

Supply Chain & COVID-19

Concerns for (Re)building, Repairing & Replacing

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Material and equipment sourcing interconnects the planet and just like COVID-19, the ripple effect to the supply chain is being felt around the world and across nearly every industry.

AS THE EPIDEMIOLOGICAL MANAGEMENT ASPECT OF COVID-19 CONTINUES TO EVOLVE, issues regarding labor and supply chain will continue to surface, and the proper response by the construction and service industry is paramount. It certainly can be argued that safety and loss control have a direct connection into cost, performance, schedule, quality and environment. Unfortunately, when one or more of those facets become distressed, the reduction of safety and loss control efforts can sometimes occur.

This document helps organizations identify how the supply chain environment can affect their ability to build, repair or replace systems and the potential insurance ramifications this environment could present.

Materials & equipment shortages

Manufacturing and ground-level supply chains have been affected. Labor shortages combined with reductions or closures of production processes has hampered growth and supplies worldwide. As far back as January 31, 2020, The Wall Street Journal described the real consequence of COVID-19 on the global high-tech component manufacturing market. The effect of these delays is beginning to surface here in the United States, with late summer/early fall being the potential peak period when manufacturer inventories will become depleted. Some organizations are sourcing components and materials well ahead of a normal schedule in order to capture lower prices and availability, while others are adjusting specifications through approved change orders.



Communication & planning

Ensuring communication lines between owners, contractors, vendors and manufacturers are open can help offset delays by strategizing on the different aspects of the upstream issues. If your organization is considering planned maintenance or improvement work, encouraging open communication can help you address potential delays and possible price increases once the supply and demand scale shifts to the unfavorable pricing side.

Internally, planning and communication is equally vital. As this paper will further discuss, identifying the areas affected as early as possible can help lessen the effects of potential business claims, price increases, material availability and labor complications.

Labor

As sites return to operation and subcontractor's roles, responsibilities and schedules change, a labor shortage could also begin to surface. As of the date of this paper, some clients have expressed concerns over certain craft workers making more money on unemployment when combined with the federal stimulus program than working. This potential shortage, partnered with the social distancing aspect of operations, will further hinder a project schedule.

Potential construction defect (general liability) claims

According to the International Risk Management Institute (IRMI), the definition of construction defect is “generally speaking, a deficiency in the design or construction of a building or structure resulting from a failure to design or construct in a reasonably workmanlike manner, and/or in accordance with a buyer's reasonable expectation.” As organizations begin to explore a higher level of “value engineering” to mitigate the effects of supply chain disruptions, one area easily considered is the use of inferior equipment and/or materials as well as cutting process corners to save time and expense. Ensuring your quality assurance/quality control (QA/QC) program remains a vital aspect to the construction process can help dampen the likelihood of these claims arising in the future.

When the necessity for altering equipment or material specifications arises due to supply chain problems, it is highly recommended to ensure change orders are written, approved and documented. Lockton has created a supplemental document providing additional insight into the construction industry in the COVID-19 environment:



Potential builder's risk claims

Builders risk is defined by IRMI as “a property insurance policy that is designed to cover property in the course of construction.” Settling for inferior materials, equipment and/or workmanship may potentially increase exposure to builder's risk claims, primarily surrounding water damage claims. Again, insisting upon a high level of attention to QA/QC and ensuring trades are maintaining their level of work as stipulated in the contract will help control these exposures.

Concerns across nearly all industry sectors

Most industry sectors (e.g., healthcare, food and beverage, real estate, manufacturing, etc.), and even our own residences, could be affected by this supply chain disruption. Delays in maintenance, repair or improvements to mechanical and/or structural systems is also quite real. Establishing and keeping a good relationship with your maintenance and repair vendors and following manufacturer recommended preventative maintenance protocols may very well help your organization bridge this gap. Conversely, securing those components now may ensure availability, timely installation and possibly more favorable pricing.

Severe weather events

On April 16, 2020, [The Weather Company](#) predicted the 2020 Atlantic hurricane season could be more active than usual. Should storms wreak havoc on parts the United States, sourcing repair and replacement equipment and materials could become even more hampered. Lockton's upcoming “Severe Weather Preparedness” session will help you outline the different aspects of reducing your exposure to property damage and planning for a quick response to a severe weather event.

Understanding the exposure

The supply chain is a worldwide machine, and concerns over availability are beginning to surface. It is agreed the topics outlined in this paper are heavily based upon the potential for insurance-related claims stemming from the supply chain disruptions. Organizations understandably will hunt for as many ways to reduce exposures as possible, however the “risk vs. reward” equation may have serious consequences in the future. Lockton's Risk Control Services are ready and willing to help, so please do not hesitate to contact your representatives for assistance.



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