A Global Economy Requires Global Protection

In today’s world, we are all truly operating in a global economy. Does your company’s insurance program correspond with how and where your business conducts operations? Even if a company doesn’t have its own physical property or operation in a foreign country, today’s global economy has the potential to put any business — even a local family-run business with a single location — at risk to international exposures.

Ask yourself the following questions about your business.

- Do you have employees traveling internationally?
- Are you selling products outside the United States?
- Where are you shipping your products?
- Is your business receiving raw material from foreign suppliers?
- How would your firm handle a kidnap-and-ransom situation?
- If there is a political uprising, how are you going to get your employees out?
- Do you have U.S. employees on the board of directors of a foreign company?
- How do you transfer funds from the payment of a claim?

If these questions have left you feeling concerned, then it is time to step back and take a look at your overall business-insurance program to make certain you are properly protecting your assets, property, people, board members, and yourself as an individual.

Most businesses would agree that employees are their most vital asset. Businesses that are sending employees abroad generally are sending their top employees to handle those sales and negotiations. There are “increased stresses” that accompany international travel. Employees that are traveling could experience anything from a sickness, an auto accident, a theft, to a political uprising, all while being in unfamiliar surroundings. As a business owner, you want to make certain that your employees receive the necessary resources and assistance to make a speedy recovery from the situation and return home safely to their families and your business. All of these situations can be addressed by securing the proper insurance coverage.

Even basic business practices such as selling products outside of the United States could result in unexpected liabilities. Your business is exposed to risk created by the foreign legal environment and liability laws of other countries. Many business owners believe that their coverage will protect them in these scenarios, but the territories and coverage responses can differ greatly from carrier to carrier. And, without the proper structure, your business could be left unprotected.

It is important to keep in mind that standard insurance policies have coverage territories to include the United States of America, Puerto Rico, and Canada. If your business operations extend beyond these borders, your business likely has a need for an international insurance package. An international foreign-package policy can be tailored to expand your insurance coverage to cover your operations outside the United States. Depending upon your operations, these policies are relatively inexpensive and coverage can include:

- Property — for salesperson samples and exhibition property
- Foreign general liability
- Foreign auto liability
- Foreign workers’ compensation
- Travel/accident, sickness and health insurance

From a property standpoint, coverage can be structured to protect your financial interests in inventory and stock on a worldwide basis by purchasing transit coverage, ocean-cargo insurance, and contingent-property coverage.

A type of coverage that businesses often overlook is trade-credit insurance. As you generate more business revenue overseas, what happens if your customers do not pay you? How are you managing your receivables and determining the credit terms that you offer? Trade-credit insurance is a mechanism that can be evaluated to help control your financial interests and exposures in this area.

As your business expands and develops in the international markets with physical locations, your insurance program needs to evolve as well. Losses can be caused by perils that do not exist in the U.S. and Canada, such as political risk including terrorism, political unrest, endemic disease, and local climate considerations that can trigger various weather events.

You will want your insurance coverage to protect your business from financial exposures and be compliant with the local regulations. Often, companies may rely on their local general manager to place insurance coverage for the U.S. division doing business in a foreign country. The general manager may not have a good understanding of the insurance coverage needed, resulting in an inadequate local insurance policy being placed. Business owners need to be aware that just because local coverage is placed in a specific country, you may not have adequate protection for your business. Your firm could still be exposed to financial risk if your coverage is not properly analyzed on a worldwide basis and structured to meet local regulatory requirements.

It is important to consider not only what coverage you’re buying, but also how the coverage is put into place. Companies with foreign operations need to be cognizant that each country has its own unique laws, customs, and regulations. In order to properly evaluate your foreign exposures and transfer the risk associated with them, your adviser needs to be well versed in how to structure a program that meets your needs and is considered compliant.

Insurance coverage can be placed on an “admitted” basis (licensed to do business in
that country) or “non-admitted” basis (not licensed to do business in that country). So what does this mean to you? Let’s take China as an example.

Non-admitted insurance is not allowed in China as the law provides that insurance must be purchased from insurance companies licensed to operate in China. Therefore, if your insurance coverage is placed with a non-admitted insurance carrier, your business could find itself facing policies deemed void, fines, penalties, or tax consequences. So not only is it important to understand your international exposures, but it’s also important that your broker understand the local regulations of the countries in which you are doing business.

The pitfalls of having an inadequate insurance program covering your international operations could mean:

- Duplications in coverage
- Unforeseen taxes or penalties
- Difficulty in transferring claims payments to rebuild from a loss

It’s not uncommon in our industry to speak with business owners who have been advised that their coverage will apply on an international basis. While many times the statement in general may be true, the coverage may be far from what you require to meet your needs. The policy may respond in a claim’s situation, but it may involve you paying costs up front and being reimbursed after the fact.

Many insurance agents and brokers strictly rely on the insurance carrier’s advice in handling international exposures. Be very cautious with this approach. Having local representation where you do business and act as your advocate when needed. It is in your best interest to have local resources, on the ground, who know the culture and environment, should you have a claim.

While many of the items mentioned in this article may seem overwhelming and cost prohibitive to your operation, they don’t have to be that way. You might be surprised to find out that it is possible to broaden coverage, increase limits, and still cut costs. A global audit of your operations and your coverage can determine if this is feasible. Take the time to give yourself peace of mind and make certain that you, your employees, your board members, and your assets are adequately protected on a global basis.

Tracy Cifra is the director of global placement with Haylor, Freyer & Coon, Inc. Contact her at tcifra@haylor.com or visit www.haylor.com