which once again could hamper China's resumption of manufacturing operations.

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HOW MIGHT THIS IMPACT YOUR COMPANY?

The outbreak of an infectious disease can have devastating results, wreaking havoc on human lives, businesses and economies. While these extreme events require the involvement of and preventative planning measures from world health officials, organizations also need to manage their risk of damage from these events to protect their people and financial interests.

In addition to preparing crisis management strategies and related plans, companies should be aware of how their current insurance coverage would respond to a pandemic and what alternative solutions exist to provide additional protection in the event of an outbreak.

Given today's global economy and complex supply chain networks, these risks are more prevalent than ever, as is the need to ensure your company is protected from loss.

The Johns Hopkins Center for Systems Science and Engineering has developed an online dashboard tracking the spread of the coronavirus outbreak, which can be accessed here: <https://bit.ly/3bgtzXN>

Businesses face many potential risks, whether impacted directly themselves or throughout their supply chain in the event of a pandemic:

- **Death and illness** – loss of workforce, including those missing as a result of family obligations and general fear of infection
- **Transportation and supply chain interruptions** – operational disruptions, business delays
- **Reduced demand** – lack of customers, loss of business opportunities

POTENTIAL INSURANCE GAPS

With the recent coronavirus outbreak, companies are asking how insurance policies might respond to business income losses as a result of their suppliers/customers who may have been required to close due to the outbreak. Companies that rely on manufacturing or materials from China could face a substantial loss due to disruption of the supply chain. With the outbreak continuing to grow, the possibility of additional exposures in other countries (including the U.S.) exist.

Commercial policies vary greatly, but a standard, unendorsed business income policy requires physical loss or damage to insured property by a covered peril to trigger a claim. Diseases and viruses are not a covered peril. Coronavirus infection does not fulfill these requirements and therefore there would be no coverage for a pandemic to an insured location.



SOLUTIONS

Fortunately, the insurance marketplace has developed innovative solutions to provide products that can fill in coverage gaps or provide additional protection in the event of an epidemic or pandemic event.



CONTINGENT BUSINESS INTERRUPTION (CBI) insurance can be purchased as an extension to the standard property insurance or as a standalone policy. These policies are designed to protect businesses against lost profits due to disruptions to the supply chain. These policies require physical damage at the supplier/customer premises as opposed to at the insured premise. Again, physical damage by a covered peril is required to trigger coverage. Therefore, the standard CBI policy would not respond for suppliers closed due to the coronavirus.

PARAMETRIC PRODUCTS close conventional insurance policies' coverage gaps and provide protection for loss events that were previously deemed uninsurable. Parametric or index-based products are structured to pay out a predefined sum if an agreed, reliable and independently reported trigger is met.

Triggers and conditions can be customized in various ways, such as activating when the total deaths caused by a pandemic reaches a certain amount, the number of people infected in a limited period or some similar metric. A second qualifying trigger can be added as well, such as decrease in production, change in price for a commodity or raw material, or another industry-specific index.

SUPPLY CHAIN INSURANCE provides Business Interruption (BI) coverage without requiring physical loss or damage, similar to NDBI. It can therefore extend coverage for loss resulting in a delay or disruption in the receipt of products, components or services from a supplier. Beyond providing coverage for BI related to pandemics, supply chain insurance can include coverage for pandemics but is also much broader, including coverage for strikes, civil or military action, political risk, regulatory actions or other significant delay in supply due to events such as natural disasters.

This coverage is a particularly valuable solution for companies with complex supply chains involving domestic and/or international partners/suppliers and whose own business or output is dependent on those suppliers. Examples of industries that can benefit from the added protection of supply chain insurance include manufacturing, automotive, technology and pharmaceutical sectors.

NON-DAMAGE BUSINESS INTERRUPTION (NDBI), a specialty insurance product, is available to provide coverage for a defined event unrelated to property damage. Usually the policies allow you to choose the events that you wish to have covered. Common triggers can include terrorism, pandemic, strikes or financial failure of a vendor. However, coverage cannot be purchased following the outbreak, it must be in place before the event.

	TRADITIONAL INSURANCE	PARAMETRIC SOLUTIONS
Trigger	Loss or damage to physical asset	Event occurrence exceeding parametric threshold
Recovery	Reimbursement of actual loss	Pre-arranged payment structure
Basic Risk	Policy conditions, deductibles and exclusions	Modeling accuracy, correlation of index with loss exposure
Claims Process	Complex; based on adjuster; can be slow	Transparent, based on an index; quick settlement
Term	Usually annual; some multi-year	Single or multi-year; up to 5 years
Structure	Standard products and contract wordings; some customization	Customized product with high flexibility (single trigger, multi-trigger)
Form	Insurance contract	Insurance or derivative

Source: Swiss Re Institute



RISK PREVENTION AND RISK MANAGEMENT STRATEGIES

Detecting a disruption in your supply chain is the first step in mitigating its impact. Selecting a response and deploying that response could be critical to many companies in the next coming weeks. If you have the intestinal fortitude, the next four weeks may provide business leaders with insights as to the resiliency of their supply chain.

Regardless of that outcome, Chopra and Sodhi in the Spring 2014, MIT Sloan Management Review recommend that goods with high frequency/predictability can be sourced and/or distributed regionally to provide redundancy and limit the impact of a supply chain disruption without substantially increasing costs. Lower frequency demand parts and sub-assemblies can be centralized. Even then, however, most companies will still segment their supply chain with a secondary, central supplier active within their supply chain at 20% in order to respond should their primary supplier be impacted by a disruptive event – such as the coronavirus.

The following are a compilation of loss prevention and mitigation responses to limit the impact the coronavirus may have on your operation:

- The best way to combat supply chain disruption is to begin now in executing orders with alternative vendors outside of China, as outlined in your supply chain/business continuity plan. If you have single-source suppliers only, alternative products may be sourced in areas such as Vietnam, Thailand, Malaysia, Mexico, India or Japan.
- If you have ex-patriots in China, ship them gloves, N-95 masks with exhale valves, and alcohol swabs so they can protect themselves from incidental contact. You can also arm them with paper soap slices, so they can wash their hands anywhere water is offered – still the best defense against virus transmission.
- Although the virus cannot live outside of humid environments, sanitizing in-bound shipments may give employees on the receiving side a sense of comfort.
- Encourage any employees you may have in infected areas to report symptoms quickly and encourage them to stay home for 14 days during the incubation and contagious time frame.
- Make sure your food service vendors are being vigilant about sending home employees with symptoms.
- Suggest employees in the U.S. limit their travel to China and use non-international hubs for domestic U.S. travel.

If you have additional questions or need assistance on this topic or others, please contact your Producer, Account Executive, Claims or Risk Control representative on your IMA team.



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