



Marsh Specialty

State of play — digital cargo insurance

Driving digital cargo insurance
connectivity and analytics

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Executive summary

The logistics industry is evolving rapidly due to a combination of changes in customer expectations and buying habits, along with aggressive competition in a de-regulated transportation environment driven by technology, acquisitions, e-commerce, industry disruptors, nuclear verdicts and new approaches to providing logistics services.

This document is designed to highlight how the accelerated digital transformation that is currently underway enables the logistics and insurance industries to work together to implement new technologies such as Smart Contracts, Blockchain, Artificial Intelligence, Internet-of-Things and Big Data to deliver innovative digital cargo and logistics insurance products and solutions.

Decreasing cost of technology, subscription models for cloud based software, elevated consumer expectations, and increased competition drives much needed change. Enhanced connectivity and data exchange solutions drive efficiency, allowing for all stakeholders to connect seamlessly, providing integrated digital solutions directly to consumers through cloud-based systems, applications and marketplaces.

In the logistics industry, the Freightos Group, which emerged in 2012, has become an influential and informative source on the topic of digital freight. Their annual report *The State of Online Freight Sales*, which is released each year, provides readers with a detailed overview of how online freight sales and logistics ecosystems have evolved compared to previous years. There are now dozens of digital logistics and supply chain platforms in existence; from freight forwarders to ocean carriers, air freight carriers, 3PLs, to online marketplaces. All proof that the trend of establishing digital ecosystems in logistics and supply chain is rapidly accelerating. (Freightos Group Research)



Source: Freightos Group Research, "The State of Digital Freight Sales", 2021.

The good news

Investments in new insurance technology that exploits advances such as analytics, artificial intelligence and big data to create new business models and products, to maximize efficiency, to mitigate risk and to improve customer service has increased steadily in recent years.

In addition, the digitization of cargo and logistics insurance solutions meets the expectations of a different kind of consumer, one who expects immediate access to information, products, and real-time customer service. Delivering an efficient and cost effective digital cargo and logistics insurance experience to consumers requires innovation, collaboration and partnerships between all stakeholders in the value chain.

New technologies, innovative concepts and capital investments in combination with specialized knowledge from logistics, supply chain and insurance stakeholders are required to support the development and implementation of innovative and profitable Next-Gen digital products and services.

Dynamic pricing has been used for years in the transportation industry as a means to optimize capacity, and freight pricing models actively leverage opportunities to increase margins by taking advantage of alternative routing and timing. As the supply chain standardizes shipment data, implements blockchain and assimilates smart contracts, the same technology can be applied to modernize how cargo insurance is priced. A dynamic cargo insurance pricing model can optimize pricing based on a variety of factors that can be used to both lower cost of risk as well as to promote industry wide performance improvements.

Of course, responding to evolving technological trends and emerging risks needs to be weighed against the revenue potential and the options available to both absorb and transfer risk. Pivoting from traditional business-to-business towards the business-to-consumer delivery framework is creating unique liability concerns, and at the same time the expectations of business-to-business is changing, with greater expectations being placed on the logistics provider for the successful management of the goods.



Managing risk with technology and resiliency

De-risking and empowering the supply chain and logistics industry

The long-distance supply chains that have defined global trade since the 1980s hide risks, of which the transport delays caused by the blockage of the Suez Canal are just the latest example. Many companies have been taking their supply chain for granted. Minor delays may raise concerns, but for the most part, there have been relatively few catastrophic incidents, and this has led to a reactive process. As a result, many companies assemble a temporary taskforce to manage disruptions and risk issues on an ad hoc basis. That strategy may work, but it can mean precious time is lost as organizations pull together the people, resources, and information required to mount an effective response. The frequency and severity of recent supply chain disruptions encourage many companies to rethink their approach to logistics and supply chain risk.

Speed, transparency, predictability, and resiliency in supply chains are critical to create a seamless experience and increased certainty for all stakeholders in the value chain. The recent supply chain disruptions have increased the severity of delays, and even a few weeks delay in supply can have an adverse effect on the manufacturing and retail industries as buyers are not prepared to wait. Especially if another supplier can deliver the components, goods or products faster.

