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Market first helps pharmaceutical chiefs sleep at night

12 August 2008

Kiln and JLT have introduced a new product for the pharmaceutical and life sciences industry.

The growing intangible risks faced by the global pharmaceutical and life science industries are being addressed with a new product from Lloyd's underwriter Kiln and broker JLT.

The product is aimed at the non-physical business interruption risks faced by pharmaceutical firms. Dan Trueman, Special Risk Underwriter for Kiln's syndicate 510, says the product has been created to address the changing risks in this sector.

"In general there have been a number of changes to the business interruption risks faced by firms because of changes to the supply chain and the way most firms now structure their business," he explains. "In the past it was very much a case of damage to, or loss of, your physical assets, but many industries have now outsourced much of their processes, and the life science and pharmaceutical industries are no exception. This has resulted in a lengthening of the supply chain and the risks associated with it."

Trueman adds that there was a clear need within the life science and pharmaceutical industries for a new type of cover to protect the intangible risks, which can cause interruption to their business.

"With the increased use of technology, this can range from issues with computer aided design and production to the ability to retain confidential information within the business when dealing with third party providers," he says. "There is also the issue of protecting your intellectual property and the goodwill in the business, and for the pharmaceutical industry you have a range of particular threats that would not be covered under a physical damage product."

Such threats include the shutdown of all or part of a process by local regulators, the withdrawal of a patent, which is vital to the manufacture of the business, or the recall of a product due to errors in the advice on the packaging or the packaging itself.

Due to the huge amount of money invested in the research and the development of drugs, the threat of industrial espionage and theft is constant. An increase in cyber crime, both in terms of hackers accessing sensitive information or deliberately forcing firms to shut down their internet and e-mails systems, the loss of the intellectual property of a business can severely impact life science and pharmaceutical firms. Feedback from risk managers is that boardrooms are now increasingly aware of the value the goodwill and intellectual property a business carries.

"The idea was to create a blueprint of a product that will enable the policyholder to provide the protection for the non-physical risks of their supply chain," explains Trueman. "We undertook research with the managers of the life science and pharmaceutical firms to ask which were the risks that were keeping them up at night and aimed to create the product which would provide a solution to those products."

Kiln joined with broker JLT's life sciences department which has developed SCAIR (supply chain analysis of insurance risk), a system that enables firms to quantify in value the potential costs of risks to their business.

"It has enabled us to accurately build the product for the company and gives them the level of cover they require," adds Trueman. "This is a market leading product and one which was first into the sector and the response has been such that we believe it is an area that other underwriters are now looking at."

Trueman said that already the interest has been such that Kiln is also looking at a similar scheme for the food and beverage industry.

"They have similar risks in terms of supply chain and the threat of product recall, and we are looking at how we can provide the same peace of mind in that industry," he says.

Last updated on 12 Aug 2008