

SPOTLIGHT

EVER GIVEN —
Consequences of the accident

Full order books
and yet insolvent

From Copacabana
to Ponta da Piedade

The client magazine of the GrECo Group | Spring 2022



Supply Chain

*The risks of global
supply chain dependencies*

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Editorial

The world has become more vulnerable. We are experiencing natural disasters on an ever-increasing scale, global supply chain dependencies, cyber attacks, a pandemic and now the war in Ukraine.

Suddenly, the downsides of globalisation that gave us stable economic growth for a long time are also noticeable. The consequences of negative events are interruptions in global supply chains, backlogs in orders, rising raw material and energy prices and economic imbalances.

In the course of these developments, the insurance market was also confronted with claims whose risks could not be assessed in advance and for which there was often no risk transfer. The good news is that various insurers are already working on promising risk assessment approaches in terms of loss limitation.

In any case, the global supply chain is so important for the worldwide flow of goods that we have made it the focus of this issue of Spotlight. Our main interest here is in the risks that a globally operating supply chain entails. You will find all the latest information on this on the following pages. One thing in advance: the trend is towards transparency.

We wish you an exciting and informative reading experience!

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Impressum

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A world loss event and its far-reaching consequences EVER GIVEN

The shipping disaster at the Suez Canal has affected the entire world economy. An analysis by Prof. Sebastian Kummer illustrates the damage in its entirety, sheds light on the effects on the supply chains and spans the arc to the war in Ukraine.

On 23 March 2021, the container ship EVER GIVEN rammed its bow into the eastern bank of the Suez Canal, blocking it until 29 March 2021. At 20,000 TEU (Twenty-foot Equivalent), the EVER GIVEN, which sails for the Taiwanese shipping company Evergreen, is almost as large as the largest container ships currently in service (24,000 TEU).

There were contradictory statements about the rescue for a long time. Egypt said that the ship would be freed quickly, other sources indicated that it could take longer.

This contradiction is caused because one passage costs about 300,000 USD. The uncertain duration of the rescue led to more and more shipping companies diverting ships from Asia towards the Cape of Good Hope from 25 March 2021.

How high are the losses caused by the blockade?

Allianz estimated the losses triggered by the blockade of the Suez Canal at up to 10 billion USD per week. This value seems too high, due to the relatively short blockage. The Suez Canal Authority, on the other hand, has estimated the direct costs for the parties involved at just over 1 billion USD. This amount seems too low, as it does not take into account the follow-up costs of the supply chains.

It is almost impossible to put an exact figure on the costs. However, a rough estimate shows the dimension of the problem as well as the diversity of costs.

The Suez Canal, and subsequently Egypt, have suffered high income losses due to the ships diverted because of the accident. In addition, the salvage of the EVER GIVEN also caused damage to the canal. The shipping company declared a general average in April 2021. The amount of compensation

was not published but is estimated at around 500 million USD.

The delay also meant that intermediate products for production were missing, and other products could no longer be sold or could only be sold at a discount. These costs amount to between 250 and 400 million EUR. In total, the direct costs amount to at least 1 billion EUR.

1 billion EUR

direct costs

All shipping companies whose ships had to wait due to the disaster have incurred considerable additional costs. The charter costs of the largest container ships are currently around 100,000 USD per day - and even if the shipping companies own the ships, there are immense costs like bunker costs as well as loss of income. Furthermore, for a ship with 20,000 TEU, the rental costs of the containers per day amount to approx. 100,000 USD.

Roughly estimated, about 400 ships were affected by the accident, so the total costs per day due to waiting for time or diversions costs were about 50 to 100 million EUR. Furthermore, the traffic jams caused additional waiting times in the handling ports as well as delayed onward transport, for example, due to limited rail capacities in Europe. The costs listed above roughly add up to around 1 billion EUR.

Major damage occurred mainly in the supply chains

Considering that 30% of the world's container traffic was delayed, one can imagine the enormous economic impact. The International Chamber of Shipping (ICS) estimates that freight worth 3 billion USD passes through the waterways every day; other sources even speak of 9 billion USD. In seven days, that would be 21 to 63 billion USD.

Due to the wide variety of goods transported, it is difficult to estimate the actual damage. Delays for items such as wastepaper from Europe to Asia are rather unproblematic.

It is a different story for electrical goods or even seasonal items that arrive late in shops or online sales. If individual supplier parts are missing, bicycles, washing machines or other consumer goods cannot be assembled. The automotive industry has stopped the production because of the chip shortage.

