

RISK ALERT:

TIANJIN EXPLOSION

BACKGROUND

Two massive explosions in the port of Tianjin, northern China, on 12 August 2015 have claimed over 100 lives, left hundreds injured, and devastated large areas of the city. An investigation is still under way to ascertain what triggered the disaster.



The origin of the blasts was a warehouse owned by Tianjin Dongjiang Port Ruihai Logistics and it is reported that the warehouse stored dangerous and chemical goods.

The explosion caused widespread destruction of the port area and extensive damage to buildings, infrastructure, the port facility, and stored goods including shipping containers and vehicles. A logistics park containing several thousand cars was incinerated by the fire. The blasts rippled out from the port into nearby residential areas. There are also concerns over chemical contamination, and military chemical and biological experts are on-site.

Tianjin is a significant industrial port near Beijing, and serves as a gateway for goods going in and out of the capital as well as the industrial north of the country. Marsh expects that this incident will represent significant exposure in the areas of Marine Cargo and Marine insurance, and result in supply chain disruptions for major clients doing international business.

With a catastrophe response team on the ground in Tianjin, Marsh has been monitoring this situation closely and working closely with our clients as events and developments unfold in real time. Based on our experience and expertise supporting clients' efforts to manage the risks and impact associated with this and similar complex and large claims events, we offer some recommendations for organizations considering their insurance recovery options as well as the effectiveness of their business resiliency planning.

DAMAGE

The insurance outcomes from this incident remain unclear as the assessment of exposures is still underway. Organizations should review the terms and conditions of their insurance policies to determine what coverages may apply. Additionally, they should closely document all related financial losses to support any claims to be made under their applicable policies.

Likely Insured Exposures may include, among others:

- Non-marine property and time element exposures.
- Marine property.
- Death and personal injuries.
- Port and terminal – including equipment.
- Shipping containers.
- Cargo.
- Vessel calls/Diversions/Demurrage.
- Rail services.
- Marine services.
- Business interruption/Supply chain disruption.
- Environmental.
- Regulatory, fines, and investigations.

ECONOMIC IMPACT

The economic impact of the incident on businesses and organizations with operations in the affected area is expected to be extensive. The likely implications include:

Supply Chain Disruptions and Business Continuity Implications

It has been reported that 285 of the Fortune Global 500 companies are known to have an office in Tianjin. With a major node in the supply chain taken offline, many companies have to secure alternative options for transporting their supplies and inventory, as well as utilize other industrial and processing facilities. Considering the knock-on effects on the alternative modes of transportation, for example, the overland routes via other nearby ports, uncertainties over issues like capacity, and other logistics difficulties are likely to have an impact on timeliness and costs.

Among the supply chain resilience actions that Marsh recommends are:

- Seasonal exporters and those handling perishable goods should consider alternative routes to market if goods cannot be moved to planned purchasers in a timely manner.
- Supply chain resilience plans should include provisions for the storage of excess products and alternative sourcing of components required for manufacturing.
- Be familiar with the contingency plans of your suppliers and related businesses that have an impact on your supply chain.
- Review both your own and your suppliers' contractual obligations relating to the delivery of goods and services and the impact on these obligations if an extraordinary event or circumstance beyond the control of the parties involved occurs.

To overcome business continuity implications, Marsh recommends that affected organizations undertake the following:

- Consider how you are best able to service customers, suppliers, and key stakeholders if operations are disrupted and give early warnings of any problems.
- Review the possibility for the temporary switching of some activities to other sites that may be less impacted and/or who have suitably experienced staff available.
- Establish methods and processes for both internal and external meetings and communications (e.g., teleconferencing, hotlines, remote access to e-mail).
- Actively monitor the situation and communicate relevant information to employees and stakeholders (e.g., situation update and impact to the organization, absentee rates, travel updates).
- Revisit your business impact analysis (BIA) particularly the risk assessment of critical activities – consider underpinning resources such as availability transportation and suppliers.

When faced with a disruptive situation like a major port shutdown, organizations should strive for the following:

- Increased data-driven visibility into the supply chain, which entails the evaluation ahead of time of key supply chain nodes used by the organization's direct and indirect suppliers and for distribution purposes. Such visibility can help direct mitigation efforts and contingency planning for a wide range of disruptive events.
- Strong data collection focused on understanding the organization's tipping points and which supply chain disruptions could cause significant or irreparable harm.
- Active monitoring that provides ample time to implement mitigation strategies effectively, and maintain essential production and distribution flows.
- A detailed official mitigation strategy that ensures quick implementation of a strong business continuity plan.

HOW MARSH CAN HELP

The above outlines only some of the damage assessment and business recovery issues and steps that organizations should consider in dealing with business continuity and supply chain challenges. Marsh's local and global insurance, property risk, forensic accounting, business resiliency, crisis management, and claims experts can help companies address their concerns.

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