



The Insurer

What impact is the global financial meltdown having, and what will this mean? While 2007 and 2008 were profitable for insurers due to a relatively low number of natural disasters and catastrophic losses, insurers' investments are not immune to the global economic downturn. What that means for policyholders is at least a leveling off of premiums and possible rate increases as insurance companies need to generate an underwriting profit. No longer can investment profit offset underwriting losses. Some insurance companies are facing serious financial issues, but those with well-balanced underwriting and investment portfolios should continue to perform. The best advice for policyholders is to make sure your broker is affiliated with financially healthy underwriters. For example, regularly check insurance company ratings and consider your ability to collect on claims from a financially distressed insurer. Client contracts should also be regularly reviewed as they may require insurance placements with 'A' rated insurers.

What Challenges Do You Face?

Looking forward, supply chain risk management faces some big challenges. Piracy is a global issue that will not only face those using trade lanes around Somalia. If left unchecked, cargo insurance and hull/P&I premiums will definitely be affected by piracy. In the US, the Importer Security Filing (10+2) and 100 percent air cargo security screening rules will keep cargo in the supply chain longer, increasing the potential for loss or damage, and increasing carrying costs to cargo owners.

Financial demands, lean inventory requirements and consumer delivery expectations increase time element pressures on carriers, shippers and intermediaries. There are risk transfer options for delays in start-up and trade disruption, but any insurance product adds cost. Proactive contingency planning will always be a key element in supply chain risk management.

Is Your Industry Credit Crunch Immune?

The industry is not immune to this problem. However, the overall impact will vary by industry sector and company size. Larger companies with long-term planning cycles are not as vulnerable to the effects of the economic downturn as smaller companies that operate in shorter cycles.

Regardless of company size or planning cycle, in turbulent times it is critical to identify unprecedented exposures to risk that may occur as a result of cargo loss or damage. For example, if a unit needs to be replaced or repaired, are parts and/or raw materials readily available? If suppliers are feeling the pinch, will they be able to fulfill orders in a timely manner? Long delays in repairs and/or parts could result in extraordinary costs not considered when the goods were insured. It is critical to evaluate the wording in cargo policies as it relates to valuation in order to mitigate this risk.

Lengthy delays in replacing or repairing critical items can impact the completion of an entire project. Coverage for consequential loss should be considered to protect against these financial exposures.

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