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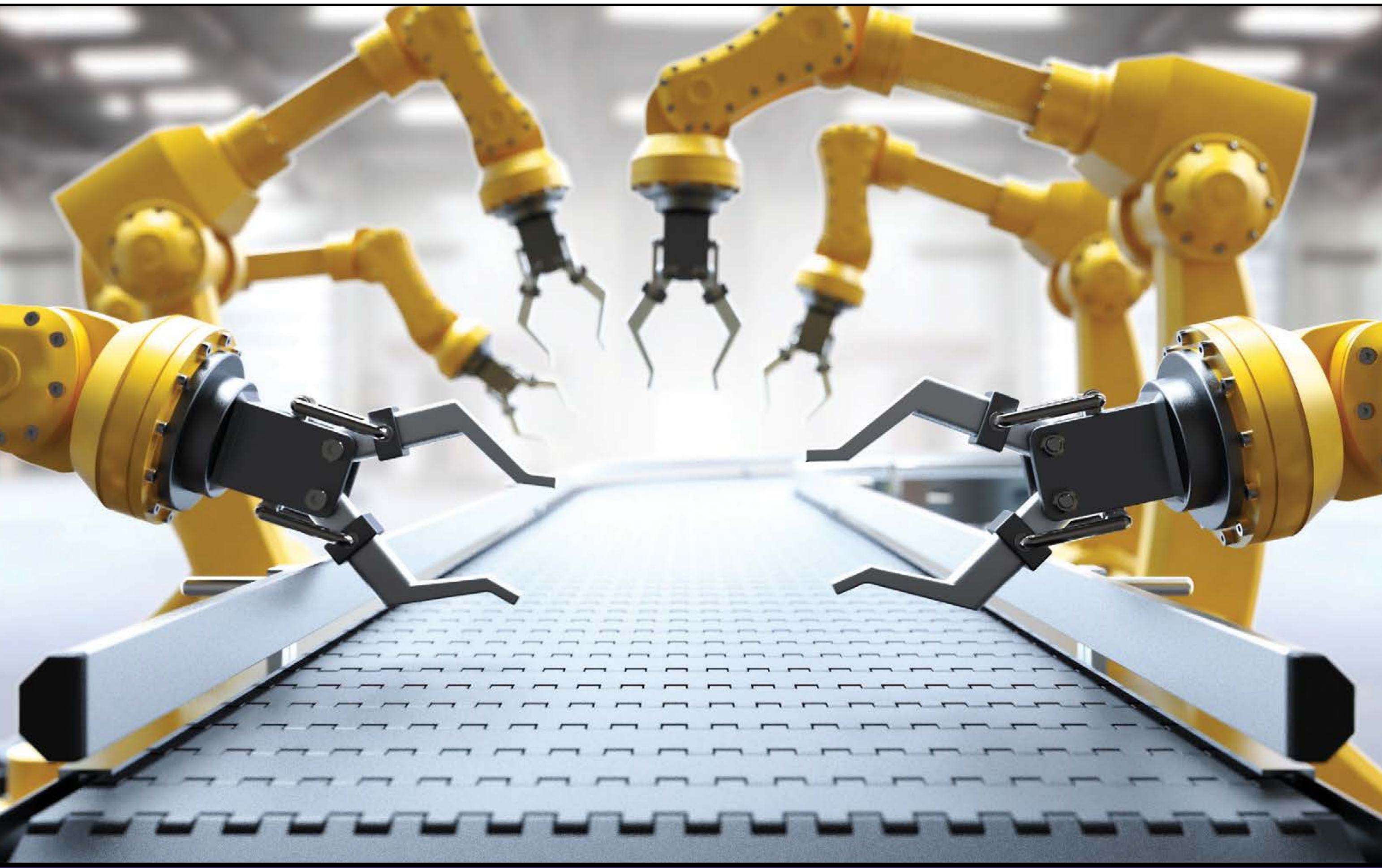

Idle facilities *The idling of facilities brought about by the impacts of the coronavirus pandemic expose businesses to a new set of risks, risks that could disrupt their ability to recover once the pandemic has been overcome. Russell Kirby explains* *Page 24*

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Risks redefined by COVID-19

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Idle facilities

The idling of facilities brought about by the impacts of the coronavirus pandemic expose businesses to a new set of risks, risks that could disrupt their ability to recover once the pandemic has been overcome. Russell Kirby explains

The disruptive effect of coronavirus has seen a number of businesses close their doors, and whether this will be temporary or permanent remains to be seen.

