

ALERT:
Increased Supply Chain Risk Threatening Christmas, Wide Spread Captive Insurance Claims, and Financial Market Disruption



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We believe the risks for a widespread business disruption or supply chain interruption has risen high enough to warrant assessing the impact on your company, your captive's liquidity to cover potential claims, and on your investment portfolio's exposure.

June 30, 2014 marked the end of the employment contract between the International Longshore Workers and Warehouse Union (ILWU) and the Pacific Maritime Association (PMA). The ports continued normal operation until a few short weeks ago. Beginning in late October dock workers in Seattle and Tacoma began moving goods from ships to trucks or trains at about half the normal rate. This slowdown has since spread to the ports of Los Angeles and Long Beach. This has resulted in the ports on the west coast of the U.S. being significantly overcrowded.

As a result of the slowdown retailers from Ann Taylor to Game Stop are reporting shortages of products for the holiday season. Not immune from this labor dispute, exporters are now experiencing trouble similar to that of their importing brothers. From apples and potatoes to Christmas trees and lumber, exporters are watching their products sit on the docks or in warehouses awaiting shipping. For many of the agricultural or seasonal companies these port delays are not simply inopportune timing but represent the potential for total losses. Negotiations between the ILWU and the PMA are not expected to resume until December 5.

Retailers, manufacturers, and economists alike fear this labor dispute could escalate into a strike or lockout. In 2002, a similar labor dispute caused an 11 day lockout that ended only with the intervention from then President Bush. Last week, President Obama indicated that he was not inclined to intervene in the current dispute. According to the PMA, west coast ports contribute \$2.1 Trillion annually (\$5.7 billion per day) to the U.S. economy. We believe the economic and business risk from an extended port slowdown and/or a port shutdown resulting from an escalated labor dispute is material for many of our clients.

Understanding the risk to your company will likely involve assessing your direct risk as well as indirect exposures related to your customers as well as vendors. If you have transferred your business interruption risk to a captive insurance company then we recommend assessing your risk to verify that your reserves are adequate and liquidity is ample to cover potential losses. Additionally, the timing and duration of these could represent a significant enough risk to the U.S. economy to cause disruption in the financial markets.

If this labor dispute ends quickly and amiably then few of these risks will materialize; however, it is too early to make that call. To that end, we are building a stress test to estimate the impact of a continued slowdown and an escalated shutdown. We are open to discussing our findings. Please feel free to call, email, or follow through social media or on our website www.wellspringfinancialsolutions.com

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