



Strategic Business Resilience Report

Position your organization to endure and thrive through adverse business conditions.



Global scarcity and uncertainty continue to challenge risk management practices in the complex interconnected business models that have evolved. Business leaders must quickly adapt to a broad array of adverse operating conditions. The long-term impacts from the pandemic, climate change, and the war in the Ukraine, for example, are driving risks in new ways that are challenging the global systems that enable economic development. Resilience requires structured and innovative thinking - ideally, in advance of disruption.

The ability to understand and minimize the impact to business operations is a core risk management discipline that will enable a business to be resilient as disruptive incidents, supply/demand shifts, and other dramatic changes occur. CNA's Strategic Business Resilience report provides business leaders with timely suggestions on how to consider and advance an organization's ability to manage disruptive events.

Three considerations to help business leaders manage a disruptive incident regardless of how, when, and where a disruption occurs:

- 1. Understand the Changing Risk Landscape**
- 2. Advance Resilience Capabilities**
- 3. Implement Strategic Insurance Coverages**

1. Understanding the Changing Risk Landscape

As the interconnected world changes, business leaders need to understand the events happening in their local community as well as what is occurring around the planet. Knowledge and awareness helps business leaders better prepare for emerging risks and potentially disruptive events. Scenario planning requires one to imagine what lies ahead, considering how to deal with a variety of uncertainties. For example, what are the next unprecedented events that could severely damage the business? What changes are planned and unplanned that require a company to update its risk management and business resilience strategy? The environment in which a company operates requires business leaders to think about and prepare for impacts across all aspects of operations.

Inflation

It is difficult to estimate the impact of inflation on the global economy and the threat it poses to businesses and their organizational resilience. In June 2022, inflation reached 9.1% in the United States, a level not seen in more than 40 years.¹

In the same month, Eurostat announced that inflation within the European Union had reached 8.6%. While the impact of inflation will vary depending on the business and industry, few if any will emerge unscathed.

¹ <https://www.wsj.com/articles/us-inflation-june-2022-consumer-price-index-11657664129>

There is clear evidence that consumer behaviors are changing because of inflation, and the rising costs will force businesses to make difficult decisions to manage the impact on their revenue and profitability. Inflation of this magnitude will not last forever. The impact to businesses will persist, particularly if quantitative tightening by central banks leads to an economic recession.² While recession is not considered a foregone conclusion in the economic community, businesses would be well advised to prepare for current and future impacts to their operations globally.

Conflict and Geopolitical Instability

The war in Ukraine is one of the forces contributing to rising inflation, particularly with respect to energy costs. While much of the media focus has been on gasoline prices, the conflict has negatively influenced the global supply chain more widely. Ukraine is the world's largest supplier of noble gases, such as neon, krypton and xenon; prior to the conflict, Ukraine supplied 90% of the high purity neon used in semi-conductor manufacturing.³ This has resulted in dramatic price increases, around 10X or more, and concerns about long-term supplies of rare noble gases. As the war continues, supply shortfalls could eventually worsen the ongoing global semi-conductor shortages.

Governmental sanctions imposed on Russia by many Western governments led to subsequent retaliatory actions on gas supplies, with significant consequences particularly for Europe. Germany, Poland, Italy, Denmark, Finland, and others have been forced to reckon with the potential for a long-term or even permanent supply shortage of natural gas. This shortage could stress more than just heating costs; production of fertilizers, pharmaceuticals, detergents, and cosmetics within the chemical/ industrial sector could be adversely impacted in the months ahead.⁴ Case in point, natural gas supplies in Germany have already declined to the point that the rationing of hot water has begun, even in the summer months;⁵ some officials have warned that entire industries could collapse, resulting in massive consequences for the entire economy and jobs in Germany.⁶

Technological Advances

Technology advancements continue to transform how businesses produce, manage, and govern in almost all industries. The result of this revolution has produced impactful innovation, including robotics, automation, the Internet of Things (IoT – sensor technology), autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing. Many experts anticipate that these advancements will exceed the scale and

impact from previous industrial developments.⁷ Computing power and wireless network access is expected to continue to improve allowing use of more intelligent robotics, autonomous vehicles and wearable devices to be implemented for quality and productivity advances.

