

JLT launches non damage BI cover for pharma and life sciences sector

New concept to be extended to telecommunications, media and technology sector

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Products & Services

Ever-rising regulatory and safety standards, the transfer of production to so-called developing countries and stakeholder intolerance for mismanagement of the supply chain are three big reasons why risk managers need a new approach to business interruption risk management, according to a senior London broker.

Neil Campbell, life science practice leader and partner at London broker Jardine Lloyd Thompson PLC and a former risk manager in the sector, says that the problem is particularly acute in the life science industry, and so has devised a new facility to try and tackle these rising exposures.

The product, that Mr. Campbell believes is the first of its kind, is a first party, multiline non-damage business interruption insurance with scope for added formal risk assessment, business continuity planning and contractual risk management.

The broker said that it has already secured \$50 million (£31.7 million) of capacity, and hopes to amass "at least" \$100 million (£63.5 million) plus additional excess capacity.

The \$50 million that is already signed up is co-led by Lloyd's of London managing agency Kiln Ltd. and one of the major international reinsurance groups that preferred to remain unnamed at this stage.

"We now have all the elements

lined up, and are putting together supporting capacity and a marketing plan," said Mr. Campbell. "Markets and buyers are showing great interest," he added.

Mr. Campbell said that the pace of change in the life sciences and other cutting edge sectors has left the traditional insurance market struggling to catch up.

Weakest link

"The current challenges of undertaking robust and dynamic risk assessment in this area means that many companies fail to plan adequately for the unexpected. Efficient supply chains are by definition lean, stretched and fragile. A break is liable to be severe. At the same time, the threats to the supply chain have increased," said Mr. Campbell.

The broker said that the use of cost-effective production facilities in developing countries can lead to "quality issues" and political uncertainties. He also pointed out that higher safety standards are now demanded by the public, and regulators

increasingly show little tolerance for mistakes, particularly in sensitive areas like the pharmaceutical industry, but also increasingly in the food and drinks sectors.

Mr. Campbell also pointed out that criminal activity is increasing in terms of counterfeiting and extortion threats, and there is generally a higher global rate of terrorism and natural catastrophes.

"Insurance buyers may be disappointed to find that traditional insurance products are not designed to protect companies from the significant earnings impact in the event of a serious supply chain disruption arising from the majority of the events above. Innovation in this area has been slow," said Mr. Campbell.

A typical property damage and business interruption program for larger companies will have limits that vary significantly between \$250 million (£158.7 million) and \$1 billion (£634.8 million) said the broker.

Contingent business interruption coverage would mainly be provided on a "named suppliers (including location)" basis. "This means you have to be very aware of not only who your suppliers are, but what are their business plans and key risks. Policy triggers tend to be damage-based such as fire, natural peril, accidental damage, breakdown and the like," said Mr. Campbell.

"The existing insurance products for supply chain protection are



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JLT believes its non-damage BI cover for pharmaceutical companies is the first of its kind.

arguably focusing on the wrong triggers, given the changing nature of the industry risk profile," added Mr. Campbell.

JLT plans to extend the concept to other sectors, and last month Mr. Campbell's colleagues in the JLT communications technology and media unit launched their version during its fifth annual forum in Salzburg, Austria.

Capacity growth

Peter Hacker, global leader of JLT's communications technology sector focus group, said he will also seek to build \$100 million of capacity for his clients.

He said that technology companies currently buy covers for less critical exposures and should now consid-

er risk transfer for their non-damage business interruption exposures.

Mr. Hacker said that as with the life science team it will use a supply chain analysis of interruption risks methodology, designed by London-based InterSys Ltd., as part of the rating tool. The process involves a risk assessment of the regulatory, insolvency, recall, intellectual property and cyber-risks faced by a prospective buyer.

The rating tool provides communications technology companies with an insurance quote based on two to five optional triggers.

"Getting the data together to make a rating tool was a challenge," said Mr. Hacker. "But what we have produced takes the business insurance market forward."