



Expert Comment:

Business and Insurance Implications of Ash Cloud Disruption

22 April 2010:

Stephen Cross, CEO of Aon Global Risk Consulting, comments on the business and insurance implications of the ash cloud that has been causing difficulties across much of Europe:

Does Business Interruption Insurance cover it?

“Typically, Business Interruption (BI) policies will most likely not be responding to the disruption to airspace caused by the volcanic ash. BI policies usually only kick in when there is physical damage. If ash falls to Earth and lands on a business’ premises and causes damage - for example blocked-up air pipes could lead to an explosion - then that could trigger a resulting business interruption policy.

“It is important to note, however, that insurance policies vary and a firm should always ensure they study their own policy language in determining whether they are able to claim on their insurance cover.

“Aon has been working for some time now with insurers and industry bodies in the London insurance market on bringing Business Interruption cover into the 21st century, developing this product to make it more relevant to today’s world and today’s risks. The ash cloud crisis underlines the importance of this ongoing work.”

Supply Chain Management

“Supply chain management becomes a critical area of business in situations such as Europe is experiencing at present. Whilst you can’t plan for every eventuality, especially such rare occurrences as a volcanic eruption, the fundamental principles of sound supply chain management still apply: you should always be aware of what business continuity measures your suppliers of critical inputs have in place and you should have contingency plans around alternative suppliers.

“Unfortunately, as economies contract or competition increases, lean manufacturing becomes the name of the game, either through Just-in-Time inventory management or through moving to single suppliers in order to generate economies of scale. Such an approach might be highly efficient when things are running smoothly, but in the event of a major disruption event such as this, it can lead to significant delays in key materials and inputs being delivered, or in a worst case scenario to a systemic failure in your supply chain.”

The silver lining

“As is often the case in such events as this, there is a silver lining for some firms or sectors. There is an upside for those firms that have invested in rigorous business continuity planning. They will have examined alternative ways of providing their product or service and will come out the other side of a lengthy disruption in a better position than those who haven't.

“Similarly, companies in competition to those most adversely affected that have planned for ways to cope with significant and sudden increases in demand will tend to flourish. We are seeing that in the present situation with the sea, rail and vehicle hire firms benefitting from the inability of airlines and air freight companies to operate normally.”

Ends

For further information, contact:

Sally Barwell or Catherine Woods
evolution media for Aon Australia
Phone: +61 2 8969 6077
Mobile: +61 431 932 198; +61 420 966 588
Email: aonnews@evolutionmedia.com.au

About Aon

Aon Corporation (NYSE: AON) is the leading global provider of risk management services, insurance and reinsurance brokerage, and human capital consulting. Through its more than 36,000 colleagues worldwide, Aon delivers distinctive client value via innovative and effective risk management and workforce productivity solutions. Aon's industry-leading global resources and technical expertise are delivered locally through more than 500 offices in more than 120 countries. Named the world's best broker by Euromoney magazine's 2008 and 2009 Insurance Survey, Aon also ranked highest on Business Insurance's listing of the world's largest insurance brokers based on commercial retail, wholesale, reinsurance and personal lines brokerage revenues in 2008 and 2009. A.M. Best deemed Aon the number one insurance broker based on brokerage revenues in 2007, 2008, and 2009, and Aon was voted best insurance intermediary, best reinsurance intermediary and best employee benefits consulting firm in 2007, 2008 and 2009 by the readers of Business Insurance. For more information on Aon, log onto <http://www.aon.com.au>.

Sign up to receive Aon news alerts by email or RSS feed at:
<http://aon.mediaroom.com/index.php?s=58>.

Safe Harbour Statement: <http://aon.mediaroom.com/index.php?s=67>

Aon Limited is authorised and regulated by the Financial Services Authority in respect of insurance mediation activities only.