XL Group
Insurance

Going global

At XL Group, we cover risk. From the everyday, to the most complex. Across more than 100 countries. Discover how we can help you to keep your business moving forward.

Going Global

Introduction

The higher cost of living, lower real wages and reduced access to credit has had a direct impact on the profitability of UK companies. This combined with the Euro Zone crisis has taken its toll on UK export growth and investment.

Some companies have responded by diversifying their products and services, some have sought efficiencies by outsourcing parts of their operations overseas. Others have looked beyond UK borders to expand into new markets.

The importance of these new markets has been highlighted in PwC's November Economic Outlook 2012. It says the UK needs to reorientate its exports to growth markets in Brazil, Russia, India, China and elsewhere if it is to maintain reasonable growth in the long run.

The report also suggests that the share of total UK exports going to these countries has the potential to double to around 16% by 2030. Key industries identified include: aerospace, design services, pharmaceuticals, tourism and branded consumer goods.

But moving into new markets and territories can be risky business. Specialist insurances covering environmental liabilities, cyber crime, cargo shipments, product recall, professional liabilities, physical assets, business interruption and political risk are all available and may need to be purchased.

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Some key questions:

- **Legal: take advice on the legal climate to avoid disputes. Will any contracts or certain terms of any such contracts you are asking suppliers or customers to sign be enforceable in the relevant country?**
- **Regulatory: what are the local regulations that could impact your premises, working practices and staff?**
- **Licensing: does the market that you are looking to do business with require your insurer or broker to hold particular licenses in order for the policy to be valid in that country?**

Property Cover – protecting your assets abroad

In the event that your property is damaged or destroyed at home or overseas, it is critical that the claim is managed quickly and the property reinstated to allow your business to recommence trading as quickly as possible.

In addition to understanding your risks it is of upmost importance to understand your supply chain and the impact that loses to third parties might cause to your own production. Strong business continuity planning is key.

When seeking expansion abroad it is important to be aware that while labour markets in emerging economies may prove attractive, many of these regions are vulnerable to earthquakes, floods and typhoons. The Thai flooding of 2011 proved the most expensive flood loss ever for insurers at a cost of $12bn. The event produced economic losses of close to $30bn in part due to the scale of the area affected and high concentration of property values, often built on flood plains.

A country's catastrophe exposures are not always obvious. Researching and understanding the risks is essential before pursuing growth in any new market. It is therefore important to partner with an insurer who is able to provide risk surveying and engineering advice in all countries in which you intend to operate.

Having local engineers on the ground is not just useful following a claim, through the insurer these professionals can also provide surveys and assessments; advising on local legal requirements and practical ways to minimize the likelihood of a claim arising in the first instance.

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Principal Catastrophe Exposure

Region	Country	Earth-quake	Floods	Storm	Tsunami
Africa	Algeria	✓			
	Morocco	✓	✓		
	South Africa	✓	✓	✓	
Asia	China	✓	✓	✓	✓
	Hong Kong	✓	✓	✓	
	India	✓	✓	✓	✓
	Indonesia	✓	✓	✓	✓
	Japan	✓	✓	✓	✓
	Philippines	✓	✓	✓	✓
	Singapore	✓	✓		✓
	South Korea	✓	✓	✓	
	Taiwan	✓	✓	✓	✓
	Thailand		✓		
	Vietnam		✓	✓	
Caribbean	All Countries	✓	✓	✓	✓
Central America	Mexico	✓	✓	✓	✓
	Nicaragua	✓	✓	✓	✓
	Panama	✓	✓	✓	✓
Europe - East	Estonia		✓	✓	
	Latvia		✓	✓	
	Russia	✓	✓	✓	
	Ukraine		✓	✓	
Europe - South	Greece	✓	✓	✓	✓
	Italy	✓	✓	✓	✓
	Portugal	✓	✓	✓	✓
	Spain	✓	✓	✓	✓
Europe - West	Benelux	✓	✓	✓	✓
	France	✓	✓	✓	
	Germany	✓	✓	✓	
	Switzerland	✓	✓	✓	
	United Kingdom	✓	✓	✓	✓
Middle East	Israel	✓	✓		
	Lebanon	✓	✓		
	Saudi Arabia	✓	✓		
North America	Canada	✓	✓	✓	✓
	USA	✓	✓	✓	✓
Pacific	Australia	✓	✓	✓	✓
	New Zealand	✓	✓	✓	✓
South America	Argentina	✓	✓	✓	
	Brazil		✓	✓	
	Chile	✓	✓		
	Colombia	✓	✓		

Employers and Public Liability Cover – protecting people

Employers' carrying out business in the UK are required by law to purchase Employer's Liability insurance from an authorised insurer which covers them for liability for injury or disease to their employees arising out of their employment (see the Employers' Liability, Compulsory Insurance, Act 1969)

Employers Liability insurance covers claims by employees for sick pay, compensation and litigation costs. A company is also vicariously liable for the negligent actions of its employees during the course of employment.

Public/products liability insurance, which is not compulsory, provides cover for claims made against companies by members of the public or other businesses for bodily injury or property damage.

