

# Managing risk and uncertainty in manufacturing

Transforming for a more resilient future



# Contents

Dealing with disruption 3

---

The innovation imperative 8

---

An evolving risk landscape 11

---

Articulating and managing risk  
with Marsh Commercial 15

---



# Dealing with disruption

---

UK manufacturers face tough challenges as they rebuild capacity and markets in the wake of COVID-19. But as manufacturers prepare to build back better, taking a proactive approach to risk mitigation will be the key to unlocking a more resilient and sustainable future.



## Following years of unprecedented uncertainty caused by Brexit, UK manufacturers are learning it pays to be prepared for the unexpected.

Indeed, the recent pandemic has simply served to accelerate many trends that were already in motion.

“Manufacturing has begun to climb away from the abyss that it stared into earlier in the year. But, make no mistake, it is going to be a long haul back towards normal trading conditions, with talk of a V shaped recovery nothing more than fanciful.<sup>1</sup>”

**Stephen Phipson CBE, Chief Executive, Make UK**

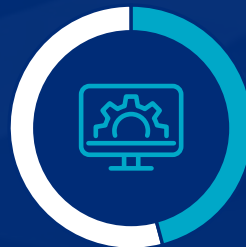
## The post-COVID-19 road to recovery



**99%** of manufacturers are now open for business<sup>2</sup>



**54%** expect it will take less than 12 months to return to normal trading conditions<sup>2</sup>



**46%** have achieved 75-100% of their pre-COVID-19 operating levels<sup>2</sup>

<sup>1</sup> Make UK, Sept 2020 <https://www.makeuk.org/news-and-events/news/industry-slashes-investment-in-fight-for-survival>

<sup>2</sup> Make UK, Sept 2020 <https://www.makeuk.org/-/media/files/coronavirus/manufacturing-monitor/make-uk-manufacturing-monitor-07092020.pdf>

**Prior to the shutdown of the world's economy triggered by coronavirus, UK manufacturers were already preparing to maintain productivity in readiness for an uncertain operating environment.**

Findings from the 2019 MHA Manufacturing and Engineering annual report<sup>3</sup> reveals that 61% already had a Brexit strategy in place, 82% had re-engineered supply chains to reduce risk, and 55% had completed successful R&D claims.

In addition to making their existing assets work harder, these firms were also taking action to protect cash, protect inventory levels, and control costs.

Fast forward a few months and UK manufacturers are not only planning for recovery, they're also evaluating what new opportunities lie ahead.



<sup>3</sup> <https://mha-uk.co.uk/wp-content/uploads/2020/01/Manufacturing-and-Engineering-Annual-Report-2019-20.pdf>

## Navigating the road to recovery



**31% of small manufacturers** source components directly from China or other countries affected by COVID-19<sup>4</sup>.



**53% are reviewing supply chains** to increase resilience in response to the pandemic<sup>4</sup>.



**40% of all manufacturers** have experienced difficulties sourcing components – **a further 49%** anticipate future difficulties<sup>4</sup>.



**Access to sufficient finance, dwindling cash reserves** and the **availability of trade credit insurance** are the top challenges confronting manufacturers as they prepare for a full return to production – although support has been available from the temporary government-backed reinsurance scheme designed to help UK businesses access trade credit insurance as they recover from the impacts of COVID-19<sup>4</sup>.



No longer a corporate social responsibility exercise, **enhanced scrutiny and focus on logistics management** will be critical for building business resilience<sup>4</sup>.

<sup>4</sup> Make UK, June 2020 <https://www.makeuk.org/-/media/files/resources-and-knowledge/industry-reports/2020/responding-resetting-and-reinventing-uk-manufacturing-post-covid19.pdf>

## Manufacturers know that thriving and surviving in a world that's vulnerable to major macroeconomic events depends on thinking and working smarter.

So it's little wonder that many firms are preparing to reconfigure business models and factory floors – and embrace new robotics and connected Internet of Things (IoT) digital technologies that will deliver enhanced insights and agility to their operations.

But when it comes to prioritising long term recovery over short term survival, transforming for success will require a deep understanding of how to manage and mitigate against risk.

## Top trends impacting UK manufacturers



UK manufacturers have reported weak orders<sup>5</sup> which will surely affect profits – **preserving cash for new investments and innovations** is now a top priority as manufacturers await a UK government strategy that will deliver long term stability for the sector.



Manufacturers are keen to pick up the pace where **digital transformation** is concerned. Driving efficiency gains and enhanced productivity is just the start. In today's fast-moving trading environment, utilising digital technologies to identify future needs, and transform at speed to deliver against these demands, is becoming business critical.