In a National Bureau of Economic Research working paper (2012), economists David Hummels and Georg Schaur estimated that each day of delay costs between 0.6% and 2.3% of the value of goods on board a given ship. Assuming this estimate for the EVER GIVEN, the cost is 18 to 69 million USD per day, which would be 126 to 483 million USD for seven days.

The 6.5-day blockade of the Suez Canal caused damages to the entire global economy of 2 to 2.5 billion EUR.

Up to 2.5 billion EUR

in total economic damage costs

What environmental damage was caused by the blockade?

Maritime transport accounts for about 3% of global greenhouse gas emissions, and this figure is rising. The blockade of the Suez Canal and the resulting circumnavigation of the African Cape resulted in a much longer route with higher speed and consumption.

In addition, the shipping companies tried to make up for the backlog in the following weeks and months by increasing the speed of their ships.

A 20,000 TEU container ship consumes 250 to 300 tonnes of heavy fuel oil, i. e. 200,000 litres per day. With seven additional days of sailing time and about 160 (of the 400 affected) ships that decided to take the diversions, a total of about 224 million litres of additional heavy fuel oil were consumed. Taking into account the additional consumption for increased speeds in the following months, this resulted in an additional consumption of 550 million litres of heavy fuel oil. The formula 3.16/litre heavy fuel oil thus results in additional emissions amounting to 1,738 million kg CO₂.

1,738 million kg CO₂

*additional emissions
as a result of the accident*

Shipping alternatives?

Unfortunately, the accident hit maritime transport at a time of strained transport chains. In the short term, one could have tried to switch to container trains travelling from China to Europe via the Eurasian Land Bridge. But their capacities were limited.

In the course of the war in Ukraine, oil and gas deliveries from Russia are often discussed. It is forgotten that the existing railway connections of the Eurasian land bridge run through Russia. The Chinese have recognised the strategic dependence and are trying to develop a route south of Russia via Iran and Turkey as part of the Belt and Road Initiative.

Air freight - certainly an alternative for high-value goods - is also very busy. Even before the EVER GIVEN disaster, there were significant delays. Due to the current sanctions against Russia, the country has closed its airspace to airlines from the EU and many other countries. This shows how vulnerable individual modes of transport are and how important it is for international supply chains to have alternatives.

Shortage of delivery capacities with high delivery costs at the same time. Why?

International supply chains were already strained before the Suez Canal disaster due to the lack of containers and air freight capacity. If the closure had lasted longer than seven days, the effects would have been truly catastrophic. After all, around 12% of global trade or 30% of international containers pass through the Suez Canal.

The impact on freight costs was particularly great. Even before the accident, international container rates were at an unprecedented high. The succession of crisis lockdowns and/or production cuts - first in China and then in Europe and the USA - has led to a shortage of containers. Combined with unexpectedly high demand in the US and Europe, freight rates were three times higher than in normal times, and in the aftermath of the disaster, they even rose to 6 times the pre-Covid-19 level.

The price drivers continue to be a persistent container shortage, rising demand, Chinese terminal closures due to Covid-19, lower capacity at US ports, delayed handling at these ports and waiting times at US West Coast ports and Singapore, as well as problems in US hinterland traffic.

Outlook

One of the "lessons learned" from the Covid-19 crisis is that we need to strengthen the supply chain resilience and reduce the dependence on global suppliers. Even before EVER GIVEN, regionalisation of supply chains or at least "near-shoring", i.e. sourcing from nearby countries, was discussed.

A huge problem is a shortage of and dependence on microchips from Asia, especially from Taiwan. In this context, the EU's promotion of new chip factories in Europe is very welcome. Austria can consider itself lucky to have a lighthouse project with the Infineon factory in Villach, even though many chips are also flown here to Asia for final production.

Due to the short distance, the good skilled labour and the low wages, Ukraine was/is an excellent near-shoring country. There are some automotive suppliers there. But here too, the war is causing supply chains to break down. BMW in Steyr and Volkswagen already had to stop their production at the beginning of March 2022 due to a lack of cables from Ukraine.

In shipping, bottlenecks like the Suez and Panama Canal will not be eliminated so easily. In the case of the Panama Canal, the second set of locks has already been built to allow larger ships to pass through. Furthermore, there are various considerations to building parallel routes (e.g. through Nicaragua). However, the costs and the negative environmental impact are gigantic. Therefore, one is not aware of any consideration of parallel canals for the Suez Canal.



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GrECo,
matter of trust.

**In an emergency,
act instead of react.**

Production processes are becoming more complex, digitalisation and networking are increasing, as is the economic dependence of companies in the supply chain. Today, a business interruption can therefore cause immeasurable damage even far away from its origin. Business continuity management minimises the consequences of serious crises, such as the losses caused by a business interruption.