The COVID-19 pandemic and advancements in technology have radically changed companies' and consumers' expectations, accelerated by eCommerce trends and the growth in B2B and B2C commerce. New digital providers, increasingly from the B2C space, are entering the logistics and supply chain industry at high speed, with new technologies and enormous resources, and are defining entire branches of the industry at a rapid pace. This puts traditional providers under increasing pressure with new offers and unconventional business models.

Visibility and predictability

Global supply chains have been impacted by the pandemic over the short term, while natural disasters have increased focus on resiliency over the long term, and both highlight the importance of visibility and predictability when it comes to transporting and storing goods.

The lack of visibility impacts all aspects of the supply chain, and logistics and transportation companies are focusing on providing customers with improved visibility, however tracking vessels alone is not sufficient. Losses such as ONE Apus and Maersk Essen create uncertainty in the supply chain. Cargo owners know the voyage has been delayed, but do not know if cargo is lost, damaged or just delayed, so cannot make effective risk management decisions, and the assessment process is going to take months, while claim settlement may take years.

While the insurance industry has made significant improvements in how cargo shipment data is captured and documented for insurance purposes, real-time visibility to cargo risk remains limited, and the claims data that the industry needs to better understand loss trends often lags months behind.

The insurance industry responds inefficiently to this situation, both from the vessel's perspective and from the cargo owner's perspective. Improvements in shipment visibility and predictability will fundamentally change the relationship between carrier and cargo owner, improving the cargo owner's ability to make operational decisions around fundamentals such as manufacturing and sales, but also addressing immediate decisions around loss prevention and claims management.

Big data and analytics

Data claims to have taken the place of oil as the world's most valuable commodity, and insurance and logistics providers operate in a particularly data-rich environment, handling millions of pieces of information about customers, shipments, and the location and condition of cargo.

Immediate access to detailed shipment data and analytics will allow the insurance and logistics industry to streamline the claim settlement process and clarify the responsibility for loss. Longer-term access to detailed shipment data and analytics will create greater resiliency, allowing cargo owners to make better supply chain decisions, changing how risk is evaluated and shifting reliance away from traditional limitations of liability and carrier contracting structures, including how risk is assessed, priced, managed and insured.

Summary

A well-designed risk management strategy, that includes increased shipment visibility and predictability supported by the aggregation of data and analytics, will allow logistics and supply chain providers to avoid and respond to disruptions and manage risk efficiently and effectively. Technology and resiliency have become key dimensions of the risk management process.

An aerial photograph of a city at sunset, with a large industrial ship in the foreground. The ship is illuminated with bright yellow lights, and a large crane is visible on its deck. The city skyline is visible in the background, with buildings lit up against the twilight sky. The water in the foreground is dark, reflecting the lights from the ship and the city.

“ With better visibility to how cargo is moving through the supply chain, we can help shippers make better risk management decisions, and ultimately reduce cargo insurance costs.

MATTHEW YESHIN, MARSH SPECIALTY

Digital cargo insurance

Digital cargo insurance sales

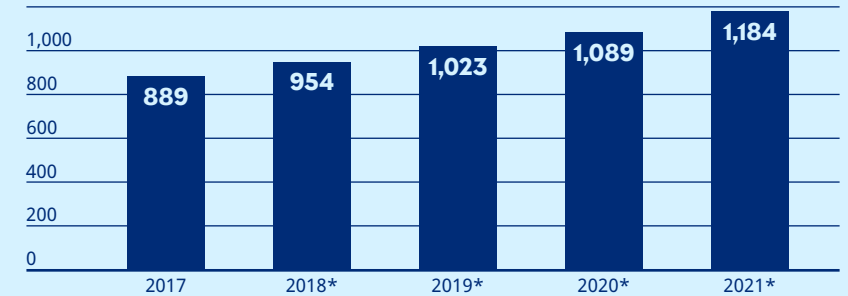
In 2021, digital insurance is not a vision – it is a reality. The rise of e-commerce is breaking down the traditional barriers of global trade. Increasingly integrated supply chains, coupled with the rise of e-commerce giants and the increasing need for humans to work remotely have served to meet soaring demand.