**Maintaining a skilled workforce** will be essential for adapting to issues like climate change and adopting new Industry 4.0 innovations. Yet only one-third of firms are confident they will be able to access the digital skills they need in the years ahead<sup>6</sup>.



As costs for energy and raw materials escalate, **sustainable manufacturing** is rising up the strategic agenda as firms look to capture savings, improve products and win new markets. Indeed, 84% of manufacturers say the drive for a carbon neutral society represents an opportunity to transform their future<sup>7</sup>. For more on renewables, read the eBook [here](#).

<sup>5</sup> <https://www.theguardian.com/business/live/2019/aug/20/investors-stimulus-recession-fears-markets-ftse-trump-uk-factories-business-live>

<sup>6</sup> <https://www.themanufacturer.com/articles/digital-skills-manufacturing-needs-number-crunchers/>

<sup>7</sup> <https://www.themanufacturer.com/articles/annual-manufacturing-report-2020-what-are-manufacturers-saying-about-their-future/>

# The innovation imperative

---

As the government looks to reshore manufacturing and production back to the UK, standing still is not an option as successful manufacturers race to accelerate innovation.





Advancements in manufacturing technologies are already being deployed to power highly automated microfactories capable of producing high-mix, low-volumes of customised products with a high return on investment. And that's not the only innovation on the horizon.

Today's technologies now make it possible to co-ordinate distributed production across multiple micro locations. Enabling manufacturers to serve a growing diversity of volatile and fast-evolving markets and cost-effectively balance any ebbs and flows of demand.

## UK manufacturers look to stay future-ready



**81%** of UK manufacturers say digital technologies will enable them to open up new markets and find new customers<sup>8</sup>.



Digital transformation is a top 3 priority for over **90%** of consumer goods manufacturers<sup>9</sup>.



**91%** of UK manufacturers believe technologies like smart automation, advanced data analytics, cloud computing, internet of things (IoT), augmented reality (AR) and artificial intelligence (AI) will boost productivity per employee<sup>9</sup>.



**78%** are developing (or have developed) a servitised business model that add value to customer relationships<sup>9</sup>.

<sup>8</sup> <https://www.themanufacturer.com/articles/annual-manufacturing-report-2020-what-are-manufacturers-saying-about-their-future/>

<sup>9</sup> <https://www.pwc.co.uk/industries/assets/2020-annual-manufacturing-report.pdf>

**But while digital technologies have the potential to transform development and production processes and streamline customer and supplier interactions, it also exposes the UK smart factory to complex new risks – including the threat of cyber attack.**

Indeed, cyber security is becoming a top concern<sup>10</sup> for manufacturers who need to assure the availability of their manufacturing operations, protect intellectual property, and safeguard customer and supplier data.

## Cybersecurity: a growing risk and concern

The growing convergence of IT and operational technology gives hackers an ever wider range of opportunities to launch attacks on industrial systems.



Manufacturing topped the list of the most attacked sectors in the UK, accounting for almost one third of all cyber attacks directed at UK organisations<sup>11</sup>. According to Make UK, 27% of manufacturers that experienced a cyber attack suffered financial or business losses as a result<sup>12</sup>.



Globally, reconnaissance activity was the most common attack type used against manufacturers (60%), followed by web application attacks (36%)<sup>11</sup>.



Last year almost 50% of manufacturers were victims of cyber crime, with a quarter suffering some financial loss or business disruption as a result<sup>13</sup>.



Cyber threat is holding companies back from investing in new technologies; worryingly, 12% admit they have no technical or managerial processes in place to even start assessing the real risk<sup>13</sup>.

Are you protected? Check out our [cyber insurance calculator](#)

<sup>10</sup> <https://www2.deloitte.com/us/en/pages/manufacturing/articles/cyber-risk-in-advanced-manufacturing.html>

<sup>11</sup> <https://www.manufacturingglobal.com/technology/cybersecurity-uk-manufacturers-most-attacked-industry-ntt>

<sup>12</sup> <https://www.makeuk.org/-/media/cyber-security-and-manufacturing-a-briefing-for-manufacturers.pdf>, 2019

<sup>13</sup> <https://zenoot.com/report-shows-50-of-uk-manufacturers-victim-of-cyber-crime/>

# An evolving risk landscape

---

New business models bring new opportunities and risks.