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And all that remained was an accident... EVER GIVEN - One year later

The container ship MS EVER GIVEN ran aground in the Suez Canal a year ago. The delays in delivery caused by the accident are still noticeable today - and are also shaking up the insurance market.

This picture went around the world on 23 March 2021: The stranded giant freighter MS EVER GIVEN - with a length of almost 400 metres and a width of 60 metres, one of the largest container ships in the world - lies transversely in the Suez Canal, blocking one of the most important trade routes. Fully packed cargo ships are jammed in front of the canal entrance and forced to wait seven days to continue their journey.

The shipping accident in the Suez Canal has far-reaching consequences for supply chains. Not only are all the companies whose goods were in the 18,000 containers of the EVER GIVEN affected, but also those whose goods were transported by the 400 cargo ships that reached their destination only after a considerable delay due to the traffic jam. Ultimately, this also pushes transport insurance to its limits.

High-risk transport

On the busy sea route between Asia and Europe, cargo ships are usually loaded to their maximum capacity, which poses a safety risk for the crew and the cargo, especially in bad weather. For example, crosswinds can cause very large container ships like the EVER GIVEN to run aground on a sandbank in a narrow waterway. The ever-increasing size of cargo ships also raises the risk and makes salvage operations more difficult in the event of an accident.

Supply chain mess

Even before the blockade of the Suez Canal, industries were struggling with supply bottlenecks. Incidents like that of the EVER GIVEN are the last straw. There are dramatic interruptions in the supply chain or even a

production standstill but any case delays. In Europe, the automotive, chemical and pharmaceutical industries were particularly affected by the Suez Canal disaster, as were large discount retailers that source their goods from Asia.

Transport insurance and its limits

In the area of classic goods transport insurance, damage, as well as additional costs incurred for goods that are directly on the affected means of transport, can be insured to a large extent. This also includes the so-called general average, which exists when the captain arranges for extraordinary expenses to be incurred to rescue the vessel from an immediate and common peril, such as the sea throwing of goods, the flooding of holds in the event of a fire, or tugging and dredging operations, as in the case of EVER GIVEN.

Especially in the case of general average, the insurance cover enables the goods on the damaged vessel to be released. Those who are not insured have to pay them-

selves - a not inconsiderable cost risk. In the case of the EVER GIVEN, claims payments in the high three-digit millions were made by the insurers and reinsurers.

The situation is different for goods on ships that are only indirectly affected by the time delay. The mere delay of the voyage does not trigger a claim under conventional transport insurance policies, and this is precisely what is now bringing a new insurance company onto the scene.

New insurance for trade disruption

To provide a solution for indirect risks such as travel delays, a so-called "Trade Disruption Insurance" (TDI) has been developed on the London market. Unlike traditional business interruption insurance, this parametric solution covers those costs, expenses and lost profits that result from events that do not cause physical damage.

To stay with the specific case of the shipping accident, the blockade of

waterways can be chosen as the coverage trigger. If the insured event occurs, payment of the agreed limit (less the deductible taken) is made. In this way, losses caused by delays or non-arrival of goods can also be covered.

The new TDI insurance is designed for major loss scenarios and can be customised. It can also be extended, for example, to cover loss of earnings, contractual penalties, liquidated damages or other costs and expenses such as additional financing costs. It thus offers a comprehensive solution for a complex risk that is becoming ever higher due to global development.



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Full order books and yet insolvent

Almost daily we read about interrupted supply chains, backlogs of orders, price increases for energy and raw materials, payment defaults and economic difficulties of companies. Many of these are pandemic-related after-effects and the war in Ukraine is fuelling the tense situation even further. Lisbeth Lorenz, Group Practice Leader Credit & Political Risk at GrECo, on the links.

Since the outbreak of the Corona pandemic two years ago, global supply chain congestion has threatened the existence of many companies. The supply bottlenecks extend across industries and products - from A for aluminium to Z for zippers.

Electronic parts and metals in particular, but also wood and packaging, are in short supply and more expensive due to the change in demand, and limited transport capacities are driving up prices even further.

„Supply Chain Risk“ force field

What is striking about individual risks in the supply chain is that a general assessment is very difficult to estimate due to their possible "spillover effect" on other areas of the company.

Risks in the supply chain can be quite diverse. They can range from minor disruptions to the destruction of the entire chain. Minor problems - especially due to close business dependencies of the individual companies in the supply chain - can already cause considerable difficulties and trigger the well-known domino effect.

When financial strength is in short supply

The current pandemic also shows that companies can get into a financial crisis or even become insolvent despite full order books. This predicament is caused by several special effects that - considered individually - could have been managed.