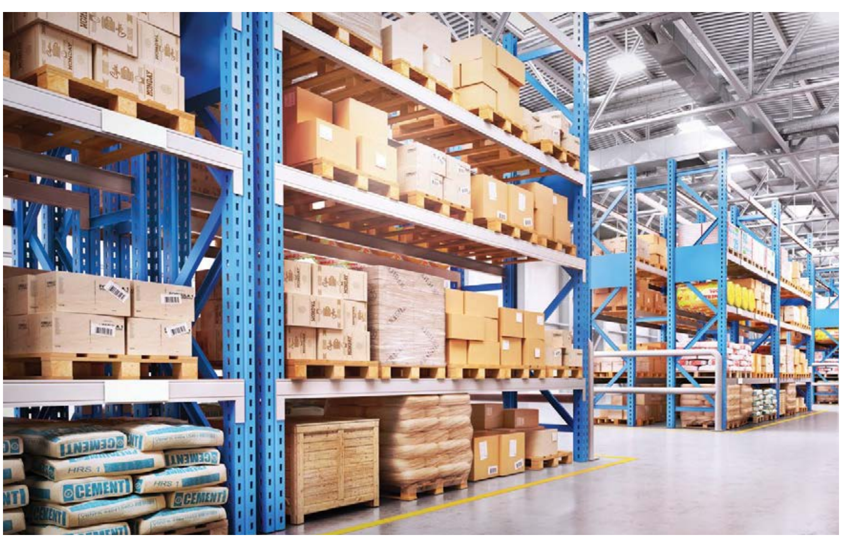
These closures are having a clear, visible impact as empty shopfronts, warehouses, manufacturing facilities and office spaces become an increasingly common sight across the UK, and indeed around the world. Beyond the economic impact that these closures have, the idling of facilities also exposes businesses to a new set of risks, risks that could disrupt their ability to recover once the pandemic has been overcome.

These hazards incorporate a wide range of potential problems with various causes, including natural hazards, human activity, and machinery issues.

Criminal activity

Although overall levels of criminal activity may have fallen throughout the pandemic, there is no question that COVID-19 has made commercial facilities more vulnerable to criminal damage. This is in large part due to the social distancing and lockdown restrictions imposed on many countries, with the result that security and maintenance crews have often been unable to remain in place, or with limited access and minimal staffing to continue managing their full responsibilities. This means that if any vandalism or damage does occur it is possible it could remain unchecked – potentially for days, weeks or even months at a time.

Should criminal damage occur at an idle facility, it can create serious problems and delays for businesses, particularly when the time comes to return to normal operations; no organisation would want to have to replace equipment because someone has broken in and either smashed up the facility or stolen property. This is particularly true for some manufacturing sectors, where the long-lead times and expensive nature of equipment can make the recovery process even more painful.



To help manage this hazard, it's vital that there is still some kind of security presence available within facilities. Even if security personnel can't be physically present in the business space performing regular daily rounds, installing systems such as cameras and sensors can help build resilience. These systems not only deter potential vandals from harming the equipment and property, but they also help organisations to check if their facility has been affected by an event like a flood or a fire, speeding up the recovery process or a potential claim.

Beyond these systems, simple actions such as regularly checking sprinkler valves are still open and operational can have a big impact-protecting facilities and minimising the impact of a damaging fire.

Maintenance and upkeep

In a similar vein to the importance of having some form of security on site, it's also really important that organisations and facilities retain the presence of a maintenance crew which can conduct regular checks and prevent small issues from growing into large ones.

A common example of a problem where continued maintenance can pay off is water damage. In normal operations, maintenance teams could quickly address a small leak in a roof caused by a broken pipe or heavy rain. However, during this idle period, a small leak might go unnoticed, becoming a larger problem until it causes significant damage to machinery and property.

Fires and the severe damage they can cause, should also be a concern for businesses with idle facilities. According to a report published by FM Global, non-arson-related fire accounted for 45 per cent of losses in idle or vacant buildings from 1982 to 2012 – clearly showing the threat these pose to businesses. Given this risk, organisations with idle facilities should continue to provide resources for the upkeep and maintenance of sprinkler systems. These systems are very effective at controlling fires; according to the Business Sprinkler Alliance when sprinklers are installed and operate correctly they control or extinguish 99 per cent of fires. This success rate underlines how important sprinklers are to the resilience of an idle facility, protecting businesses from an impactful and damaging hazard.

Natural disasters

Natural disasters are always a hazard that business owners need to consider, as they are capable of dealing a sudden and devastating blow to a facility. Whether the disaster is a storm, flood, wildfire, snow, or in other parts of the world a hurricane or earthquake, a failure to prepare and implement preventative measures could result in significant unnecessary damage. Unfortunately, the disruption caused by the pandemic and the associated government restrictions can make mitigating natural hazards even more difficult. With employees nominated to respond during a natural disaster more likely to be away from a facility, normal measures outlined in response plans might be unworkable, leaving facilities exposed. When coupled with the stretched nature of emergency services and potential reduction in the speed of their response, the losses that businesses could suffer from a natural disaster could easily be greater than during normal times.

