beazley

Article

Supply chains in the crossfire

Wayne Imrie • July 09, 2024

By Wayne Imrie, Head of London Market Wholesale Executive Risks, Specialty Risks at Beazley

The COVID-19 pandemic brought significant disruption to global supply chains and exposed how many businesses lacked resilience to external shocks. Since then, ongoing conflicts in Ukraine and Gaza, combined with increasing tensions between China and Taiwan have continued to highlight the fragility of global supply chains. In each instance, crucial supply routes have been plagued by uncertainty and disruption with political unrest impacting the trade of important cargo and goods.

The knock-on effect for businesses is often delays, additional cost and lost revenue. In this era of accelerating geopolitical tensions, many US firms are reconsidering their approach to offshoring, spurred on in part by the threat of claims from shareholders. Indeed, while offshoring can allow businesses to reduce their labour and material costs, these benefits today are often countered by geopolitical related supply chain risks.

Our recent Risk & Resilience survey of US business leaders revealed that nearly a third (32%) believe political risk is the number one threat they face this year. At the same time, 25% of respondents reported feeling unprepared to counter this threat. Geopolitical events such as war, terrorism and political violence threaten the stability of supply chains and create potential liabilities for US directors and officers. Which may be why so many are feeling exposed to political risk. Planning for these risks and assessing not only the potential supply chain, but also the directors and officers liability (D&O) exposures, is key for US executives looking to protect their firms and themselves from liability claims of mismanagement.

Today, business leaders need to form new supplier relationships and navigate wide ranging concerns, from employee safety, cyber risk to general business practices. Coupled with the risk of bribery and corruption in unknown territories, the need for strong due diligence practices is vital. With the further risk that operating in certain regions could contravene government sanctions, having a full understanding of the political risk landscape is crucial if firms and their executives are to avoid D&O claims from shareholders should the worst happen.

Technology in the spotlight

Recently, we have seen ongoing tensions between China and Taiwan creating uncertainty for US businesses reliant on Taiwan’s semiconductor industry, and the processing chips that power everything from mobile phones, computers and manufacturing processes to electric cars. With Taiwan currently producing over 90 per cent of the world's most advanced microchips[1], and the current geopolitical undercurrents, US businesses could find themselves exposed to significant supply chain disruption risks if the geopolitical situation deteriorates.

In addition, as businesses increasingly adopt generative artificial intelligence (AI), they become more susceptible to politically motivated cyber-attacks emanating from countries such as Iran, Russia, and China[2]. While cybersecurity has long been a priority in D&O underwriting conversations, the current geopolitical landscape only heightens reputation and misinformation risk as politically motivated actors increase in number and impact.

Improving resilience

In this heightened era of global tensions, D&Os need to decide how best to organise their operations and mitigate new and rising geopolitical related supply chain risks.

Pivoting to more reliable and less exposed supply chains is one way firms can attempt to minimise the threat that geopolitical risk poses to their operations. Increasingly, we are seeing US-based firms opt to near-shore their supply chains, bringing production closer to key customer bases to end their reliance on long distance distribution.

Yet, whatever approach firms take, the value of a robust risk mitigation strategy is of significant value when attempting to navigate the challenges posed by geopolitical risk. While external events are beyond the control of most C-suite executives, they can control their response to events and their level of preparedness. If they fail to prepare for this risk and do not implement a suitable risk mitigation strategy and the company’s business is significantly impacted, they could find themselves on the wrong side of shareholders’ wrath and face a legal challenge.

With plaintiff’s bar attorneys quick to pursue the executives of firms that are perceived to have mismanaged their business, D&O insurance forms a vital part of a risk mitigation strategy. While reliance on global supply chains leaves firms at constant risk of being caught in the crossfire of geopolitical risks, failure to develop considered disaster plans could leave both the business and its executive team exposed. Amid this increasingly volatile landscape, executives can no longer afford to see D&O cover as a commodity product, and instead they need a tailored and appropriately structured policy in place to provide the financial protection required should geopolitical risks result in their business strategies not go according to plan.

Wayne Imrie

Head of London Market Wholesale Executive Risks | Specialty Risks

[1] Taiwan’s dominance of the chip industry makes it more important (economist.com)

[2] What cybersecurity threats does generative AI expose us to? | World Economic Forum (weforum.org)

The information set forth in this communication is intended as general risk management information. Beazley does not render legal services or advice. It should not be construed or relied upon as legal advice and is not intended as a substitute for consultation with counsel. Although reasonable care has been taken in preparing the information set forth in this communication, Beazley accepts no responsibility for any errors it may contain or for any losses allegedly attributable to this information.

©Beazley Group | LLOYD's Underwriters