These include delays in processing and invoicing orders, significant price increases in the procurement markets and longer delivery times. In addition, transport and logistics are sometimes subject to massive price increases and delays.

Sales activities, project processing and service business (especially in the project business) also suffer from the travel and quarantine regulations of the individual

countries and further aggravating the situation. If price increases cannot be passed on to customers, or only partially, due to existing long-term contracts with buyers, the economic situation becomes even more acute.

Disrupted supply chains and their consequences

If the flow of goods falters or even comes to a standstill because missing materials or product parts interrupt the production, the spiral turns further downwards. There is a lot of talk about back shoring or nearshoring production, but finding and implementing alternative sources of supply is difficult in the short term and usually expensive, plus many inputs cannot be sourced in the EU either.

A supply chain disruption can be responsible for a massive loss of revenue if goods do not reach the customer on time or at all. Negative effects can include penalties, a possible loss of follow-up orders or the loss of key customers. In short, long-term disruption of supply chains can put a company under severe pressure and ultimately even lead to insolvency - both on the supplier side and the customer side.

Risk management through creditworthiness information

The risk management process of credit risks on the customer side can of course also be applied to the supplier side, although with increasingly long and complicated supply chains it is not always easy to know all risks sufficiently and to keep up to date.

Many companies use credit insurance to cover the debtor risk, whose core service is to check and monitor the creditworthiness of their buyers. But up-to-date information on financial stability is important not only on the debtor side but also on the supplier side.

Conclusion

In the face of pandemic supply difficulties, creditworthiness checks and monitoring should not be

forgotten, from the supplier's upstream supplier to the customer's customer. All the more so when the supply chain encompasses all services - from creation to delivery of the finished product.

So it's not just the production process and the flow of trade that needs to be ensured, rather one of the key questions is: "How are my key suppliers doing financially?" The credit check provides the answer.



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Light at the end of the tunnel

The loss potential for supply chain disruption is large and runs into the billions. A new, promising risk assessment approach can lead to the loss reduction we have been longing for.

Recent events have shown the vulnerability of optimized, high-throughput global supply chains. Very localised events such as the EVER GIVEN accident in the Suez Canal described earlier in this issue have direct - and supposedly unpredictable - effects on the global flow of goods: namely, empty shelves for consumers.

What to do? Are there solutions? Can a traditional risk analysis still cope with the high complexity? And can such a loss event be quantified based on data, such as the duration of the shipping blockade or the share of the global market flow of goods at the Suez Canal per day?

Risk Engineering at Swiss Re Corporate Solutions deals with these and similar questions, pursuing the development of holistic solution concepts. The motto is "create value beyond risk transfer". One example of this is the Swiss Re FLOAT flood assessment tool.

Visualising the risk

Events such as Hurricane Harvey in 2017, where a large proportion of flooded sites were outside official flood zones, highlight a gap between current flood zones and actual loss experience. Here, Swiss Re FLOAT offers a cost-effective way to assess flood risk with drones and collect site-specific elevation data. The collected data set is transformed using 3-D game engines - known from video game development. By linking the drone and game technologies, a simple but realistic visualisation of flood risk can be created. The companies receive an interactive application that allows them to comprehensively spatially assess the impact of different flood levels on their site.

Initial successes have already been achieved with this. In one case, the risk manager of a client was able to dispose of a six-figure budget for flood protection measures at short notice after showing the simulation to the CFO. This contributed significantly to the preparation of a detailed flood protection plan. According to our natural hazard models, this reduced the statistically expected annual loss at the site by over 60%.

But the added value for our client goes even further: the site is the only one in the group that produces essential components for the company's cash cow product. Since the "residual risk" of flooding was assessed as a threat to the company, the group management decided to build up further production capacities at other locations with a lower probability of flooding.

This was an example from the natural catastrophe sector, where we work very closely with natural hazard modellers as well as underwriters. In the risk analysis, we create an overall view and focus on the most exposed locations for floods, windstorms and earthquakes. If necessary, we extend our consideration beyond the reported site business interruption values - including internal supply relationships (interdependencies).

Data, data, data

Data plays a major role in our business model. We have for example developed our text-mining algorithm (PARSE - Property Account Risk Screening Engine), which we use to transfer the data into a database. Unfortunately, the data is often unstructured and partly only provided as text files. We also use this to give underwriting an initial overview of the risk assessment right from the start and to determine focal points together with the risk engineers. This is a promising approach that is currently still in its infancy. The data is often unstructured and partly provided as text files.