In 2021, B2B e-commerce sales in the United States are projected to generate \$1,184 billion in revenue, compared to \$889 billion in 2017. Business-to-business, the traditional cornerstone of logistics and supply chain revenue growth, is shifting towards business-to-consumer and the distribution model for many industries is rapidly changing, necessitating new strategies to meet customer demand. E-commerce channels have grown so rapidly over the past decade because businesses are now capable of providing a truly digital experience that is more convenient, efficient and timely.

A byproduct of digital sales is an increase of goods being shipped globally on an “on-demand” basis, with increased handling requirements as individual items need to move from manufacturer to door more efficiently with greater transparency. Not only do the goods need to be shipped more rapidly than in the past, since the buyers may not be traditional importers, there needs to be greater clarity as to how damage in transit will be addressed. Following advances in technology and consumer trends, because digital cargo insurance can be tied into an individual transaction, the use of shipment specific cargo insurance has gone from being administratively challenging just a few years ago to representing a meaningful proportion of how cargo insurance is arranged.

The launch of digital freight platforms by forwarders, ocean carriers, air freight carriers and online marketplaces present an exciting new distribution channel for the cargo insurance product. Integrating cargo and logistics insurance products and solutions into the ecosystems of digital freight will greatly enhance the customer service and purchasing experience. Allowing clients to conveniently purchase these insurance products and services online as value-added offerings will grow the revenue stream and increase client retention.

01| B2B e-commerce sales in the US from 2017 to 2021 (in billion US dollars)



Source: Forrester Research: Digital Commerce 360. Additional Information: United States; Forrester Research; 2017.

COVID-19 — A driver for Insurance & Risk Management Innovation: Supply chains and logistics operations have been on the frontline of the pandemic, trying to keep essential supplies moving in the face of significant transport disruptions, movement restrictions, and dramatic volatility in supply and demand. COVID-19 has also been an opportunity for technology to prove its worth.