These advances will also spawn new vulnerabilities. The energy, network, and computer systems required to operate these developments are susceptible to cyberattacks. They are also more sensitive to utility outages, such as water, power, and internet – all which are needed to maintain an efficient operating environment. While automation can increase efficiency and output to manage costs, the skilled workforce requirements along with extended replace and repair times following disruptions will need to be incorporated into insurance coverages as well as business recovery and restart plans.

Cybersecurity

The area of Cybersecurity is quickly changing, with bad actors continuing to come up with new ways to attack and monetize unsuspecting businesses. This year, ransomware continued its upward trend with an almost 13% increase—a rise as big as the last five years combined. (Verizon DBIR 2022 page 7, figure 6) The aim of these attackers is not necessarily to steal data but to stop the business from being able to function, holding its data or resources hostage until a ransom is paid. What enables these attacks to achieve their goal is crypto currencies. Difficult to trace and not respecting international borders or banking laws, crypto allows the monetization of this activity.

The inability to detect and manage cyberattacks can significantly disrupt operations. Regulatory action is being considered to curb this illegal activity. Legislators are considering requirements for cryptocurrency exchanges to comply with OFAC and anti-money laundering laws. Both US congress and some individual states have proposed restrictions on ransomware payments to improve cyber reporting to identify, capture, and shut down the criminal networks enabling the attacks to continue with limited or no punitive risks.⁸

Environmental, Social, and Governance (ESG) Expectations

Investor, customer, and workforce interests continue to grow and favor companies that provide information on how they are managing risks and developing business strategies to address ESG issues. These issues include:

- **Environmental** topics describing how an organization manages carbon emissions, natural resources, pollution, waste management, and makes use of green technology and construction.

² <https://www.washingtonpost.com/business/2022/05/19/recession-economy-markets/>

³ <https://www.csis.org/blogs/perspectives-innovation/russias-invasion-ukraine-impacts-gas-markets-critical-chip-production>

⁴ <https://www.bbc.com/news/world-europe-62121702>

⁵ https://fortune.com/2022/07/08/energy-rationing-germany-no-hot-water-turning-off-lights/?queryly=related_article

⁶ <https://fortune.com/2022/07/03/germanys-union-head-warns-of-collapse-of-entire-industries-due-to-cuts-in-russian-natural-gas/>

⁷ <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

⁸ <https://www.csoonline.com/article/3622888/four-states-propose-laws-to-ban-ransomware-payments.html>

- **Social** topics, such as sharing how in- and out-sourced labor is managed, how supplier labor standards are managed, how human health and safety (employees, consumers, communities) is provided and how the company engages in supporting local and global health and nutrition.
- **Governance** topics, such as sharing how organizations support, ethics, compliance, anti-corruption, tax, and accountability.⁹

EU and US government agencies are progressing their regulatory mandates to standardize ESG disclosure reporting to promote responsible business practices, corroborate ESG claims and allow for more informed consumer/investor decisions. A new proposal for a Corporate Sustainability Reporting Directive (CSRD), which could take effect in 2023, may require extensive ESG reporting by large companies operating in Europe. These new requirements extend the current Non-Financial Reporting Directive, and they are proposed to include additional disclosures on strategy, governance, and resilience as well as forward-looking sustainability targets that can be included in annual progress reports.¹⁰ The US Securities and Exchange Commission released a proposal for comment on May 25, 2022 proposing new disclosure and reporting requirements.¹¹ It will take considerable time to determine whether disclosures will be mandated or if self-disclosure will continue to be organically driven by shareholder and stakeholder demands.¹²

Supply Chain Challenges

The perfect storm is brewing for the value chain that drives the success of many entities in the form of inflation driving up the cost of goods, fragile supply chains vulnerable to extreme weather events and geopolitical actions (e.g. war, sanctions).¹³

The supply chain challenges that began in the early months of the COVID-19 pandemic continue, with new stressors continuing to strain the cost of doing business. Extended lead times, delayed deliveries, and increased freight costs are expected to continue due to rising petroleum prices, truck driver shortages, and equipment delays/shortages (e.g., chassis for transporting cargo containers via truck and train). Logistical issues, along with the shortages of vital chemical and raw material supplies, will have to be monitored across the supply chain to manage customer expectations.

