

# Supply Chain Risk Management

## Innovative solutions for resilient operations

It's never been harder to balance the need for flexible and cost-effective supply chains with assurance around risk mitigation and the management of disruption.

### Exposure to disruption

We've seen supply chains becoming increasingly more fragile over the past few decades with companies seeking to drive efficiency and margin through sourcing of materials, ingredients and components as well as the distribution of their end products. Liquidity strategies based on the use of reduced inventories and 'just-in-time' fulfilment processes have further increased exposure to disruption.

At the same time, the availability and relevance of insurance as a solution to supply chain risk is reducing. Tougher market conditions have significantly reduced the appetite of insurers to write contingent business interruption extensions, even for well-defined perils.

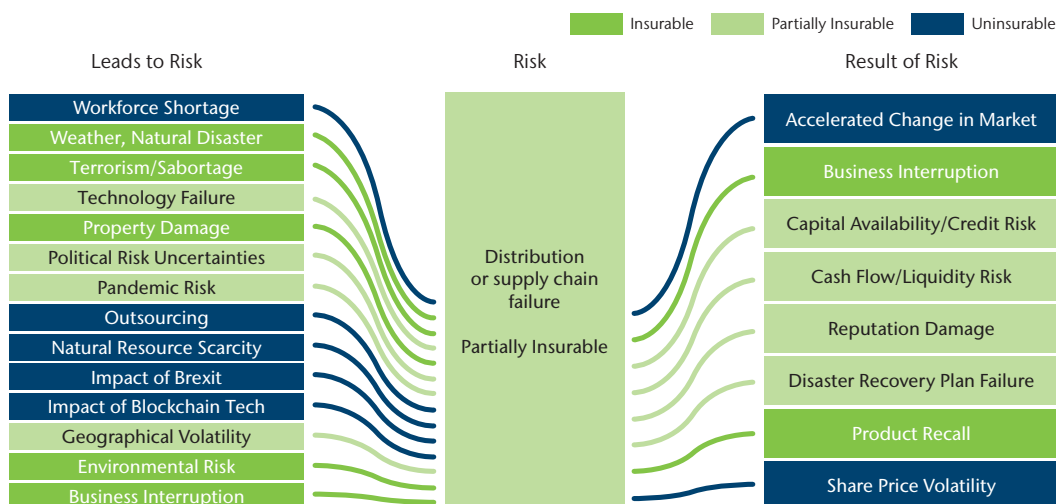
### Accelerating risks, costs and losses

Supply chain efficiency has become a set of financial KPIs - but efficiencies can further accelerate risks. Supply chain interruptions are regular occurrences and are costly. This was demonstrated with the blocking of the Suez Canal, the Texas cold snap, a major fire at a Japanese chip manufacturer as well as ongoing delays at port pinch-points triggered by Brexit. These have been against the backdrop of a pandemic that's estimated to have created supply chain challenges, costs and losses for over two thirds of the global business community.<sup>1</sup>

### Creating resilience

As companies seek to create resilience around their supply chains, they are often held back by a lack of information on supply chains beyond tier one, as well as competing internal agendas between procurement, treasury and risk. This creates further challenges in defining a common risk strategy that, if adopted, could reduce both costs and volatility.

## Global Interdependence for distribution or Supply Chain failure



This bow-tie model demonstrates the interconnected causal risks and risk impacts, deriving from supply chain risk.

<sup>1</sup> Source: Aon Reprioritizing Risk and Resilience 2020

## Expected losses from supply chain disruptions equal 42% of one year's EBITDA on average over the course of a decade

Source: S&P and Capital IQ; McKinsey Global Institute analysis

### Shared systems increase threats

The definition of supply chain is broadening and becoming more complex. Today it's not just about keeping a vessel moving or a manufacturing facility intact. It's just as much about the environmental, social and governance (ESG) performance of a supply chain, the ongoing solvency of critical suppliers and increased IP and cyber exposure - all likely threats due to shared supplier systems and processes.

### How Aon can help

- We support clients to better understand and mitigate their risk exposures whilst assessing ways of developing innovative and new, practical solutions.
- We assess and align macro exposures to specific industry sector events including: extreme weather conditions, environmental and climate forecasting and political unrest or jeopardy.
- We can effectively run key scenarios through stochastic models to fully gauge the probability of future events. Where there is a concentration of exposures we can provide advice on de-risking the supply chain through re-engineering and contractual risk management.
- Our experience of aligning existing supply chain processes and procurement operations with insurance, risk management and finance teams can provide a range of cost and production efficiencies – particularly in the current hardening market.
- We match insurer capital to current and emerging exposures, through improved risk insights around supply chains, key suppliers and third-parties in a way that ensures optimum underwriting outcomes. This may include access to other capital providers to gain broader risk coverage and transfer options or the use of captive insurance companies or index-linked, parametric solutions.
- We can identify and mitigate a range of often hidden reputational issues culminating from supply chains including: diversity and inclusion, modern slavery, child or forced labour and human trafficking.
- With our specialist data partner Resilinc, a global leader in supply chain visibility 'data-as-a-service' we develop a range of data/mapping/alternative supply options. This can map significant risks into specific perils that can leverage other data sets, such as loss and claims data which can support scenario planning to identify future triggers.

## Aon's CBO community rated Supply Chain Risk, alongside Climate Change, as the two biggest challenges from a risk transfer perspective.

Source: Aon's Global Risk Management Survey (GRMS)

### About Aon

A leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance. This includes our significant investment in supply chain risk, to help deliver assurance for our clients and unlock capacity in the insurance market.

### About Resilinc

A global leader in supply chain visibility data-as-a-service, with one of the largest repositories of supply chain intelligence data. One of the only solutions with unified visibility that drills down to Supplier, Site, Product and Part Level data in one system. Artificial Intelligence AI-powered collaborative risk assessment platform with patented risk quantification.

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