02| Digital cargo insurance

CUSTOMER/SHIPPER

Input shipment data capture/reporting

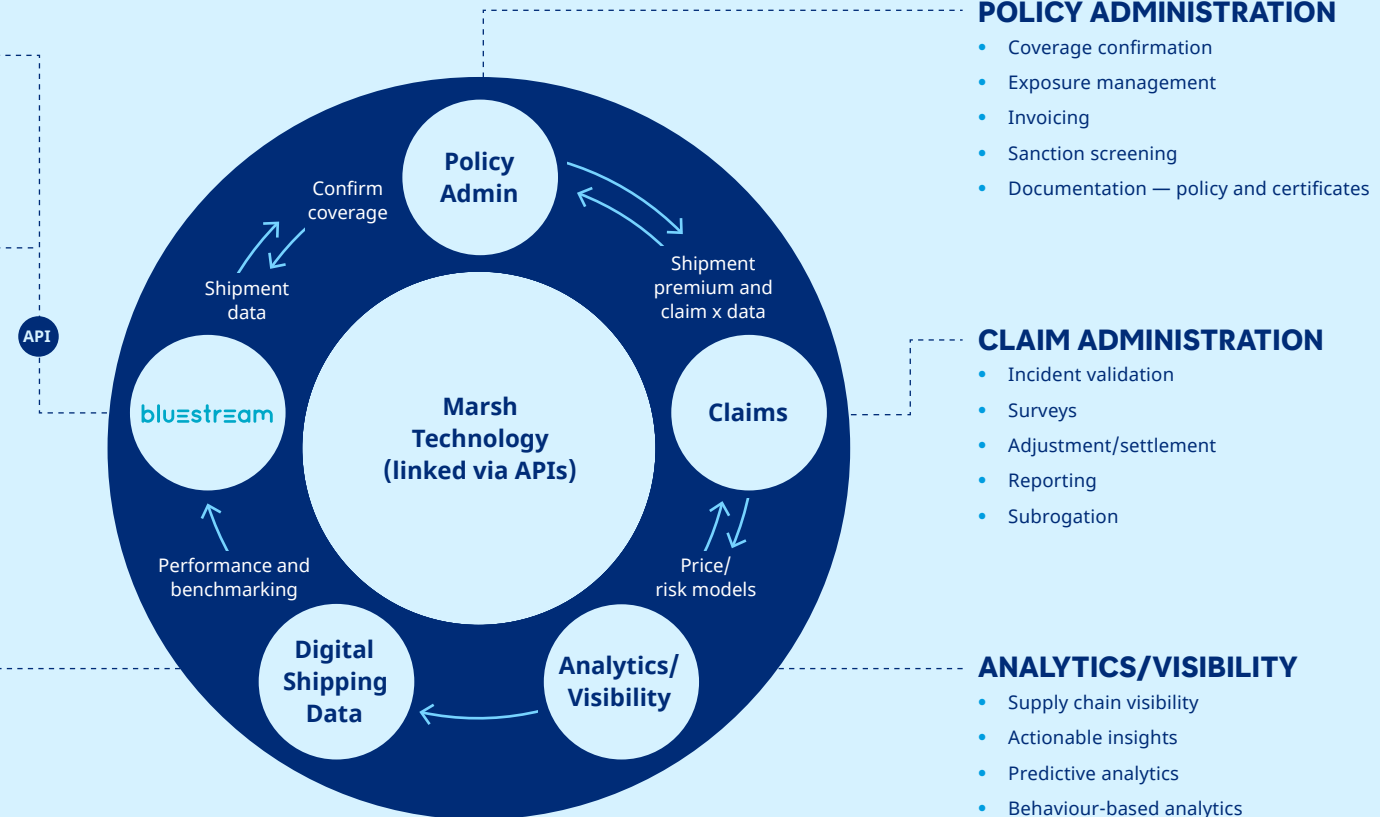
- Bills of lading
- Warehousing/storage
- Insured value/limit

Output reporting tools

- Coverage confirmation
- Integration with Smart Contracts/Blockchain/ Letter of Credit
- Premium spend overview
- Claims performance overview
- Program benchmarking
- Risk control opportunities

DIGITAL SHIPPING DATA

- Shipping data standardization
- eBOL (AWB) receipt
- Multi-party communication



Bluestream: Marsh's innovative digital platform

Bluestream™ is a cloud-based digital broker platform that provides Marsh clients a new, streamlined way to offer insurance products and services to their customers, contractors, and employees.

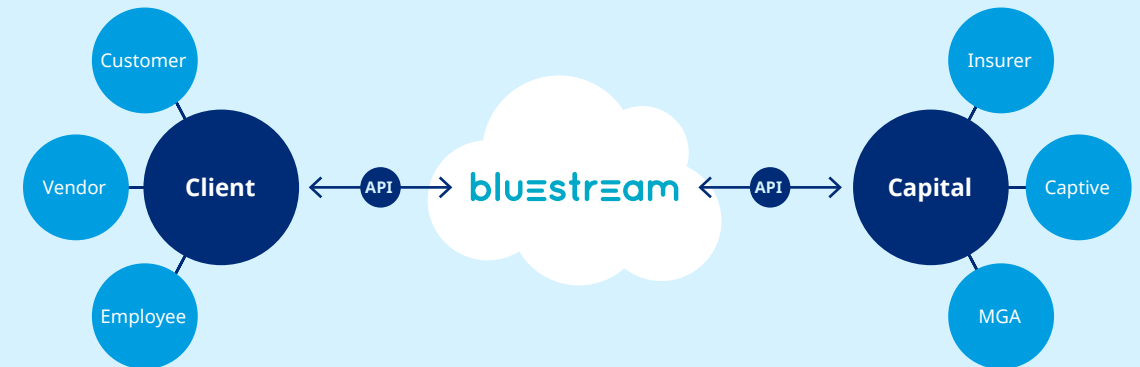
Bluestream seamlessly integrates with clients' existing digital channels and user experience, and it is open to and connect with the global insurance marketplace through application program interfaces (APIs).