Many businesses continue to adjust inventory strategies from “just-in-time” purchases to “just-in-case” inventory methods. Certain businesses, particularly retailers, have become stuck with excess inventory that no longer meets the needs of their



customer, and because of ongoing supply challenges, cannot quickly pivot to change their offerings. While some of the COVID-19 pandemic port shutdowns have begun to ease in China, major ports in the US and throughout the world continue to struggle to receive, process and handle goods now arriving en masse. High freight costs, shortages of containers, and labor challenges still exist, and this makes it difficult for businesses to find steadiness in how they order, receive, process, and ultimately deliver goods and services. Additionally, suppliers in developing countries with more fragile economies and food supply chains feel the effects of inflation more acutely than developed countries. In time, this instability could impact business’ ability to source goods from these regions of the world.

Climate Change

“On a global level, the dollar value economic loss associated with all disasters – geophysical, climate and weather-related – has averaged approximately \$170 billion per year over the past decade, with peaks in 2011 and 2017 when losses soared to over \$300 billion.”¹⁴

The impact of anthropogenic climatological changes presents growing risk for businesses in various regions across the globe. The influence of these changes on weather events may stress even well-prepared organizations. As noted recently by researchers at the University of Colorado, factors like population densification in urban centers and expanding suburban growth as well as socioeconomic dynamics will continue to increase the number of buildings being constructed in hot spots known for wildfires, floods, earthquakes, and convective storm events like tornadoes.¹⁵ More simply, the more buildings that we construct in previously undeveloped areas or the greater the population growth in already dense urban centers, the greater the risk becomes that buildings and businesses will be impacted by weather events.

⁹ ESG oversight: The corporate director’s guide: PwC

¹⁰ Proposed EU Directive on ESG Reporting Would Impact US Companies (harvard.edu)

¹¹ SEC.gov | SEC Proposes to Enhance Disclosures by Certain Investment Advisers and Investment Companies About ESG Investment Practices

¹² A Response to Calls for SEC-Mandated ESG Disclosure (harvard.edu)

¹³ Inflation Rises to Four-Decade High, According to the Fed’s Preferred Measure - WSJ

¹⁴ www.undr.org/GAR2022

¹⁵ Iglesias, V., Braswell, A. E., Rossi, M. W., Joseph, M. B., McShane, C., Cattau, M., et al. (2021). Risky development: Increasing exposure to natural hazards in the United States. *Earth’s Future*, 9, e2020EF001795. <https://doi.org/10.1029/2020EF001795>

Nowhere is this clearer than in areas known for wildfires, where rising housing costs and other factors continue to drive communities and businesses closer to the wildland urban interface. Research published in 2018 found that between 1990 and 2010, the number of homes in the wildland urban interface grew by more than 41%, and the vast majority of homes were new construction.

In 2022, droughts and record high temperatures plagued North America and Europe, creating ripe conditions for wildfires with fires raging across many countries in southern Europe.

While the connection between droughts and increased wildfire risk is well known, droughts can exacerbate existing water scarcity, requiring local governments to take significant measures to restrict or prohibit water use to conserve resources for essential functions, such as firefighting, healthcare, and drinking water. In many cases, local jurisdictions will restrict the testing of fire protection equipment, such as fire sprinkler systems and booster pumps, which are critical to maintaining reliability and identifying problems in these fire and life safety systems.

Portugal recorded temperatures of 115 degrees Fahrenheit, the highest temperature ever recorded in that country, and Italy is in the throes of its worst drought in 70 years, with states of emergency declared in many states and shortages affecting agriculture and everyday water supplies.¹⁶ As a sign of the ongoing threat of climate impacts, The Po valley has experienced similar drought conditions in 2007, 2012, and 2017 - an alarming frequency connected with rising temperatures influenced by climate changes.¹⁷

Weather events – with or without sudden and immediate impacts - can test an organization’s resilience as well as the reliability and performance of systems and protections that businesses leverage to minimize everyday risk.