Moreover, if a company sells or manufactures products, it is responsible for the quality of those items and any problems that occur once they are sold. The manufacturer may be legally liable for any product where their business name is shown. If the product has been imported and the company repairs or makes changes to that product, then liability may lie with the company if that product is defective.

If manufacturers cannot be traced, or have gone out of business then a company who have a product they are say modifying, could be liable for the injury or damage it causes.

Both Employers' Liability and Public/Products Liability can be bought separately or as part of a combined policy. Certain costs incurred by the policy holder associated with a claim, e.g. staff absence, re-training, or loss of productivity due to equipment damage are not covered by either policy and these costs can spiral quickly. It is important therefore that a business understands what such an incident would cost them when operating in the UK and abroad because a loss can severely threaten its continued existence.

If staff are seconded to work overseas on a temporary basis then the EL policy for your UK operations will respond giving cover provided the member of staff is a UK national. If the employee is transferred overseas permanently then local insurance cover will have to be purchased. Where a company is operating overseas and employs national of that country then they will not be covered by a UK policy, and local cover will have to be bought in the country of residency.

To ensure that multinational companies and exposures are written in a tax and licensing compliant manner local Public/Products coverage can be arranged from the UK in most territories where cover is required.

In addition to buying the right insurance, it is important to focus on risk management. Strong health and safety procedures; occupational health to get injured employees back to work quickly and good record keeping to help defend unmerited claims, all have an important part to play.

Political risk insurance is not the same as political unrest insurance.

It is often said that people are a business' most important asset. It's vital to purchase the right insurances in all the countries you are operating in to protect them, the public and ultimately your business.

Political risk – how to protect your operations against political violence and war

The Arab Spring and continued unrest in the Middle East highlighted how quickly political and civil unrest can take hold and turn a region that is considered stable, albeit difficult, into a no-go area. Evacuating staff, closing facilities and reorganising supply chains all pose challenges for companies operating in such regions. Political risk insurance responds to these risks and having it in place can persuade financial institutions, providing lending, to back companies looking to expand abroad.

Political risk events typically include expropriation – for example, confiscation of your plant and equipment by the government of the host country; damage as a result of political violence; war damage; deprivation, such as the host government refusing to issue a licence to export your plant and equipment from the host country; and ultimately abandonment of plant and equipment.

Insurance buyers do need to take care, however. Political risk insurance is not the same as political unrest insurance, which is all about physical threat to staff and assets. There are three types of that cover available: strikes, riots and civil commotions insurance; terrorism cover; and full political violence cover.

Too often firms will buy terrorism cover, believing that this will cover political violence too and that they are saving money on premiums. There is a difference and it is important to ensure there are no gaps in cover.

Cargo cover – how to protect your business for loss of goods and parts

When shipping goods overseas cargo insurance should be purchased in order to protect a company from financial harm should the shipment be lost, stolen or damaged. Additionally, if a company chooses to set up physical operations outside of the UK, say a manufacturing facility, then they must consider the insurance coverage for shipping any specialist parts to that location. Insurance can be purchased for goods in transit either via sea, road, rail or air covering all risks of physical loss or damage. A company may also want to think about the knock on effects to their business should these parts be held up or lost entirely. If it is a specialist part, can manufacturing commence without it? What is the lead in time for obtaining a replacement? Insurance is available for the loss of profits due to such a situation arising.

It is also worth considering if products or parts are travelling through any conflict zones. Cargo war and land cover should be purchased if this is the case.

Below is export data for the UK 2011

(source EIU)

Exports are shown below, with leading commodities reported as percentages of total exports and in US dollars (USD).

Commodity	2011	
	Percentage	USD bn
Machinery and transport equipment	33.50	160.53
Chemicals and related products	17.32	83.01
Mineral fuels, lubricants and related materials	13.55	64.94
Food drinks and tobacco	5.95	28.50
Other	29.68	142.22
Total	100.00	479.20

Note: Due to rounding some totals may not equal the breakdown above.
Source: EIU

The most important export destinations are shown below.

Destination	2011	
	Percentage	USD bn
Germany	10.56	50.60
US	9.57	45.86
Netherlands	7.60	36.42
France	7.11	34.07
Other	65.16	312.25

Cyber risk cover – how to protect against hacking and data breaches

Today we are more connected than ever before. Technology has advanced at such a fast pace bringing great opportunity but also new threats and risks. Cyber crime is a prime example.

Consultancy 24 Lockdown says the worldwide cost of cyber crime totaled £150bn in 2011.

Modern-day hackers, spies, terrorists, corporate raiders, professional criminals, vandals and voyeurs conduct "cyber warfare" exploiting vulnerabilities across networks, intelligent communication devices, and systems used for healthcare monitoring and manufacturing.

Businesses need to protect themselves by constantly assessing their exposure to cyber risks and their own security measures. There are various potential areas that a company can be exposed such as data loss (both personally identifiable information and corporate), network security breach, digital copyright or trademark breach and loss of business income arising from network failure (hacking/virus).

If a company is operating overseas then they must ensure that they are operating not only in conjunction with the privacy laws of their own country of domicile but also within the privacy laws/regulations of the country in which they are operating. A company needs to also be aware of regulations around data breach notifications.