To manage this situation, businesses should update existing Emergency Response Plans to account for the difficulties created by the pandemic, so if a facility is impacted by a natural hazard a more suitable course of action can be followed. This updated plan should include accommodations for employees who may be on-site or near a facility, providing the relevant individual with the authority to make necessary short-term decisions to mitigate the damage that a natural hazard could cause.

Risk mitigation

Regardless of the risks that organisations face to their property at facilities, there are always actions that can be implemented to help reduce the damage that a hazard could cause. At FM Global, we have a long history of helping clients mitigate and manage the damage they face all around the world. Always backed by sound data and science, we assist clients in developing loss prevention strategies that can respond in a given situation, even accounting for idle facilities.

With regards to idle facilities, there are several solutions that can help mitigate risk and build resilience. One action that organisations can take is to try and have security and maintenance personnel classified as essential employees, so they can perform regular checks at facilities, even if many restrictions on movement have been imposed.

Other mitigations don't necessarily have to be expensive. Simple steps, such as elevating any expensive or sensitive stock and equipment, can stop water damage caused by flooding or a burst pipe, while moving any flammable liquids and any other combustible materials away from likely ignition sources and into safe, secure areas, draining down process equipment and minimising ignitable liquid inventories could prevent a fire from damaging or destroying a property.

Beyond risk mitigation, when facilities are idle there may be opportunities to take actions that might not have been possible or were too costly when a facility was operational. For example, any overdue upgrades, maintenance or repairs to equipment and machinery could be implemented while facilities are empty, as the loss of production due to the required downtime is significantly reduced, if not removed entirely. This sort of maintenance has an immediate effect of improving resilience, and can also improve the process of restarting facilities and equipment once businesses are able to do so.

Although the pandemic has created a difficult situation for many businesses, there is no reason for them to suffer further issues by ignoring the importance of their idled facilities. These properties will be critical when businesses are able to reopen and return to normal production and working practices, and they need to be protected. Simple steps such as ensuring that security and maintenance procedures continue, and making sure that facilities are prepared to withstand any major natural hazards that may occur can save an organisation from having to pick up the pieces when normal operations are able to resume.

Russell Kirby is vice-president, operations engineering manager, London Operations, FM Global

Rerouting risk

The ongoing pandemic has redefined supply chains and the risks they present. Managing these has to change, too. Kerry Balenthiran explores some of the strategies that will help businesses through the coming months and into the future

COVID-19 has had an unprecedented effect on the global connections which have come to define our modern nation states and economies. One area where this has been most apparent is international supply chains, as the pandemic has caused tremendous disruption across the world, interrupting many business operations. According to the Business Continuity Institute, 73 per cent of organisations reported that COVID-19 caused a detrimental effect to their supply chains. A McKinsey Global Institute report from August of this year similarly found that supply chain shocks are becoming more frequent and severe. This data highlights the continued importance of investing in resilient supply chains; never has it been more important that organisations start the process of re-evaluating their exposure to ensure ongoing business continuity.

During this challenging period, we are seeing more businesses respond to the redefined risks facing supply chains with two main solutions: re-localisation and diversification, both intended to build resilience and mitigate supply chain disruption. For instance, the Japanese government recently allocated around Y220 billion (£1.6 billion), to help businesses with the re-shoring process. In contrast, data from a PwC report from earlier this year found that many US-based CFOs are expecting their supply chains to become broader and more diversified in the coming months.

It is crucially important that when a business decides which route to take, they do it in a considered manner understanding the costs associated with each option. While some have rushed to localise supply chains, particularly away from China, this solution often ignores how COVID-19 has affected all regions across the planet. For instance, there would be no benefit to returning a supply chain to the home nation of a company, only for a local wave of COVID-19 to take the facility offline and make the re-shoring process both extremely costly and ineffective. Therefore, business leaders should carefully evaluate whether a localisation strategy is a sound investment, as rushing major operational decisions of this nature could potentially increase the level of risk a supply chain is exposed to.

The same mantra also needs to be applied when assessing whether diversification is the right strategy for an organisation. While diversification may seem like a risky option during times of upheaval, as globally connected and interdependent supply chains are criticised, there are still many benefits to having global, diversified supply chains in place. Diversification can alleviate exposure to singular hazards, as organisations can create chains which can potentially still function even if one location is forced completely offline. If this does occur, due to a local outbreak of coronavirus or a natural catastrophe, having access to multiple locations and suppliers can reduce the risk that the incident will wipe out the operational ability of the entire supply chain.