Our global industry expert group Automotive for example successfully implemented a pilot project last year. We digitised supplier lists and were able to determine the critical nodes and locations where supply bottlenecks are to be feared if they fail, for example after a fire or an explosion.

Focus on serial approaches

Some of these approaches are not yet ready for serial use. Data protection and data ownership must first be clarified. We expect to be able to carry out several "deep dives" and pilot projects with customers, their suppliers and possibly other stakeholders over the next few years. We still have a long way to go before this conceptual approach can be transformed into a scalable, partially automated process. After all, there is still no generally recognised data standard for tangible locations (physical location assets).

In addition to isolated approaches, the use of address lists is popular. It is still common practice to digitally sketch supply chains (supply chain mapping) based on address lists (sometimes several thousand suppliers with postal addresses). We are currently investigating whether and how the resulting geo-coded lists (longitude and latitude) can create added value for all parties involved. Swiss Re Corporate Solutions Risk Engineering has filed a patent for this at the end of 2021.

Conclusion: The loss potential for supply chain disruptions is large. We assume that in the automotive industry alone, the insurance gap amounts to 1 billion EUR or more. Our goal is to establish the relevant data points with the right partners in concept development (co-creation). Once all parties involved feel clear added value, we are confident that the light at the end of the tunnel will soon shine brightly.



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*Swiss Re
Headquartered in Zurich, Switzerland, Swiss Reinsurance Company is the world's second-largest reinsurance company after Munich Re. Its global client base consists of insurance companies, mid-sized companies and public sector clients, trading directly and working through brokers. From standard products to tailor-made coverage across all business lines, Swiss Re leverages its capital strength, expertise and innovation to provide risk underwriting on which businesses and societal progress depend.*

Please scan the QR code to watch a video introduction about FLOAT



Deep Diving into the Supply Chain

GrECo Risk Engineering implements and controls the Business Continuity Management (BCM) of numerous clients. The question of whether BCM can also identify and manage risk potentials within the supply chain arises more and more frequently.

BCM prepares companies to regain their ability to deliver as quickly as possible after a business interruption or shutdown. Acting instead of reacting is the motto here.

Identifying loss events within a company, assessing them and finding effective preventive measures requires a lot of experience and methodical knowledge. But it also ties up considerable internal company resources in order to be best prepared for the worst-case scenario. Risks that affect a company externally, such as the dependence on suppliers or entire supply chains, make the issue far more difficult.

Most manufacturing companies operate extensive systems for supplier selection and evaluation. The focus is often on delivery reliability, quality, price and economic parameters. However, the consideration of suppliers in terms of their exposure to operational risks such as fire or natural hazards is often neglected. In the case of direct suppliers, this is still possible with a corresponding expenditure of resources and can be argued to the supplier as necessary.

Where transparency ends

However, when it comes to the supplier suppliers, the limits of what is organisationally, legally and economically feasible are quickly reached. "Deep-diving" into supplier structures thus belongs to an exotic discipline that hardly anyone can afford at present. How can a company now prepare for supply chain disruptions or better protect itself against them?

Insurability in relation to supply chains is currently only possible in rudimentary form, as the insurance industry is also not yet in a position to map complex supply chains transparently. Individual market participants such as Swiss Re are currently working on digital solutions to identify locations via extensive databases, which can lead to supply bottlenecks across industries in the automotive sector, for example.

In most cases, however, any cumulative losses cannot be sufficiently estimated, and a risk transfer is often not possible. It is therefore essential to actively address this risk within the company.

Step one

The first step is to identify the most important suppliers and estimate possible loss potentials. This assessment is necessary in order to be able to set priorities objectively and to compare the necessary effort with the benefit.

Step two

The second step for risk managers is to dive into the deeper structures of the supply chain for the top three to five suppliers. This is necessary in order to shed light on the suppliers on which these suppliers are dependent, which, if the worst comes to the worst, will also affect their own company. However, evaluating risk exposure could be difficult. After all, there is no direct business relationship with the suppliers of the suppliers and thus no basis for carrying out a risk analysis directly on site.

One approach that is recommended in this case is to raise awareness among one's own key suppliers so that they collect appropriate risk information from their suppliers or commission experts to identify possible potential exposures.

If neither of these is possible, knowledge of one's own "white spots" in the supply chain is still a parameter that should flow into the selection of suppliers and lead to the examination of alternatives. This is also part of a practised and practicable business continuity management.



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A look beyond the horizon

Natural disasters, power outages or a pandemic, all these events can lead to business interruptions and production shutdowns without causing any property damage. This is a difficult starting point, especially for insurance companies.