While cyber liability insurance has been around in some form or another for the last decade, the never-ending advances in technology and resulting regulation to try and control it means that organisations will have to put cyber protection measures in place. Consequently, insurers have expanded the insurance protection and capacity available to offer not only coverage for the ensuing liability, but also for costs related to reputational management, business interruption, data breach notification and/or credit monitoring, as well as for regulatory fines.

Products liability and recall cover – how to protect your profitability and reputation

Whether outsourcing production overseas or exporting UK domestic product, a company which moves into new areas also faces new risks.

Regulatory standards and product safety requirements can vary across territories. Authorities such as The European Commission and other agencies around the world take consumer safety extremely seriously. For the past eight years, The Commission has operated the Rapex system of notifications of recalls, monitoring types of recall and working with safety authorities on areas of concern.

...the worldwide cost of cyber crime totaled £150bn in 2011.

Many complaints of faulty goods have involved products sourced from China – 54% of total notifications in 2011. Although the latest Rapex report says that safety is improving, UK companies looking to outsource manufacturing to China need to be sure that product quality is maintained.

When outsourcing parts of their operations manufacturers are increasing their exposure to supply chain risks. Every time a new interface is added, the risk to the business can rise and, if not properly managed, the supply chain can increase the company's exposure to costly recalls, warranty issues or products liability claims.

Outsourcing is common practice for many businesses, but asking someone else to make products or sub-systems on your behalf does not absolve you of responsibility; product liability claims can be directed at any party in the product supply chain.

UK companies can also run into trouble when expanding into the US market place. The accuracy of the wording of safety warnings and instructions for use is especially important in the USA, as 'failure to warn' related claims may well succeed even if the product itself is not defective. So getting the small print right is a big deal.

Having the right products liability and recall insurances in place is critical, especially for manufacturing companies. Exposures are enhanced for companies increasing outsourcing or looking to move into overseas territories. Importantly, in addition to insurance coverage, it is worth establishing if your insurer provides risk engineering or crisis management support – having appropriate communications, traceability and crisis management procedures in place is vital to mitigate the impact of major defective product issues and protect the company's hard earned reputation.

Professional cover – avoiding claims for negligence

The UK's expertise in the built environment, combined with a depressed domestic construction market, has led to many architects, surveyors and project managers delivering projects abroad.

Companies looking to provide such professional services outside the UK need to understand the regulatory environment of the country they are operating in.

The Royal Institute for British Architects advises its members: "Before attempting to work in a foreign country, it is essential to have a good understanding of the people for whom you will be working, their culture, their political, economic and national objectives, the physical climate and state of development of their construction industry and building technology.

"In addition, local codes and standards need to be thoroughly researched, paying particular attention to rules relating to professional registration, which can sometimes be time consuming.

Professional staff sent abroad to represent a firm need to be carefully selected."

Such knowledge is required in order to avoid claims arising from professional negligence. In addition, many architectural companies choose to partner or acquire a local company so they can tap local knowledge, expertise and relationships. Good due diligence is required if an acquisition is to be made, and to understand the firms' liabilities for any work it has carried out in the past.

Professional indemnity insurance providing liability coverage is required for many design professionals to practice in the UK and abroad.

Environmental risk – how to protect against breaching environmental legislation

Environmental risk has changed dramatically. Thirty years ago companies faced a few hundred pieces of environmental legislation, mostly in the US; now, globally there are some 17,000.

Environmental laws within the EU changed significantly in 2007, as the new European Liability Directive brought in more stringent requirements to protect the environment. The 'polluter pays' principle moves the onus for clean-up and restoration from taxpayer to the companies responsible for causing pollution.

Now in addition to any fines, polluters face emergency costs, cleanup costs, monitoring costs, and restoration costs. It's worth considering that the associated costs of pollution can easily add up to ten times' the amount of the fines. And in some countries (including the whole of the EU) it's a criminal offence not to report the imminent threat of pollution.

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The USA, Canada, Australia, New Zealand EU, Switzerland, South Africa , Israel and Japan already have well-established laws to protect the environment; and some are introducing even stricter pieces of legislation, such as the EU. South America, Russia, Turkey, China, Malaysia and India are all in the process of implementing stricter regulations.

Recent studies have shown that in some circumstances the cost of responding to pollution today compared to the late 1990s is up to 40 times higher. Fines not costs usually hit the headlines, because clean-up costs are rarely known at the time of a prosecution, but in an increasing number of countries, the fines are just a drop in the ocean. Whilst they are important, strong environmental management systems are not always enough. Before expanding abroad, company directors need to be fully aware of the relevant environmental legislation and seek the right insurance protection.

Summary from Nigel Bamber

We hope this paper has provided insight into some of the risks a company faces if it wants to go global. All of these risks are manageable; the key is to understand them and to protect your business and its assets. Transferring the risk to an insurance company that understands the complexities of operating globally is smart. From Global Programmes, providing one master policy covering all territories a business is operating in, to niche coverage adapted to meet the needs of a company looking to move into one or two non domestic markets, insurance coverage can allow UK companies to Go Global with confidence.

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