Insurance: The Secret Weapon of Risk Mitigation
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During the past few weeks, I’ve shared some insights from my recent research at the University of Tennessee on common risk management practices to identify, prioritize and mitigate supply chain risk.

Among the research findings, it was surprising to learn that insurance is simply not on the radar screen of supply chain professionals as a risk mitigation approach. Yet, when we discussed the usefulness of insurance with them in interviews, they quickly realized they missed a highly effective tool.

For this reason, today’s post will focus on the benefits of insurance and how it may be implemented, as we feel this is a significant missed opportunity for supply chain professionals.

Using Insurance to Mitigate Risk

Many supply chain professionals we talked to mentioned that they use carrier liability programs, thinking this is insurance. It is not. Carrier liability programs often cover only transportation costs and rarely cover the full value of the lost or damaged items. If you’re shipping goods that are time- or temperature-sensitive or high-value, you are at greater risk of financial loss if the goods are delayed, lost or damaged.

Fortunately, there are insurance programs available for both parcels and cargo, regardless of the transportation mode or carrier used. These programs go well beyond standard carrier liability limits. They can cover your high-value, time-sensitive and temperature-sensitive goods and other hard-to-value items up to the retail value if things in the supply chain go awry.

It’s important to understand that a licensed insurance provider is willing and eager to share best practices and has a vested interest in avoiding losses. They can be key partners in working with firms to minimize the financial effects of both daily supply chain risks and catastrophic disruptions. They regularly see the best and worst of supply chain practices and need to be on the winning side of mitigating risks for their clients – and their own bottom lines.

While some of the mitigation tactics discussed in my last post should certainly be applied, insurance is often a good idea to fill the gaps you identify in your supply chain risk mitigation plan.

Firms need to work with licensed insurance providers and create a plan to use insurance to mitigate risk where appropriate, based on an objective cost-benefit analysis. Mapping your supply chain and its risks should help you determine places where it makes sense to implement insurance.

To better demonstrate when insurance may be appropriate, take into consideration the example below:

• UPS Capital customer Accuratime uses Flexible Parcel Insurance through the UPS Capital Jeweler's Elite Program, which is specially designed to provide the security that high-value items like jewelry require. Accuratime’s high-value shipments move through the UPS network for reliable delivery, and the included insurance coverage cost-effectively protects shipments.

Pairing operation-based mitigation tactics with financial-based mitigation like insurance can create a well-balanced plan to protect your company’s supply chain and bottom line.

What’s more, implementing insurance as a risk mitigation tool may require the least operational change out of all mitigation techniques.

Recap of the Risk Management Process

As this is the last post in my series on supply chain risk, I’d like to briefly recap the steps of risk mitigation. To manage supply chain risk in your company, you will have to develop a process to do three things:

• identify
• prioritize
• and mitigate risk.

Leading companies develop processes that execute these steps consistently and persistently over time.

Risk management must be an ongoing process, as risks identified and mitigated today can quickly become obsolete tomorrow. Supply chain professionals cannot afford to delay fortifying their supply chains against risks. They must take advantage of the information and tools available now to ensure continuity and resilience for the long-term.