A major fire. Parts of the buildings and production facilities are damaged or even destroyed. There is a business interruption. Sales cannot be generated, revenues cannot be earned, and the ongoing costs cannot be financed. Damage of this kind can quickly run into the two to three-digit millions. Traditional property and business interruption insurance offers suitable cover in such cases. It provides compensation for the property damage as well as for the ongoing costs and loss of earnings.

However, established insurance concepts are unsuitable if a production stoppage or business interruption occurs without prior property damage, for example, due to the ash cloud over Europe in March 2010 or due to a widespread power outage, i.e. a blackout.

Currently, the best-known event that has led to shutdowns and outages in many industries is Covid-19. This event is derived from a single cause and occurred almost

simultaneously worldwide. From an actuarial point of view, a risk transfer via insurance solutions is currently not possible without government involvement.

Alternative coverage concepts

For other failure scenarios, so-called non-damage business interruption policies, or NDBI for short, offer insurance coverage. Examples include natural events such as extreme cold, which causes river routes to freeze over, or regional flooding, which

impedes access to and departure from operating sites and thus interrupts necessary raw material deliveries.

Limits to risk transfer

Many companies want to insure themselves against all the uncertainties that can occur in their value or supply chain, including market risk and price fluctuations. However, this is where the insurance industry reaches its limits. As in traditional insurance, innovative risk transfer solutions such as NDBI must meet criteria such as randomness, uniqueness, estimability and independence. Here is a brief insight into the small 1 x 1 of insurability:

Randomness means that the risk is uncertain and uncontrollable when the contract is concluded. To eliminate moral hazards, uncertainty must be present in both contracting parties. Besides moral hazard, information asymmetry is one of the biggest challenges for the insurance market. Often, the insurer does not have the same level of knowledge about the circumstances that may lead to a loss and may impose limitations on the scope of coverage. Customised solutions based on weather events as triggers, offer the advantage of objective risk assessment here, as the data is often provided by an independent third-party provider, such as NASA, satellites or weather stations.

Uniqueness requires that all essential characteristics of the event as well as the obligation to perform must be definable. Any residual risks must be borne by the policyholder. For example, the values from a weather station may have to be extrapolated to cover a larger area or region. In this case, the damage presented may deviate from reality.

Estimability is the ability to determine the expected value and spread of the loss distribution to be insured (loss amount and probability of occurrence). Estimability is not sufficiently ensured if there is not enough meaningful data to be able to create an appropriate risk model. Otherwise, subjective risk assessments - but with an increased risk of error - can also be considered.

Independence ensures that the risk can be diversified for the insurer. This means that many risks that do not materialise in the same event must be insured in the risk community of the insured. The aim is to avoid accumulation risk, i.e. the probability of a simultaneous or staged occurrence of loss for many insured risks. In a global value chain where just-in-time delivery is required, a strong correlation of various events can be assumed. A disruption at a manufacturer of certain components in Asia can cause massive damage and interruptions in Europe and vice versa.

These basic principles essentially define the limits in risk transfer. The criteria for insurability do not necessarily have to be met in full; a level at which risk equalisation is sufficiently ensured is adequate.

4 Findings for the Insurance Industry

The key findings of various studies on the development of global insurance markets by Deloitte, Ernst & Young, A.M. Best Rating Agency and Swiss Re show that:

1. The pandemic has highlighted the relevance of the insurance industry as a financial relief for households, companies and governments in times of crisis.
2. Supply chain disruptions require better protection to make businesses and society more resilient.
3. Insurers must adapt to widespread change, become more agile, and develop new solutions and even more specific services.
4. Digitalisation accelerated by the pandemic will enable improved risk assessment through Big Data & Co as well as more transparent pricing in the future. Optimised processes will lead to efficiency gains and favour the development of new, more attractive products based on AI and Big Data.

Risk managers are also challenged to evaluate alternative solutions for risk transfer (e.g. in the form of an NDBI) to make decisions for targeted deployment. There are no standardised products or parameters for such solutions. Each contract is tailor-made and individual. Here, too, integrative networking of risk and insurance management is a recipe for success in supporting the company's development in the long term.



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From Copacabana to Ponta da Piedade

José Manuel Fonseca, CEO of GrECo nova partner MDS Group, talks to GrECo nova Network Coordinator Jonathan Höh about the special features and differences of the two largest MDS markets: Portugal and Brazil.

The two countries have many things in common, such as language and their dynamic growth, but on closer inspection, they could not be more different. Jonathan Höh and José Manuel Fonseca take a closer look at the insurance markets of Portugal and Brazil.

MDS is the market leader in Portugal with almost 300 employees in 9 local offices and in Brazil among the top 3 insurance brokers, with more than 500 employees in 12 locations.