Systemic Workforce Change

In May 2022, 4.4 million US citizens quit their jobs for more free time or better opportunities according to the US Chamber of Commerce. Additional drivers noted for shortages were new business startups, lack of access to childcare due to closures during the pandemic, early retirements, and increased savings due to stimulus checks and lower daily costs during the pandemic. Entities are adapting their operations in the post-pandemic era. Overall, in 2021, employers ended up adding an

unprecedented 3.8 million jobs. At the same time, millions of Americans have left the labor force since before the pandemic. In fact, there are more than two million fewer Americans participating in the labor force today compared to February of 2020.¹⁸

The introspection brought on by the pandemic and the extended periods of remote work spawned a significant increase in employee attrition in businesses across various industries as well as workforce shortages in many segments.¹⁹ While workforce shortages have partially abated in some segments like tech, recent “Beige Book” reports from the US Federal Reserve in mid-22’ continue to report widespread labor shortages and difficulty hiring and retaining workers.²⁰

Human Resource departments are reviewing and, in some cases, altering employee benefits to support employee retention and support recruitment.²¹ According to a Gallup poll, in the US, the younger generation (born 1989 – 2001) which makes up 46% of the workforce are looking to work at an organization that cares about their overall wellbeing, with leaders that are ethical and provides a diverse and inclusive culture.²² When an organization is losing staff, it is losing human capital and organizational intelligence as well. If companies cannot find the needed skilled workers, it will be difficult for businesses to grow, compete, and innovate.



¹⁶ <https://www.reuters.com/business/environment/dire-italian-drought-worsening-breaking-records-water-authority-2022-06-23/>

¹⁷ Rapid growth of the US wildland-urban interface raises wildfire risk

Volker C. Radeloff, David P. Helmers, H. Anu Kramer, Miranda H. Mockrin, Patricia M. Alexandre, Avi Bar-Massada, Van Butsic, Todd J. Hawbaker, Sebastián Martinuzzi, Alexandra D. Syphard, Susan I. Stewart

Proceedings of the National Academy of Sciences Mar 2018, 115 (13) 3314-3319; DOI: 10.1073/pnas.1718850115

¹⁸ Understanding America’s Labor Shortage | U.S. Chamber of Commerce

¹⁹ Roy Maurer, Turnover ‘Tsunami’ Expected Once Pandemic Ends, March 12, 2021 (SHRM.org)

²⁰ <https://www.federalreserve.gov/monetarypolicy/beigebook202206.htm>

²¹ Attracting Talent During a Worker Shortage by Tino Sanandaji, Ferdinando Monte, Alexandra Ham, and Atta Tarki, June 14, 2021, <https://hbr.org/2021/06/attracting-talent-during-a-worker-shortage>

²² <https://www.gallup.com/workplace/336275/things-gen-millennials-expect-workplace.aspx>

2. Advance Resilience Capabilities

The structure and method for implementing a business resilience framework will vary across organizations. The key is to ensure that the core management disciplines are fully coordinated and integrated with proper insurance coverages - regardless of how reporting is structured in the organization. It is important to focus on building and maintaining a company's resilience framework.

Resilience Framework

Establishes four integrated management disciplines to enable your organization to effectively respond and adapt to business disruptions.



Build the Resilience Framework

The **Risk Management** function typically considers current and emerging risks, working with appropriate business functions to implement mitigation plans to avoid an impact or loss. Business resilience is a component of enterprise risk management and often oversees risk transfer strategies (e.g., insurance, contract indemnification clauses) to minimize the impact and loss for a physical disruption.

The **Incident Management** function is responsible for implementing strategies and plans at each site where the organization operates to reduce the impact or loss. The key is to prepare a controlled response to quickly address life safety issues and enable local response agencies to fix the problem (e.g., put out the fire). Incident response should also be created for cyber security incidents to contain the threat, eradicate the threat from the environment and recover affected systems.

Every second matters, and failing to develop this response capability for operations can significantly affect the severity and impact of a disruption.