**When it comes to mitigating risk, today's manufacturers face multiple challenges on every front. Post COVID-19, insurance renewals are taking longer and a challenging insurance market – that was already hardening before the crisis – is having an impact on premiums and the wider availability of insurance.**

The introduction of COVID-19 exclusions or enhancements to pre-existing pandemic-related exclusions is just the start. Business interruption insurance has been the topic of some debate. Already a complex coverage to understand, the ongoing uncertainty of post-COVID changes requires businesses look closely at their T&Cs. Added to this, wider concerns about cyber risk and automated plants have already driven some insurers to quit the market entirely.

Those that remain are demanding a growing number of enhanced requirements from manufacturers – the provision of a suitable risk register, evidence of an appropriate risk identification and management process, evaluations of potential supply chain risk and customer weightings, appropriate claims reporting and record keeping.

On top of all that, as manufacturers prepare to embrace new trends - like the sharing and recycling or reuse economy, servitisation – or alter their working models with

the introduction of new production technologies and sales channels – they will need to understand how all this impacts and influences the risk environment. This will include reviewing contractual customer liabilities, and any new legislative and regulatory requirements relating to the markets they plan to enter.

As we see the return to the workplace and the new norm, this focus on servitisation is growing – although it is important to understand the risks that this brings – from new product contractual requirements, efficacy, potential for recall and other related claims through to the impact on the workforce as they manage their new stricter surroundings.

Having a full appreciation of new risks is essential as this may force a rethink in respect of insurance and risk management solutions to determine if these are fit for purpose for the new operating environment.

## A robust risk management programme will:



Provide insights into indemnity and liability issues and their controls, positioning risks in a way that enables insurers to offer lower premiums that will help cash flow. This should include structured programmes designed to address geo-political risks, cyber and supply chain threats, property, and regulatory and environmental risks.



Minimise the risk of injury or incidents that cause harm to staff, customers and the local community, together with reporting that demonstrates required adherence to statutory responsibilities.



Enable decision makers to identify gaps in leadership, training or certifications that could hamper future innovation plans or new business models/market moves.



Support the review of health and benefit packages to bolster talent acquisition and retention programmes.



Support the updating of workforce skills, talent development and recruitment strategies (schools/college liaison) and the creation of an engaging local employer brand.



**As organisations adopt new technologies and new ways of working, the ability to identify new risks associated with threats to both tangible and intangible assets is just the start.**

The move to servitization and service provision brings with it additional contractual requirements, and the enhanced potential for product recalls and related claims down the line. It also means manufacturers will need to protect an extended workforce that now includes remote service workers and will become increasingly dependent on extended e-supply chains that incorporate the entire end-to-end service offering (installation, servicing, maintenance, ongoing remote management and monitoring).

Consideration should also be given to the contractual positions associated with new technology partnerships, as cloud or software-as-a-service providers, to map out any new liabilities. Similarly, evaluating risks relating to the introduction of automation and machine learning – and the implication of these for workforce dynamics – will also be vital.

Here at Marsh Commercial, our manufacturing experts are on hand to help you navigate all these risks, make more informed decisions, and reduce your total cost of risk. So that you can reduce business volatility, and protect balance sheet integrity as technologies advance and new risks emerge.



# Articulating and managing risk with Marsh Commercial

The diverse worlds of manufacturing are fluid and ever changing. And technological advances, while creating fresh opportunities, can also open the door to new and more complex risks.





**In an increasingly uncertain arena, where risks to supply chains and information security are escalating, our analytics capabilities can help you identify and quantify risk.**

Alongside supporting you to make more informed decisions that can generate long term competitive advantage, we're also experts at creating and administering insurance and alternative risk programmes.

## The right expertise when you need it

- 500 risk specialists across Marsh<sup>14</sup> who can help clients identify, mitigate and transfer risk.
- Accelerate business transformation with enhanced confidence and cover.
- Consulting, broking and claims advocacy services.

In these challenging times, our risk management programmes are designed to help you create safer and more profitable operations and reduce your risk exposure as you transition to new business and operational models.

<sup>14</sup> <https://www.marsh.com/us/industries/manufacturing-automotive.html>



Email, social media, face to face, or zoom;  
**when you reach out, we'll be there to connect.**

For more information visit:

**[marshcommercial.co.uk](https://marshcommercial.co.uk)**



**Chartered**

**This is a marketing communication.**

The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

Marsh Commercial is a trading name of Jelf Insurance Brokers Ltd is authorised and regulated by the Financial Conduct Authority (FCA). Not all products and services offered are regulated by the FCA (for details see [marshcommercial.co.uk/info/regulation/](https://marshcommercial.co.uk/info/regulation/)). Registered in England and Wales number 0837227. Registered Office: 1 Tower Place West, London EC3R 5BU.

MC201023047

Copyright © 2020 Marsh Commercial. All rights reserved.

