

# Supply Chain Risk Assessment

## Business Resilience

### Arming you with insights you need to build a resilient supply chain

The challenges of managing an increasingly complex network of suppliers can threaten business resilience and create new challenges for enterprise risk management.

Understanding the supply chain risks your company faces can help ensure a resilient enterprise that is better able to anticipate surprises, recover from disruptions, adapt to changing conditions and leverage strategic advantages for consistent corporate sustainability and profitability.



- Do you know who your critical suppliers are, and how much their failure would impact your company's profits?
- Are you managing supply chain risks as well as costs?

### Building resilience – how Zurich can help

Building resilience into your supply chain strategy can help you improve your risk profile and minimize the effects of a supply chain disruption on your capital and earnings. Zurich's supply chain risk assessment can help you address vulnerabilities that could inhibit your company's ability to respond to today's risk challenges.

Our supply chain risk evaluation, mapping and grading is based on established methodology, designed to assess and quantify the broad areas of exposures and controls in the supply chain. The structured risk consulting process results in scores and recommendations for

each of your suppliers. This gives you actionable insights to help facilitate mitigation strategies that address the characteristics of each supplier individually, including risk transfer options.

The supply chain risk assessment process can help you make better informed strategic decisions and action plans to help reduce the number and impact of supply chain disruptions. Efficiencies gained across resource and capital allocation can help to deliver improvements in your company's resilience and performance.

### Our approach

Zurich has the knowledge and expertise to help you meet your supply chain risk challenges, along with the solutions to help you assess, understand and monitor your supply chain exposure.

The supply chain risk assessment will leverage any existing knowledge and data, and review procurement processes in use. The risk evaluation and calculation of potential financial loss can help you to determine appropriate mitigation steps to optimize your supply chain risks.

The following information is typically evaluated in a supply chain risk assessment:

### Supply chain mapping

- Product/value flow for parts of your organization affected by key suppliers.
- Volumes, revenue and other performance related effects where available.
- Interdependency effects where relevant (other sites that may be affected).

### Key supplier details

- Basic information on key suppliers, nature of suppliers and routing information.

### Risk factor information on key suppliers

- Examination of the elements of risk associated with each key supplier that may have a bearing on your supply chain resilience. This includes risk management, relationships, IP issues, skills, experience.
- A similar set of questions will form the basis of internal discussions as part of the overall risk assessment to understand the nature and extent of your own supplier management processes, following our supply chain risk factor structure (generic exposures; supplier management controls; internal risk management controls).

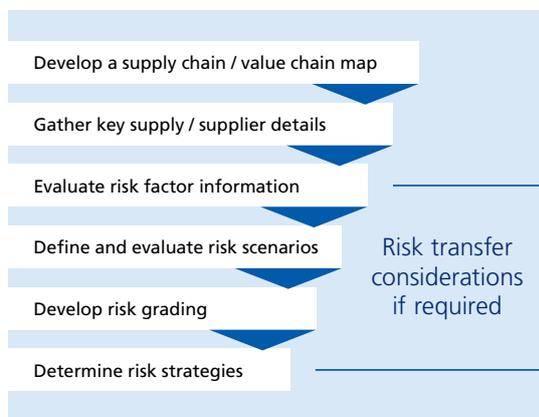


Figure 1: Stages of a supply chain risk assessment

### Risk evaluation and scenario definitions

- Examination of the nature of the supply chain risks and determination of the relative priorities.
- Provision of details for each key loss scenario and building of a financial evaluation based on information already gathered.
- Financial statements from supplier and financial/credit assessments will be used if available.

### Supply chain risk grading

The supply chain risk assessment includes risk factor grading, based on an established approach for evaluation of a wide range of risk types. The risk assessment tool can be used to assess two broad areas of a business: exposures and controls.

### Risk categories

Risk factors have been split into five categories to reflect the different risks that may give rise to a supply disruption.

1. Industry/supplier-specific exposures.
2. Supplier-specific exposures.
3. Management controls – supplier management.
4. Management controls – risk management.
5. Suppliers’ supply chain management.

### The benefits to your business

- A supply chain risk assessment could help your business protect its profits, balance sheet, brand and company reputation against the significant implications of supply chain disruption.
- It can highlight to senior management the level of financial exposure that they have within their supply chain and hence the need to support appropriate resilience expenditure.
- Many supply chain failures can occur at the secondary level (tier two suppliers) or beyond. In our assessment we seek to address exposures and business continuity plans throughout the critical supply chain tiers. The outputs enable benchmarking against current best practices and help you integrate cost-effective improvements into your standard sourcing and supplier management process.
- We back up our assessment with the potential opportunity for a transfer of the risk.

GRADING – Calculation sheet					
Risk Engineer					
Date of Grading (dd/mm/yyyy)					
Risk Assessment reference					
Risk Assessor Name, company					
Generic Supply Profile reference					
Other details					
Supply / supplier					
Supply: Supplier					
Risk Factor	As Is	Comments	To Be	Advice	
1 Industry/Supply Specific - Geographical Exposures	B		A		
2 Industry/Supply Specific - Economic Exposures	B		A		
3 Industry/Supply Specific - Political Exposures	B		A		
4 Industry/Supply Specific - Structural Risks	B		A		
5 Supplier Specific - Geographical Exposures	B		A		
6 Supplier Specific - Economic Exposures	B		A		
7 Supplier Specific - Political Exposures	B		A		
8 Supplier Specific - Structural Risks	B		A		
9 Product Management / New Product Development	B		A		
10 Supplier Selection Management	B		A		
11 Supplier Management (Financial Strength)	B		A		
12 Supply Chain Resilience	B		A		
13 Internal Risk Management	B		A		
14 Business Continuity Management (BCM)	B		A		
15 Vulnerability To Accidents / Leaks	B		A		
16 Vulnerability To Malicious Interference	B		A		
17 Commercial Contract Management	B		A		
18 Skills And IP Management (Inbound)	B		A		
19 Regulatory Issues	B		A		
20 Relationship With Supplier (Influence, Maturity)	B		A		
21 Supplier's Security Of Supply	B		A		
22 Supplier's Knowledge And Experience Of Providing Required Supplies	B		A		
23 Skills and IP Management (Supplier)	B		A		

Figure 2: Zurich's supply chain risk grading structure.

Examples of how we have helped customers take steps to improve their supply chain resilience by addressing the exposures found in the assessment:



- One multinational company learned that although an immediate supplier was in a fine condition financially, two key suppliers at the next level in the supply chain were in significant financial trouble.
- A customer that had completed a significant amount of supply chain risk monitoring, focusing mainly on the financial health of its suppliers, learned that all of the production facilities of the supplier of a key component were situated in an earthquake zone, as were the facilities of the nominated alternative supplier.
- A company that had made a conscious effort not to rely too heavily on one supplier learned that not only did it take 20 percent of that supplier's output on a direct basis, but it took another 50 percent indirectly through another intermediary, resulting in a total reliance of 70 percent on that one supplier.
- One customer learned that its true business interruption exposure due to a supplier's potential failure was nearer USD 10 million versus the USD 1 million initially estimated.
- Another company discovered a serious bottleneck in the supply of a vital raw material which, although low in terms of the price paid and volume needed, was essential for a wide range of finished products, thus representing a significant and widespread disruption exposure.

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