HÖH: José Manuel, tell us something about the insurance markets in Portugal and Brazil.

FONSECA: Let's start with Portugal. Here, the insurance market is highly developed - in terms of population - at about 5%, but of course much smaller than the Brazilian insurance market. However, Portugal is currently experiencing a growth spurt due to the events of the last few years. For example, the pandemic has led to an increased demand for health & benefits solutions. We are experiencing an upward trend, especially in health and accident insurance, which is expected to continue. In addition, Covid-19 and the global natural disasters have unfortunately led to a massive hardening of the market in Portugal as well. In property and business interruption insurance, liability insurance, but also in financial lines such as D&O and cyber, capacities are tumbling and premiums are rising, in some cases massively. In summary, the Portuguese insurance market is characterised by stronger demand for personal insurance, especially health insurance, and despite the tough market environment, also for cyber and D&O insurance. In addition, there is significant growth in retail and insurance related to e-commerce platforms, B2B2C as well as online sales.

The Brazilian insurance market is also developing well. The main drivers here are agriculture, livestock, health and technology, with the latter gaining tremendously in importance due to the exponential increase in teleworking. We expect this trend to translate into increased demand for cyber insurance in Brazil as well. Agricultural insurance has also seen the largest growth in recent years, with a 30% increase. Other booming areas, partly due to the pandemic, are surety and credit insurance.

Brazil is also attractive to foreign investors but is considered a high-risk country in terms of stability, corruption, bureaucracy and currency fluctuations. Therefore, hedging political risk is important.

HÖH: Let's go into a little more detail. Where do you see the main differences?

FONSECA: In Portugal, an EU member, most insurance regulations are similar to those in other EU countries. After all, they are based on EU regulations and directives. For example, motor vehicle liability insurance has been compulsory for forty years, and the scope of coverage is at the European level. Brazil also has compulsory third party motor insurance, but at such a low level that it does not provide sufficient minimum protection. This means that international corporations are well advised - especially when travelling on business with rented cars - to purchase the so-called "non-ownership clause" as a protective cover in their global liability programmes to guarantee a minimum level of protection.

Brazil, unlike Portugal, is a broker market. This means that in Brazil it is mandatory to purchase insurance through an insurance broker. Another key difference that is relevant for large international companies, concerns the reinsurance capacity. In Brazil, reinsurance is highly regulated. Many companies have to reinsure through the largest Brazilian reinsurer IRB, Instituto de Resseguros do Brasil, while in Portugal risks can be freely placed on the international reinsurance market.

HÖH: What distinguishes the MDS Group as a partner for the industry?

FONSECA: MDS was founded in Portugal over 35 years ago. From the beginning, we have strived to build a global company that challenges standards, sets trends, modernises processes and expands business areas and portfolios. With our presence in seven countries - Portugal, Brazil, Spain, Angola, Mozambique, Malta and Switzerland - MDS is a strong partner for the industry and an independent leader in several markets, with Portugal and Brazil being our two largest markets.

Since 2017, we have also been Lloyd's broker, incidentally the only one from a Portuguese-speaking country. We will continue to focus on digital transformation as one of our strategic priorities, investing in technology, software development and teams of experts.

For example, we have developed an app that allows our clients to access their insurance portfolio easily and quickly via mobile phone. To meet the need for efficient processes, we are also using digital tools to manage most administrative tasks, enabling both our clients and our teams to invest freed-up time resources in high-quality activities.



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Jose Manuel Fonseca has led the MDS Group for 20 years, growing the company from a small broker to a giant in the Portuguese-speaking region. He has 35 years of experience in the risk and insurance industry. Fonseca is also chairman and founder of Brokerslink and a former vice-president of FERMA (The Federation of European Risk Management Associations) and a board member of CIAB (The US Council of Insurance Agents & Brokers). In 2018, he was awarded the "The Broker Leader of the Year" award by FERMA.

MDS Group
MDS was founded in Portugal over 35 years ago. With an active presence in seven countries - Portugal, Brazil, Spain, Angola, Mozambique, Malta and Switzerland - MDS is a strong player in the European brokerage landscape and an independent leader in several markets. The company employs 900 people who manage a premium volume of 650 million EUR and generate a turnover of 80 million EUR.



nova

Central monitoring and
management of global
insurance programmes



GrECo to withdraw from Russia

On March 11 2022 GrECo announced to transfer its operation in Russia to the local management. The Russian team will continue to advise its clients following strict service delivery guidelines. After 24 years of entrepreneurial activity in Russia, GrECo’s priority is the well-being of its colleagues on site and ensuring service continuity for its clients.

