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Article

D&O Insight: New risks facing America's manufacturing economic backbone

Karina Windel • March 19, 2024

The manufacturing sector encompasses many of the United States' most diverse and successful businesses. From industrials to consumer electronics, chemicals to food and beverages, pharmaceuticals to autos, it comprises some of the country's most dynamic firms. They range from the largest conglomerates to the smallest, family-run businesses.

The sector has been the backbone of the US economy for so long that many CEOs or board members might believe they understand all the issues and crises they might have to overcome. They may also feel they know all the risks they face and have taken them into account when planning their risk mitigation strategies. However, there have been significant developments in the past few years that mean the risk landscape is far more complex than many may believe.

A new world of risk

Since the start of the COVID-19 pandemic, one of the major challenges has been supply chain constraints. The global chip shortage, for example, impacted the auto industry, LED manufacturing, consumer electronics and others. Four years later, while there has been some improvement, many continue to face the same challenges. Meanwhile, accelerating technological change, driven by advancements such as the growing use of the Cloud and generative artificial intelligence (AI), is continuing to transform manufacturing. Labor shortages and increased costs also continue to be problematic, and retaining talent remains a priority for many.

The focus on businesses' Environmental, Social and Governance (ESG) policies is increasing on many fronts. Growing attention from regulators, on ESG and other areas, is forcing companies to make even higher levels of disclosure than previously required. Indeed, in our Risk

& Resilience survey undertaken with 3000 global business leaders in January this year, looking at business risk and resilience, ESG regulatory risk was named the number one concern for businesses in the manufacturing sector.

New environment, new risks

These trends are adding to the types of risk manufacturers face, and which insurers will want to understand. Thanks to a tighter job market, for example, there has been an increase in the number of labor issues and pressures on collective bargaining agreements. These can cause operational problems that can lead to a drop in a company's share price, in turn potentially resulting in a securities class action. A share price fall can also be caused by geopolitical issues affecting supply chains, once again potentially prompting litigation. Indeed, insurers are starting to see an increasingly active plaintiffs' bar and class action environment, with the number of cases increasing year-on-year.

Navigating the new risk landscape

The current risk landscape puts a premium on businesses being more aware of where risk lies in their business.

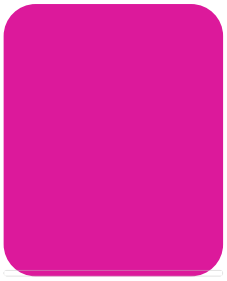
This can mean, first, taking a deep dive into their supply chains. Have any of their suppliers faced issues that may impact the relationship? Does the company rely too heavily on one supplier, and hence face material disruption if a problem occurs? Our Risk & Resilience survey found that nearly 20% of manufacturing businesses named supply chain instability as their top-ranked risk: 24% said they planned to increase their supply chain agility as a result.

Second, in the current economic environment, they should be assessing the strength of their customer relationships. They will need to interrogate their order books to see how robust they are, and how predictable revenues are for the next 12 months and beyond.

ESG policies should be assessed from top to bottom – as should those of their suppliers – to ensure they stand up to scrutiny. And governance and regulation will need to become more central to strategy: the Foreign Corrupt Practices Act (FCPA), for example, becomes an exposure when a company has major operations overseas.

Planning for the future

Taken together, these factors suggest businesses face increasing D&O risk-related threats. In a more complex world, assessing business risk across a wider front will be critical in ensuring manufacturing companies can navigate the years ahead. Manufacturers will need to work with an insurer with a long track record in – and a deep understanding of – this sector if they are to achieve their goals. Working with an insurance partner who is nimble and can offer bespoke products will help them to navigate the choppy waters of today's risk landscape.



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