This platform will enable clients to easily choose and scale the insurance program that best meets the needs of their customers, contractors, or employees in each geography, while maintaining a consistent global experience. Bluestream will also provide clients with advanced reporting and analytics on their insurance programs, and access to emerging technology services such as big data analytics, smart contracts, blockchain and machine learning.

03| Shippers interest program enabled by Bluestream digital distribution platform

Bluestream™ seamlessly integrates with clients' existing digital channels and user experience, which then connects with the global insurance marketplace through application program interfaces (APIs).

Digital rate, quote, bind	First notice of loss/claims
Insurance verification	Digital policy management
On demand certificates of insurance	Omni-channel customer service



The opportunity

The way forward

In 2020, we saw a lot of freight and insurance digitization. This trend will accelerate in 2021 and beyond. Strategic partnerships and alliances between logistics and insurance providers are gaining momentum, bringing with them quantum leaps in freight and insurance digitization.

As the number of logistics and supply chain organizations digitally grows, it is imperative that organizations offer innovative digital products and services to keep pace with their competitors. These enhancements are necessary to make the purchasing experience more attractive and easy to use for the consumer.

Working with the right partners to deploy new technologies to access valuable data to obtain even more insights to fuel growth and profitability is necessary to develop, incorporate and profit from new digital insurance solutions. In addition, as analytics, big data, artificial intelligence, blockchain and smart contracts evolve; risk pricing, product distribution, policy administration and claims administration will become more efficient, accurate, and dynamic.

The ability to select and manage risk created by these new opportunities, along with changes to customer and community expectations will be critical to the success of your business.

04| New expectations shift the digital transformation playbook

There is a common thread across the factors redefining customer engagement and driving innovation: technology. As a result, digital transformation initiatives — which have historically entailed digitizing or modernizing back-end systems at a company — are now much more customer-facing. Acutely aware of what's possible, customers are pressuring companies to use technology to deliver better experiences.

67% of customers say the way a company uses technology indicates how it operates in general.

New use cases for existing technologies — like more engaging mobile apps or more tailored emails — go a long way. But a crop of newer technologies enabled by data proliferation are upping the ante even more. **Fifty-eight percent of customers say emerging technologies are changing their expectations of companies.**

CUSTOMER EXPECTATIONS ARE DRIVING DIGITAL TRANSFORMATION

● Consumers ● Business buyers



Success involves partnering with an innovative insurance broker who can effectively deploy new technology and combine talent from a wide variety of disciplines to creatively integrate different exposures into a single framework while creating capacity for new risks as they arise.



Summary — digital cargo insurance sales



Keeping up with change

Logistics and supply chain has gone digital. Forwarders, Ocean Carriers and 3PL's are increasingly promoting and selling their services online.



Implementing new tools

Digitizing cargo insurance distribution, policy administration and claims handling is vital to meet the expectations of a different kind of consumer, one who expects immediate access to products and demands real-time customer service.



Painting the full picture

Effortless and reliable supply chain visibility on all shipments allows for the development and implementation of efficient and cost effective cargo insurance solutions for clients.



Risk underwriting and pricing

High quality data insights combined with predictive analytics will enhance risk underwriting and claims mitigation enabling insurance providers to offer real-time pricing.

Sources:

"The State of Online Freight Sales", 2021; The Freightos Group
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<https://www.salesforce.com/form/conf/state-of-the-connected-customer-3rd-edition/>

"What Is the Future of Ecommerce? 10 Insights on the Evolution of an Industry", 2019; Shopify
<https://www.shopify.com/enterprise/the-future-of-ecommerce>



Getting started with Marsh

Learn more about Marsh's innovative digital logistics solutions. Simply visit [marsh.com](https://www.marsh.com) or speak directly with a Marsh Specialty broker: +1 877 755 4934 or email us at shippersinterest@marsh.com.

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