The **Business Continuity Management** function is charged with developing strategies and plans to ensure business recovery teams have the resources needed to continue critical processes impacted by a disruption. This includes developing strategies for both internal production elements, such as workforce, equipment, facilities, and materials, technology plus supply chain elements, including suppliers, distributors and customers. While insurance coverage decisions can positively affect continuity plans, they often are arranged and developed separately. For example, extra expense coverages may provide the funds needed at time of disruption for additional workers and/or workspace requirements when a property loss for a covered cause of loss occurs as defined in the policy.



The **Crisis Management** function is authorized to coordinate and issue all internal and external communications surrounding a disruptive event. Some policies include coverages to support the use of public relations firms, which can be engaged at the time of disruption.

Positive change starts with an honest assessment of an organization's current position or identifying where an organization falls in the program maturity scale with regards to establishing a holistic, coordinated resilience framework.



Advancing an organization's position can take multiple years. The timeline for achieving an established maturity level is subject to the understanding and priority placed on progressing this capability. Functional and site leadership participation is paramount. Outside support and systems for managing risk assessments, strategy, and plans may be advantageous to quickly establish a resilience program.

Define a Resilience Program

Develop clear and concise enterprise business resilience policies. These policies describe an auditable structure, key requirements (e.g., plan updates, exercise, and training), and the leadership

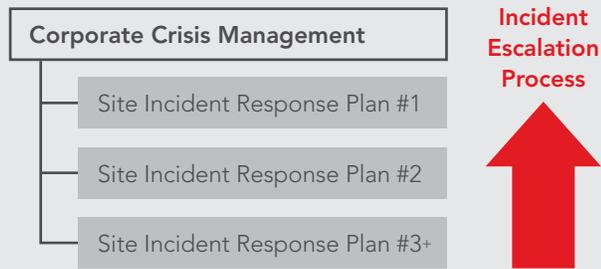
roles for implementation across the organization. Internal and external audits should be periodically performed to confirm the health of resilience capabilities.

Establish Resilience Response Teams

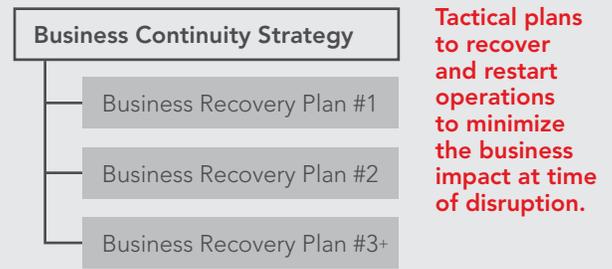
Establish the policies, procedures, and resources needed to implement the resilience framework for each organization. Two structures are enabled to minimize the impact and loss across the operational footprint – a response structure as well as a recover and restart structure. Keep in mind that for less complex single site operations, plans may be combined.



The Response Structure



The Recovery and Restart Structure



The **response structure** is anchored by Site Incident Response plans to manage local emergencies and disruptions where they occur. There should be one plan per site and escalation procedures, if not already in place, need to be defined to notify and obtain support from corporate leadership as noted in the Corporate Crisis Management plan.

The **recovery and restart structure** is based on an enterprise level business continuity strategy created from an analysis of what is required to continue critical operations through a disruption. Each business function leader is responsible for the continuity of their operations.

A plan sponsor and plan owner should also be assigned for incident and recovery plans, as they will be accountable and responsible, respectively, for ensuring plans are regularly updated and exercised. A plan activation to respond to a disruption satisfies the requirement for the annual exercise. After Action Reviews (AAR) are also required after each activation or exercise to improve the response plan and team effectiveness.

Exercising the response and recovery structure will validate the effectiveness of the decision making structure and train team members on their role when a disruptive incident occurs. It is recommended that plans be updated and exercised every 12 months or less.

3. Implement Strategic Insurance Coverages

Insurance is a vital component of an effective business resilience program. An established business resilience strategy for a company's operations allows an organization to better design insurance coverages that directly support the successful implementation of an organization's response, recovery, and restart plans following a disruption. This report is an overview of potential coverages, but only the insurance policy an insured selects will provide the actual terms, coverages, amounts, conditions, and exclusions that apply.