The pandemic has also shown the fragility of just-in-time supply chains and models which rely on only holding a lean inventory of goods without buffer stocks, as such a situation can leave a company exposed. This is particularly true for companies that had less resilient balance sheets even before the pandemic, as supply disruption can quickly interrupt cash flow. While making an investment in buffer stocks may be seen as tying up capital, it's actually a great risk management technique, as it provides businesses with a competitive advantage compared to those companies who haven't invested in the same mitigation measures. These actions can therefore help a business weather the storm of an event like COVID, proving once again that investing in resilience pays off.

Regardless of the solution organisations decide to utilise, it is crucially important that they understand the risks present within their supply chains and should take steps to mitigate them. In the face of the devastation brought on by the coronavirus pandemic, the importance of making business decisions which have appropriately considered resilience has grown. As the risk landscape changes and evolves businesses leaders need to be agile and ready to adapt, directing organisational decisions in such a way that appreciates this complexity.

With the pandemic changing global supply chain dynamics, it is important that organisations consider the resilience of a country's business environment when planning where to locate a particular supply chain. FM Global's Resilience Index can assist with this process, helping organisations better understand a country's business resilience and gain critical information to guide strategic decisions.

The FM Global Resilience Index (https://www.fmglobal.com/research-and-resources/tools-and-resources/resilienceindex) ranks risk in 130 countries and territories, providing insight into a range of drivers which can impact supply chain resilience, such as control of corruption, quality of infrastructure, natural hazard risk quality, corporate governance and supply chain visibility. This information can provide an indication to business leaders of where potential pinch points in supply chains could be, as well as highlighting which countries may represent less risky locations when engaging suppliers.

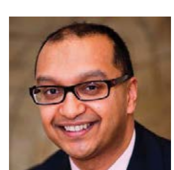
Beyond evaluating the resiliency of a country's business environment, business leaders should also map out the multitude of risks that their operations could face and ensure they are prepared to withstand them. In many ways COVID-19 has redefined the nature of modern supply chains because of the ways in which the crisis interacts with and often exacerbates already present risks.

Cyber risk is one area where this is apparent. The World Economic Forum estimates that cyber damage in 2021 could reach almost £4.6 trillion, highlighting the true scale of this risk. The ability for a cyber incident to easily cross borders, damaging multiple operations and systems around the world, means that the impact of an attack can be devastating to an organisation's supply chain. This risk is also expanding in the era of COVID-19, as many businesses have reported a rise in cyber attacks linked to the pandemic, creating further supply chain exposures.

There are, however, several measures that businesses can take to improve the cyber resilience of their supply chains. These include implementing measures to ensure that IT and operational technology systems are kept as separate as possible – both in terms of connectivity and physically – as well putting in place systems that can identify and alert the organisation when a cyber attack has been attempted. Firewalls and other VPN security measures are also vital, and it's important that these systems are updated and configured to deal with the greater volume of outside traffic that COVID-19 may have caused. Additionally, the training of employees and anyone who may have access to secure systems is critical. With supply chains often dispersed around the globe this is no small task, but it is nevertheless an essential one. If businesses are going to effectively deal with the redefined nature of cyber risk, whilst also mitigating the effects of the pandemic, preparation and agility are vital, to ensure the continuity of business operations.

This mindset is also relevant for managing climate risk in the era of COVID-19. Although, this existential risk has not necessarily been drastically altered by COVID-19, there is a danger than the disruption brought on by the virus could draw attention away from how climate change can affect global supply chains. Such a situation is particularly worrying, as it could be argued that businesses leaders were already not dedicating enough time to mitigating this risk. Recent FM Global research highlights this, (https://newsroom.fmglobal.co.uk/releases/more-than-3-in-4-of-worlds-top-ceos-and-cfos-say-their-companies-are-underprepared-for-climate-related-financial-risks-finds-fm-global) as more than three in four CEOs and CFOs of the largest companies in the world admit their firms are not fully prepared for the adverse financial impact of a changing climate. For supply chains specifically, business leaders need to recognise how climate change has the potential to have a disproportionate effect on different regions across the world. For example, many manufacturing centres are based in south-east Asia, an area that is particularly vulnerable to hazards that could influence supply chains, such as typhoons and flooding. Fortunately, many losses stemming from climate-related events are mitigatable, with loss prevention able to preserve a company's value and revenue.

As the pandemic creates complex risk management conditions and exaggerates existing risks, it is crucially important that business leaders don't lose sight of the importance of managing hazards that could affect their supply chains, such as natural disasters and cyber attacks. Making appropriate investments in resilience should therefore be at the heart of any risk management strategy responding to today's changed world. The key is backing up any decision with sound data and an appreciation of the trade-offs that are created. If there is one learning which COVID-19 has highlighted to the business community, it is that resilient organisations do best.



Kerry Balenthiran is operations vice-president and group manager, business risk consulting (EMEA) at FM Global