“As a family-run company, we are loyal to our teams and a trusted partner for our clients. The violation of peace and human rights is in sharp contradiction to the values which underpin our organisation. We fully support the demands to stop warfare and to end the tremendous human suffering in Ukraine.”



The latest information on the impact of the war in Ukraine on the risks of your company can be found on our website.



From teams and partners around the world

An interview with Natalia Zaborovska, Group Practice Leader International at GrECo, about the new international strength of the merged companies GrECo and MAI.

Tell us something about your career path?

Like many people in our industry, I just fell into the "world of insurance". For my diploma thesis, which was on an insurance topic, I approached an insurance company. As fate would have it, they were looking for someone with very good English skills.

So, I did not only find information for my degree, but I also found my first job. I was invited to join MAI in 2000 when the company was just starting its expansion. I was appointed Head of International at MAI.

What are your plans as the new Group Practice Leader International at GrECo?

The first step for me is, of course, to get to know GrECo's international structures and practices. It is important to find out where the strengths lie and what can be improved to achieve even better results and more efficiency. Then it's a matter of bringing together the international practices of the two companies into a best practice and defining the strategy to ensure sustainable first-class service for global companies.

What will be the biggest challenges?

My big priority is to generate a recognised and shared recipe for success for all employees from both companies and a new group spirit in working together. As we have learned in the past years, companies have to adapt to various external challenges. We have lived through pandemic times and learned to do business and even acquisitions via Zoom, MS Teams and other electronic media.

The world is constantly changing, and so are we. That is why we need to be open-minded and adapt quickly.

You live in Australia but come from Latvia. How did that come about?

The story is quite simple - I fell in love and got married. In my role, it doesn't matter where I am, as my teams and my partners are based all over the world. But I'm already looking forward to my first trip to my family in Riga and my new colleagues in Vienna, as soon as the pandemic makes it possible.



Children are the future
GrECo Foundation

GrECo has made the development of socially disadvantaged children and young people its mission. We support projects such as Caritas Learning Cafés and Rat auf Draht in Austria as well as vocational training programmes in Romania and Poland.

The GrECo Foundation has been supporting socially disadvantaged children and young people in their education for many years. It does so sustainably by focusing multi-year projects. These include Licht ins Dunkel, the Caritas Learning Cafés, Rat auf Draht, but also the apprenticeship training of three trainees at the vocational school "Centrul pentru Educație și Formare Profesională CONCORDIA" near Bucharest as well as scholarships for gifted young people from rural areas in Poland.

In an increasingly complex working environment, a successfully completed secondary education remains crucial for any career path young people may want to take. Unfortunately, this path is denied to many as schooling alone does not sufficiently foster their talents.

Identifying and promoting talent

The global labour market is characterised by the War for Talents. Where do companies find the talents they so urgently need? First of all, talents must be identified, only then can they be nurtured with appropriate measures. Talents can be both innate and acquired. Ideally, support must begin at an early age in the course of the school education, so that young people can become aware of their talents and develop their skills. This is a prerequisite for assuming their future role in society, using their strengths in their jobs and contributing their skills and knowledge.

Individual learning support and pedagogical supervision

Providing socially disadvantaged children and young people with individual learning support sometimes poses quite a challenge. Moreover, learning environments have become more complex during the

pandemic. During periods of home-schooling, pupils are often left alone. Similarly, distance learning in virtual learning environments leaves them to fend for themselves as they have to manage their tasks largely without any help. For many of them, the separation from the familiar social environment causes undue psychological stress.

In such cases, it is all the more important to provide them with the right pedagogical support that helps them learn and creates an environment that promotes creativity, team spirit and social skills. Various projects within the scope of afternoon care, e.g. the Caritas Learning Cafés in Austria, offer their protégés playful learning sessions with fun and games.

Rat auf Draht, an SOS Children's Village project, counsels children and young people anonymously and free of charge on a 24/7 basis, either telephonically or online via chats. A multi-professional team from the fields of psychology, psychotherapy, life and social counselling, as well as law, is available to talk about problems and address the concerns of young people with empathy, attentiveness and competence.

Going forward

The GrECo Foundation will continue on this path after the pandemic and meet young people in person. Many volunteers from GrECo Group supporting many of our projects through personal commitment.



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GrECo,
matter of trust.

Peace for Ukraine!

We have been in the Ukraine since 2003 and our thoughts are with our passionate team. In these extremely difficult times, we are proud that the GrECo family in many countries is helping our team members and other refugees from Ukraine with transport, accommodation, supplies and consultation. The GrECo Foundation provide funds for emergency assistance.

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