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MIND THE GAP: COVID-19'S IMPACT ON THE LOGISTICS INDUSTRY

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Courtesy of AmWINS Group, Inc.



The disruptive impact of the COVID-19 outbreak on supply chains is already having a pronounced effect on the world of logistics and logistics insurance. Insurance brokers need to understand the changes taking place and plan for what is likely to occur in the months ahead.

PRE-COVID MARKET CONDITIONS CONTINUE

With relatively few carriers serving the space, the logistics insurance marketplace had already been shrinking in terms of capacity. “Through October 2019, nine companies have parted ways with logistics. Others have increased minimum premiums, which might be perceived as a slow exit strategy,” says Alex Rosas, executive vice president and head of [AmWINS Specialty Logistics Underwriters](#).

Additionally, the sector continues to struggle to recruit new underwriting staff, exposing a drastic experience gap in a market that evolves daily. Furthermore, there is close to zero investment in innovation and technology. “Logistics departments are not high on the priority list of any large carriers. There is not enough premium nor understanding of such lines for carriers to invest in technology to create innovation,” Rosas says.

Motor truck cargo is where the most extreme rate increases are being experienced due to the departure of key market players. London is also pushing to double premiums and lower limits. At the same time, some carriers have seen significant losses in logistics lines.

[Read the full State of the U.S. Logistics Insurance Market article.](#)

PANDEMIC IMPACTS

The COVID-19 pandemic quickly has thrown supply and demand out of balance. “Just in time” sourcing, once a popular supply-chain practice because it decreased inventory expenses, has exacerbated the issue and exposed why companies should maintain healthy levels of product backlog. As the supply chain works to meet demand spikes driven by both genuine need and panic buying, the market can expect both short- and long-term consequences.

“We had been expecting a ‘V-shaped’ supply recovery — down and then up. Instead, we are seeing a bottleneck effect with noticeable imbalance between supply and demand. When that bottleneck is released, the supply growth will need to be exponential just to fill out the warehouses, not to mention to satisfy the dire consumer demand,” says Rosas.

Port closures and trade disruptions have wreaked havoc on shipping volumes, with a reported 35% decline in shipper’s interest cargo activity in recent weeks. How quickly shipping activity will return to normal remains to be seen – many insureds are projecting a 20% decrease in exposures at renewal - but it likely will take time to eliminate such deficit.

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Additionally, losses stemming from shipping delays are unlikely to be insured. Although standard bills of lading may not hold logistics companies liable for the inability to provide goods and services, there could be exceptions, and force majeure could create disputes.

“Typically, for a policy to respond, there has to be physical damage, which is not the case in these losses,” Rosas says. “However, we will be closely watching case law because precedents will be created one way or another.”

Long-term impacts include potentially fundamental changes to the supply chain itself. The federal government is already considering legislation to repatriate essential manufacturing like medical supplies and pharmaceuticals, and decoupling from China may take place in other areas as well.

“The Purchasing Managers’ Index has dropped nearly 50% since January,” Rosas mentioned. “That means U.S. buyers’ confidence in China’s manufactured goods are in peri and that many are shifting toward domestic suppliers.”

TECH ASSIST

Several tech companies are offering digital logistics tools to help minimize COVID-19’s impact on the supply chain by making it more resilient, flexible and efficient. Examples include:

- A leader in automated freight brokering that is using its platform to normalize the dramatic increase in shipments in one location while absorbing an equivalent drop in another city.
- A warehouse-connection specialist that is spinning out capacity for emergency medical supplies.
- A freight-forwarder technology platform that is re-allocating its air-freight shipment capacity to ocean routes.

Other companies have released free job boards, free use of online tracking tools and free predictive-maintenance software. The resilience of these logistics operations is extraordinary and will play a large role in the industry’s ability to overcome the COVID-19 impact.

NAVIGATING THE MARKET

Retailers should go to market early with both new business and renewals. “Getting out early is important not just for having a conversation with carriers about changing appetites, but also to have a conversation with insureds about market realities,” says Noah Klein, vice president of AmWINS Specialty Logistics Underwriters. Carrier response may also be slowed in cases where work-from-home directives are in place and underwriters are juggling home and work responsibilities.

“Brokers need to show customers the changing dynamic of the business and the potential need to restructure their insurance program. Also, some customers might be looking at decreased payrolls, revenue and stock, whereas others are seeing inventory being stockpiled,” Klein says.

Lastly, brokers need to be aware of how different state insurance regulators are responding to financial distress being faced by businesses. The majority have created guidance or mandates around how carriers can proceed during the pandemic with regard to cancellations, non-renewals and changes in coverage and terms.

In a time of uncertainty, partnering with a wholesaler that understands market changes is essential. AmWINS is working closely with carrier partners to understand their changes in operations and protocols, advocate for flexible payment terms exposure-basis relief, and policy extensions when possible; and ensure as minimal disruption with regards to servicing, claims, binders, endorsements and renewals.

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ABOUT THE AUTHORS

This article was written by AmWINS Specialty Logistics Underwriters Executive Vice President Alex Rosas and Vice President Noah Klein.

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