

CAPTIVE BENEFITS FOR ALL RISKS SUPPLY CHAIN COVER



Modern businesses do not operate in isolation; they are part of a global marketplace with multiple stakeholders. You are very likely to have elements of your supply chain operating internationally and this can create significant financial exposure, penetrating down multiple levels and spanning diverse geographies. For even the most established corporation, this can be extremely difficult to map and to obtain clarity on the broad range of risks that could compromise supply throughout the chain.

CHALLENGES

Traditional business interruption (BI) insurance provides only limited, usually first-tier supply chain cover with claims triggered by physical loss or damage at the supplier's premises.

Full all risks supply chain cover with far fewer gaps is available, however, it suffers from similar challenges to other emerging risks – primarily a lack of key data. If an insurer does not have the information to allow them to understand a particular risk, they are likely to respond with caution, both in terms of capacity and pricing, needing first to develop a good understanding of those exposures to successfully underwrite.

SOLUTIONS

Captives, however, can offer a solution to this problem by:

- Financing supply chain risk assessment and mitigation activities around critical supply chain exposures, which typically represent GBP10-GBP100s million exposures ensuring improvements can be made very cost effectively.

- Documenting supply chain disruptions to allow appropriate analysis and lessons to be learned by offering a limited capacity.
- Providing a central part of a comprehensive coverage solution offering an initial capacity of up to USD100 million, a basis for access to further market coverages.

We have brought together the expertise of Marsh Captive Solutions, Marsh Risk Consulting, Marsh's BI Centre of Excellence (BICoE), and Zurich's unique all risks supply chain offering to provide an alternative option for businesses looking to transfer global supply chain risk.

The following case studies summarise how captives have been used by some very different companies to improve understanding of their supply chain risk and to structure alternative risk transfer mechanisms that cover damage and non-damage events.

INDUSTRY CASES

MINING

A major mining company used its US registered captive to take in substantial USD20 million non-damage supply chain risks around five of its critical suppliers. To do this a BI risk assessment review was carried out in order to understand the impact and the likelihood of supply chain disruption.

Benefits included:

- A quantified risk cost for the named supplier/supply that could be used in financial decision making.
- Provided further short-tail premium as part of diversification of all the risks that are held in the captive.
- By capturing and reporting the various supply chain loss events, a much better understanding was obtained of the causes and quantum of these events to allow for improvement in the area of supply chain resilience.
- Data collected will enable the company to access more coverage opportunities and increased capacities from the insurance market.
- Cash-flow benefits of using a captive to fund risk assessment activity and disruptions.

CONSUMER GOODS

A multinational fast-moving consumer goods (FMCG) company's captive management team funded supply chain BI risk assessment activity to help a major operational division in Europe. If it had not been for this seed funding this work may not have taken place.

Benefits included:

- Provided an in-depth supply chain risk assessment for the operational and financial dimensions of exposure of the business. This included consideration of value at risk, redundant capacity, changing customer demands, and market trends.
- A proactive and structured comprehensive supply chain resilience process was documented that could be used going forward across that division and the wider group.
- The outcome of the assessment also helped to provide details of the breadth and basis of supply chain cover, the sum to be insured, indemnity periods, and essential cover extensions.

TECHNOLOGY

A high-tech company uses a captive for a supply chain USD10 million insurance deductible and a USD10 million coinsurance as part of its overall policy coverage of USD100 million.

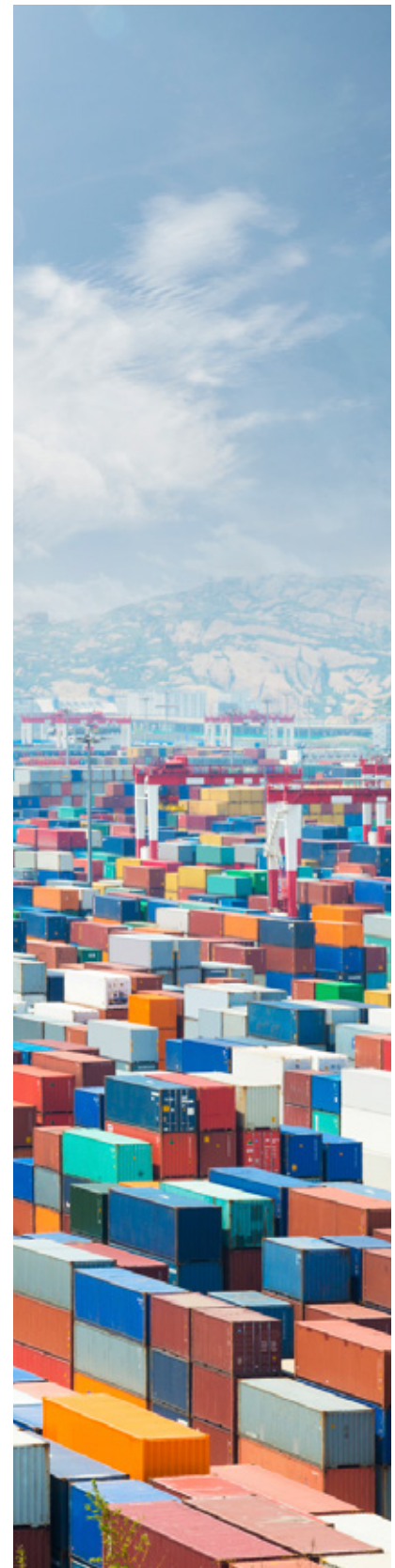
Benefits included:

- Achieved further coverage for damage events in the supply chain, as the traditional property damage/business interruption market provided restricted limits and first tier only.
- A policy which provided the right combination of the coverage required at a reduced premium level.
- Allowed the company to capture and report on supply chain disruptions.
- The associated premium acted as a catalyst to help support the development of supply chain resilience initiatives.
- Provided further short-tail premium as part of diversification of all the risks that are held in the captive.

We have developed a simple and transparent process through which you can improve primary understanding of your supply chain risk and structure appropriate coverage through your captive at the right premium.



It is vitally important to choose a captive servicing team with the tools and expertise to help collect and analyse that all-important data. By financing risks through a captive, you can begin analysing your risks in a much more meaningful way, to help build a more accurate picture of your specific exposures. The captive will also be operating at the heart of the business in improving supply chain resilience.



WHY MARSH?

Marsh Captive Solutions offers industry-leading experience in captive programme design and management that spans nearly five decades, with captive professionals and offices throughout the world's major captive domiciles. We have experts who understand the unique risks facing today's captive owners, and we are ready to provide our clients with tailored, comprehensive captive solutions that work seamlessly within the context of their business.

For more information about using a captive to help manage your supply chain and other solutions from Marsh, visit marsh.com, or contact your local Marsh representative.

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