

COVID-19 'Coronavirus' – How it affects Cargo Insurance Customers

- Coronavirus (COVID-19) was first detected in Wuhan City, Hubei Province of China in December 2019.
- The Chinese declared Wuhan under lockdown on 23rd January 2020.
- On 30 January 2020, the World Health Organization declared the outbreak a Public Health Emergency of International Concern.
- Wuhan is a major industrial and transport hub in Central China and the lockdown has had an impact on all goods movements in and out of the city whether via air, land and sea. It is still too early to tell the full extent of the impact.
- The impact on transport and supply chains is not limited to China, we are seeing an impact on supply chains on a wider level regionally and globally.
- The focus of this document is the likely/potential impact on Cargo & Cargo Liability customers.



What is the likely / potential impact?

On Supply Chain

All areas of the supply chain in or via China expect to face reduced capacity to handle goods due to restrictions on movements of people and cargo. These restrictions are likely to have a significant impact on the Chinese economy with reductions in manufacturing and transportation causing interruption to business and limiting trade.

The restriction on movement of people is expected to reduce the workforce available in Chinese ports causing delays in loading, unloading and clearing goods from vessels. This could cause vessels to be held offshore until a berth is available, significantly slowing the movement of goods in and out of China.

Internationally, ships that have called at a Chinese port will likely face quarantine when they arrive at their destination, with vessels requiring inspection by local health officials and potentially disinfection or quarantine

before being allowed to berth. This may cause a reduction in vessels calling at Chinese ports as owners and Masters look to limit exposure of their crew and downtime of vessels.

The flow on effect of these restrictions and delays are expected to be that goods are held longer at ports and transit points and increased volumes of goods are held in storage locations pending transport. This would reduce the available capacity for storage and could lead to cargo being improperly stored. It may also result in a significant increase in the accumulation exposure to customers and insurers.

The effects of labour limitations and the subsequent slow-down are not limited to China. Due to delays in China in clearing incoming goods there have been significant volumes of cargo held at the point of origin or at a port or location somewhere in the supply chain pending delivery to or via China. Again,

leading to potential improper storage and increased accumulation risks to customers and insurers.

On Cargo / Goods

It is expected most cargo moving in and out of China will be delayed and potentially subject to local health authority inspection or additional fumigation. Goods that aren't properly packed for this process could suffer loss or damage due to contamination.

The limitation of labour available for port operations and inland transportation will lead to delays in goods reaching their final customers both in and outside China. Increased delays in transport and volumes in storage (and potential improper storing of goods) could cause loss particularly to perishables that aren't adequately packed and prepared. Increased volumes at storage locations could also lead to disappearance, theft and pilferage of cargo as limited availability of security and increased volumes limit warehouses ability to control and trace goods.



There is also potential for increased costs on the cargo owner due to extended storage or if the vessel carrying the goods decides not to call at a Chinese port to discharge. If the vessel diverts to another country pending an improvement in the situation the additional costs incurred in finding another transit method to final destination may need to be borne by the cargo owner.

Alternative shipping methods being arranged part way through a journey could also cause issues for cargo, if goods aren't properly prepared for the stresses of the shipping method this could lead to loss or damage.

What is our advice to our Customers?

Supply chain disruptions can happen and arise in a sudden and severe manner. Supply chain managers should therefore take a holistic approach to protecting their supply chain that includes profiling and monitoring risk, assessing business impact, and supply chain risk mitigation. This three step process supports you in managing your supply chain, and helps you take predictive actions now to minimize some of the impact that could arise in a few months' time as a result of the Coronavirus.

1. Monitor your risk now

Review your supply chain for shipments that normally transit to, from or through the affected areas. Check if the identified legs of the supply chain operate as normal or if shipments are or may be delayed.

2. Assess the impact to your business

Once identified, manage your exposures and work with your internal logistics team or partner to understand the impact of the current situation and ensure they are managing your stock appropriately to properly protect your goods (in particular when cargo is perishable or sensitive to temperature, humidity, shock, etc. sensitive). If your goods are perishable or sensitive consider whether it is better to hold the goods in their current location rather than shipping into affected areas.

3. Mitigate the risk and minimize business interruption

Other routes, modes of transport, logistic suppliers or a mix of all can be used to get the shipments moving again. If your logistic partner is suggesting an alternative method of transit it is important to review all aspects of the supply chain before making decisions, particularly for perishable or sensitive shipments. When utilizing new shipping routes or methods consider the following:

This is an increased period of risk & cargo can easily be damaged or stolen as new parties involved in the transit process are likely not fully aware of special handling requirements. Avoid loss or damage by ensuring clear communication of all requirements is made to all parties.

- Ensure your goods and their packing & preparation meet industry standards suitable for the new conveyance method or shipping route.
- Check all steps in your new process align & are operating properly. Delays may

cause your cargo to miss connecting modes of transport, this could lead to uncertainty in getting goods to the final destination and increase of risk and or damage

- Understand any additional customs requirements on new routes. Some countries or Customs locations may be unfamiliar with certain type of goods or restrict the movement of certain cargoes. Customs can prevent import or even impound cargo putting customers in the situation they were looking to avoid of shipments being delayed or stuck in the supply chain.

Ports (ocean or air) have limited special handling facilities and storage locations. Airports in particular are not equipped to store large volumes causing cargo to be stored in locations not normally utilised and potentially additional accumulation risks in your supply chain. Values might rise at locations where they are normally not an issue. Additional measures might be required to manage this new risk.

Most importantly if you are shipping to affected locations, plan early and discuss solutions with your logistic team or partner to reduce the potential for delays and loss or damage to goods.

Understanding and monitoring all affected objects of the supply chain can be both a time-consuming and manual process. Leveraging smart solutions that use artificial intelligence can be a cost-effective way to minimize impact on employees, and manage volumes of big data in an agile way that ensures you have the right information when you need it. Standardized processes can help ensure that companies are able to run the three steps risk identification process: risk monitoring, risk assessment and risk mitigation along the entire supply chain in real time.

Once all restrictions caused by Coronavirus are resolved we recommend you continue to follow all steps above. There will be a back log of goods needing to be processed and it could be some time until normal operation resumes.

If you have any further questions, please approach your brokers or reach out to your usual Zurich representative.

This document has been prepared by Zurich Insurance Group Ltd and the opinions expressed therein are those of Zurich Insurance Group Ltd as of the date of the release and are subject to change without notice.

This document has been produced solely for informational purposes. All information contained in this document has been compiled and obtained from sources believed to be reliable and credible but no representation or warranty, express or implied, is made by Zurich Insurance Group Ltd or any of its subsidiaries (the 'Group') as to their accuracy or completeness.

This document is not intended to be legal, underwriting, financial, investment or any other type of professional advice. The Group disclaims any and all liability whatsoever resulting from the use of or reliance upon this document. Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans, developments or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by numerous unforeseeable factors.

The subject matter of this document is also not tied to any specific insurance product nor will it ensure coverage under any insurance policy.

This document may not be distributed or reproduced either in whole, or in part, without prior written permission of Zurich Insurance Group Ltd, Mythenquai 2, 8002 Zurich, Switzerland. Neither Zurich Insurance Group Ltd nor any of its subsidiaries accept liability for any loss arising from the use or distribution of this document. This document does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

Zurich Insurance Group

