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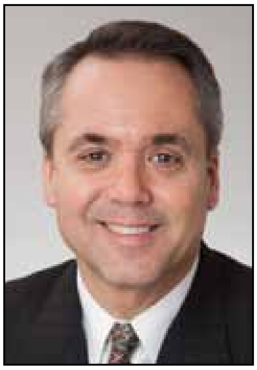
Insight

Data + Analytics = A Giant Leap For Insuring the Supply Chain

Knowledge and insight often prepare the ground for lasting achievement.



By
Scott G. Stephenson

Insurers can play a key role in unlocking a huge opportunity to transfer risk.

In making his uplifting observations about motion and gravity, the great English scientist Sir Isaac Newton was typically modest.

"If I have seen further," he wrote in 1676, before publishing his findings, "it is by standing on the shoulders of giants."

Newton was giving credit to intellectual giants of generations past, but revealed another truth: Deep knowledge of a subject and the insights derived often prepare the ground for lasting achievements.

While the insurance industry and supply chain may have had only limited interaction in the past, innovations are appearing as both see opportunity in enhanced supply chain visibility. With predictive analytics and risk data—the lifeblood of the insurance industry—insurers can play a critical role in supporting a strategic business imperative and unlocking a giant opportunity to transfer risk.

For insurers, coverage of supply chain disruptions could be sold if better data becomes available—data that allows insurers to price risks accurately and enables them to demonstrate the value of insurance. For insurers and businesses alike, the opportunities from enhanced supply-chain visibility are huge, and the worlds of insurance and supply chain seem to be on a convergent course.

Given recent history, a comprehensive and integrated risk management strategy should be a central component of any supply chain.

In the United States, retailers are still smarting from a labor dispute that led to an intentional slowdown of cargo moving through West Coast seaports.

The interruption lasted nearly a year and carried losses for importers, exporters, shippers, and retailers that was estimated in the billions of dollars earlier this year.

A study conducted in 2014 by the University of Tennessee and UPS Capital noted that insurance companies "possess a preponderance of readily available data on supply chain risk" and that relevant analytics are what's needed to tap the potential for timely, targeted mitigation.

And though risk transfers usually focus on supply disruption, fluctuations in consumer demand are often the variable bringing the largest economic risks for manufacturers. In these situations, predictive modeling can play a valuable role, and insurers' strengths in modeling climate and weather have specific value.

Back in the age of Newton, a group of ship owners, merchants and sea captains—the supply chain managers of their day—transformed global commerce by "inventing" business insurance.

The industry as we recognize it began when captains studied news of shipping losses at Lloyd's Coffee House in 17th-century London.

More recently, insurers have been developing tools for supply chain operators, some of whom have already started testing the models. Data and indices used to forecast political, economic, environmental, work force and societal risks will add another layer of value.

No stranger to the variables of a complex world, Newton scribbled his calculations and revised them when discovering complications.

His aim was to better explain the forces shaping everyday life.

"Truth is ever to be found in simplicity," he concluded, "and not in the multiplicity and confusion of things." BR

Best's Review columnist **Scott G. Stephenson** is chief executive officer of Verisk Analytics. He can be reached at *insight@bestreview.com*