



Impact of Supply Chain Disruptions in 2023

Supply chain disruptions are expected to continue in 2023. Geopolitical conflicts, inflation, extreme weather events, and the recessionary environment are expected to impact access to goods, flow of goods to and from destinations, port holdups, container and freight availability, and price surges. Awareness and planning are keys to success in dealing with these supply chain challenges of 2023.

Supply Chain and the Construction Industry

The supply chain will continue to create challenges for the construction industry. Whether it is building new homes, renovating existing homes, or assisting families with homeowners claims, there are obstacles to overcome. To further complicate matters, the labor shortage in the construction industry is also continuing.

Inflation in the U.S. reached a 40-year high in June 2022, and construction material prices jumped:

- **Ready-mix concrete** — Up 9.1% year to date (YTD), the largest YTD increase in 34 years
- **Transportation of freight** — Prices of ocean, rail, and truck freight transportation have increased 25.2%, 6.5% and 6.0% YTD, respectively
- **Gypsum building materials** (used for lining of walls, ceilings, roofs and floors) — 45.6% higher than its January 2020 level

These factors permeate many facets of the U.S. economy. Consider the California storms. Homes, businesses and infrastructure are damaged due to flooding, fallen trees,



mudslides, and so on. Supply chain challenges will delay receipt of materials necessary to rebuild communities. If materials are available, infrastructure damage due to the storm will likely create delays. A pre-existing labor shortage means businesses, consumers and insurers will increase pay to attract workers. These factors create increased costs. These costs eat into business profits and consumer pockets.

How Can Families Prepare for Supply Chain Disruptions?

Be proactive and consult with a risk manager. During that meeting, make sure to:

- Review your current risk management strategies
- Review current replacement value on your home
- Identify loss control measures that may decrease your insurance premium

What Can Businesses Do to Minimize Supply Chain Disruption?

Business owners need to be aware of current trends and always look forward. Review your current supplier networks. Consider nearshoring (transferring operations to a nearby country), or friendshoring (relocating supply chains to countries where risk of disruption from political chaos is low).

As you assess your supply chain, **aim to have these three things in place:**

- **Capability** — Create a mature supply chain. Stay a step ahead and be ready to tackle supply chain risks and opportunities.
- **Agility** — Be responsive and flexible so you can manage the unexpected. Threats and disruptions are inevitable. Preparation allows you to respond efficiently and profitably.
- **Eagle-eye visibility** — Staying abreast of real-time indicators creates long-distance vision. Be prepared to maneuver supply chain issues beyond your own business borders.

Investing in digital capabilities may enhance collaboration across the supply chain ecosystem and facilitate real-time collaboration with ecosystem supply chain partners. Remember, it can take two years or more, on average, for a business to recover from supply chain failure. Investing now may save money in the future.

Cyber Scams and the Supply Chain

Another way to protect your business from supply chain disruption is to stay apprised of the latest cyber scams. The FBI reports an increase in “CEO scams,” where scammers target physical goods rather than wire transfers.

For example, four bogus companies, using real employee names, placed a \$600,000 order for milk powder from a manufacturer. The criminals picked up the order, and the

manufacturer failed to realize anything was wrong until payment was not received.

To stop scammers from exploiting human frailties (like impulsivity and gullibility), **implement these best practices to mitigate risks associated with cyberattacks:**

- Share the latest scams with employees to increase awareness and lessen the likelihood of theft
- Create a training program with phishing simulations, so employees can recognize and report suspicious content
- Teach employees how to identify and avoid malicious websites, emails and attachments
- Require a verification process if there is a change or update to invoices or financial information
- Confirm any requests for urgent payment, orders or shipments from new customers with a verified source
- Advise employees to be cautious of changes in wire instructions, bank information, shipping destinations, email addresses and communication platforms
- Conduct web searches for your company to identify potential imposter sites
- Verify contact information and vendors through reputable online sources

Insurance Coverage to Protect Against Losses

Supply chain disrupters reduce revenue, cut market share, threaten production and distribution, inflate costs and impact a company’s bottom line. Insurance policies may offset some loss. **Consider contingent business interruption (CBI) insurance and supply chain insurance coverage.** These policies are meant to reimburse your business for lost profits and related costs caused by supply chain disruptions.

Business owners should be aware that supply chain coverage provides broader coverage than CBI. **CBI** covers lost revenue caused by a third-party shutdown that directly

impacts a company's ability to do business. **Supply chain insurance** covers disruptions caused by property damage to suppliers' or downstream customers' businesses. These losses can be due to:

- Natural disasters
- Industrial accidents
- Labor issues (e.g., strikes, shortages, etc.)
- Production process problems
- Political upheaval, war, civil strife
- Riots or other disruptive civic action
- Closure of roads, bridges, or other transportation infrastructure
- Public health emergencies (e.g., pandemics requiring quarantine)
- Regulatory action
- Financial issues (e.g., solvency, cash flow problems)



One of the biggest mistakes businesses make is having multiple tiers of supplies and only insuring the first tier. As a result, more insurers are moving toward offering multitier coverage — where the whole supply chain is insured. Check whether your insurer offers this type of coverage.

Knowledge is power. Be aware of supply chain challenges and have a plan in place. Turn the challenges of 2023 into a competitive advantage.

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