Property

When companies think about protecting property assets, such as buildings and equipment, one area that is often overlooked is the true replacement cost of these assets when a disaster strikes. The previously discussed inflationary environment has brought this into clear focus; companies that have not reviewed their equipment and building valuations could be especially vulnerable if a disruptive event were to occur. Equipment assets in particular are often treated as depreciating assets, but it has never been more important for a business to understand true replacement costs and the impact of marketplace factors and trends on those estimates when considering property insurance coverages.

Business Interruption

Based on the severity of impact and the complexity of operations, the time to rebuild, repair/replace, and restart affected operations could take weeks, months, and, in some cases, years. Business Interruption (BI) coverage is an essential element to enable financial resilience. This coverage provides the insured with the opportunity to maintain their financial trajectory and enable the insured to pay continuing expenses through the period of restoration. Core elements of this coverage, per the policy terms and conditions, typically include the following:

- **Business income** coverage helps to recover the net income loss plus continuing expense (e.g., payroll, rent, utilities, etc.) during the period of restoration.
- **Extra expense** coverage is used to mitigate/minimize a loss during the period of restoration (when possible).
- **Extended period of indemnity** coverage provides further financial relief for a stated period of time beyond the period of restoration, for continued business income loss, supporting the organization's return to production and sales levels.

Whether a company has one or hundreds of covered properties and suppliers, there are important considerations when determining business interruption values for an organization:

Frequency of Business Income Projections

A realistic assessment is needed of how revenues and expenses will change over a 12-month and 24-month period. Annual review and updates are recommended to ensure coverage levels are adequate given the current economic challenges. Fast growing businesses may need to review exposures and coverage levels more frequently.

Ordinary Payroll

Ordinary Payroll is an integral component of continuing expenses covered in BI insurance. Coverage may be limited to a certain number of days or excluded entirely, reducing the insured's recovery in the event of loss. Given the continued workforce shortages, it is important to retain a knowledgeable and trained workforce during the period of restoration. Continuing to pay payroll will help the company keep the employees needed to run the business until operations are able to resume.

Blanket vs. Location BI Structure

Blanket limits of insurance are beneficial when the insured has multiple interdependent locations where financials are accounted for under one profit center for all covered locations.

Separate BI limits may be needed when the covered locations are not under one legal entity to provide adequate financial support for recovery efforts following a disruption.

Business Income Exposure

In order to calculate the necessary limits for business income coverage, the key is to start at the enterprise level and consider how revenue is generated and the recovery time required to restore operations for each scheduled property. Analyzing the impact using a "complete loss" scenario for each location will help to understand the potential financial impact. This analysis will also highlight locations where business recovery strategies can be aligned and/or improved to enable business resilience.

Once this analysis is complete you can determine your business income limit (net income plus continuing expenses).

Equipment Breakdown

As the reliance on complex computer-based machinery and robotics expands, the need for contingency planning and insurance coverages also grows. Robust preventive and predictive maintenance remain the first line of defense to ensure continuity of operation for critical machinery. The development of continuity strategies and plans to provide for redundant machinery, where possible, and providing for multiple skilled operators also helps to minimize the impact of downtime. Equipment breakdown insurance (as part of property coverages or as a standalone policy) can also provide coverage for physical damage repair/replacement and associated business income loss from mechanical and machinery breakdown based on the policy terms and conditions. Economic uncertainty is an emerging headwind; if recessionary conditions come to fruition, cost strains may encourage companies to delay equipment replacement beyond normal schedules and expected lifespans. Businesses will need to consider this carefully; delayed replacement cost savings can be far outweighed by business disruption and potential market share losses stemming from the failure of key equipment.



Closing

Business leaders continue to face new and persistent challenges as organizations strive to evolve and innovate while facing the headwinds of an emerging risk landscape that has only grown more expansive. A strong resilience framework with incident, crisis, and continuity teams will help ensure leadership is prepared to make thoughtful, fact-based decisions in response to disruptions at the local and enterprise level. Business leaders that focus on preparedness, considering current and future challenges, learning from every disruption, and working with insurance brokers and carriers to develop strategic risk transfer solutions, can help ensure that organizations are both financially and operationally resilient.



To learn more about managing your risk and increasing efficiency, visit cna.com/riskcontrol.

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