



Navigating the complexities and
risks of doing business abroad



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International commerce has become increasingly accessible in recent years, thanks to overnight delivery, advanced telecommunications and the Internet—allowing even the smallest companies to conduct business with foreign suppliers and customers. Even though doing business internationally has become easier, it certainly hasn't become less risky.

It leads to a wide array of risk management and insurance issues. Companies with foreign subsidiaries, branches or joint ventures are often faced with language barriers, unstable local politics, geographical issues and vastly different legal systems—making the process of managing a multinational insurance program enormously complicated.

These companies especially need to be aware of their exposure to loss in the various countries where they do business. They need to be certain their insurance programs address potential risks and are in compliance with local regulations.

Failure to do so may leave a company without insurance coverage, which might not become apparent until it's too late—once a loss has occurred and they are subjected to fines and penalties.

Consider the risks

Understanding the exposures presented by each country in which a company operates can be daunting. For one, consider language barriers. Some countries require policies to be purchased locally, meaning the buyer needs access to distant insurance markets and must be able to manage language issues since policies are often issued in the local language.

When it comes to local politics in a foreign country, anything can happen—from government worker strikes, to political unrest, to crime and piracy. All these scenarios leave a company vulnerable to a variety of exposures including reputation damage, loss of customers, business interruption, reduced productivity and profit, replacement costs...and the list goes on.

The vast amount of liability exposures faced by companies doing international business also cannot be overlooked. Liability exposures are particularly challenging since laws and legal systems vary widely.

While few countries have legal systems as plaintiff-friendly as that in the United States, reforms in many parts of the world are providing consumers, employees and investors with greater access to the courts, increasing potential for lawsuits. Foreign companies may be especially exposed to lawsuits because of their lacking awareness of, or sensitivity to, local laws, customs and practices. Foreign companies also may become the targets of enforcement actions from regulators and law enforcement agencies.

Companies with physical locations outside their home country face the wide range of property and liability exposures in each country where they have facilities

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Your risk, our solution

The political climate in foreign countries where companies conduct business can have a tremendous impact on their operations.

Consider for a moment the possibility of dockworkers going on strike at a port where your company either imports or exports goods. Operations might have to be put on hold while you or your customers wait for supplies.

In another scenario, business might come to a screeching halt if pirates on the open sea raid or confiscate a ship carrying parts from a foreign vendor. It may sound unlikely, but it happens, and no risk is worth ignoring.

Being at the mercy of a strike or piracy, in which you have no control, is unsettling to say the least. Such an event could lead to loss of customers, damage to your business' reputation, decreased profitability, replacement costs, and potential litigation for breach of contract by a customer.

Zurich offers a host of solutions such as business interruption coverage, supply chain risk management strategy, business contingency planning, cargo coverage and foreign liability to mitigate the risks of overseas politics impacting your overseas operations.

and people. But even without physical locations, businesses are at risk with the mere presence of a company Web site.

Almost every company with a Web site is potentially exposed to liability from foreign sources, even if it does little or no business in a foreign country. Because the Internet is borderless, a company could potentially run afoul of various libel, intellectual property infringement and privacy laws. Companies that sell products to foreign buyers have even more opportunities to incur liability, such as product liability lawsuits and enforcement of consumer protection laws.

Address the risks

Clearly, international commerce comes with an overwhelming amount of potential risk. While companies with only minimal foreign involvement may be able to adequately insure their foreign exposures with a single policy providing worldwide coverage, that almost certainly is not the right answer if foreign subsidiaries, branch offices and manufacturing facilities need to be insured.

In many countries, local "admitted" insurance policies are necessary. In fact, they are often required by law. If a claim occurs in a country requiring an admitted policy and the company has only a global "non-admitted" policy, the foreign operating entity may be barred from receiving recoveries. Companies may even face regulatory actions for failure to maintain compulsory admitted insurance or for buying insurance from a carrier not licensed in the country.

Even if not required by law, local policies may be ideal in many cases because they are more likely to be tailored to local laws and practices. Additionally, ready access to local claims personnel may be essential following a loss. Finally, buying local policies may help avoid certain complex tax issues associated with multinational policies.

Companies may be able to stitch together an insurance program comprised entirely of policies purchased in each country where they have operations. Under this option, policies are purchased from local carriers according to local customs and regulations, and premiums and losses are paid in local currency.

A patchwork of local policies, however, is likely to result in uneven coverage that may fail to meet corporate risk management standards, and may also result in unintended shortfalls and gaps in insurance protection. Companies may also be compelled to rely on local insurers that do not meet minimum corporate standards of financial strength and security.

This is why enlisting the help of brokers experienced in international insurance programs, as well as multinational insurers is critical: They can help you simplify mitigating these risks by offering one-stop service, even when local insurance policies are required.

These brokers and insurers will better be able to direct businesses to risk management and insurance solutions like business and contingent business interruption coverage; comprehensive supply chain risk management services; general and foreign liability; business travel accident coverage; and equipment breakdown and crisis event coverage—among a host of other solutions that other firms might not be able to offer.

Your risk, our solution

Industry and natural disasters can of course become company disasters if an organization is unprepared. The risks triggered by such events are also often exacerbated when they occur in a foreign country.

Envision what would happen if one of your company's overseas plants had a gas main leak that set off an explosion—damaging surrounding businesses, bringing down power lines and causing a power outage for three miles.

Your company might be presented with the potential loss of profit, stock and property, as well as hindered productivity, a damaged reputation, injured employees, pollution to the air and litigation due to an unsafe workplace.

Zurich can tailor solutions for such risks by offering building, personal property and business interruption coverage; off-premises power failure and equipment failure insurance; and general liability, foreign liability, crisis event and environmental coverage, among others.

Many of those same solutions can be offered in the event of a natural disaster. For instance, a tsunami could shut down the shipping docks where your business imports and exports parts needed for an assembly plant. No goods would be able to enter or exit, and you would be unable to access the supplies needed to continue operating your business.

Faced with loss of profit, stock and product; a damaged reputation as a supplier; and breach of contract, your business might be able to find help in Zurich's business interruption, contingent business interruption, property, crisis event and general liability coverage.

Supplemental solutions

Multinational insurance firms are also able to offer controlled master programs—policies combining worldwide coverage outside a company's home country and local policies—to offer complete and uniform coverage wherever they do business. Under this approach, local admitted policies are supplemented by a “difference-in-conditions” [DIC] or “difference in limits” [DIL] policy, purchased by the corporate risk management department. The DIC/DIL sits above the local policy, providing additional limits of liability if coverage under the local policy is insufficient.

It will also help fill coverage gaps in local policies, or when a combination of local policies fails to fully address an exposure. Where no local policies exist, the DIC/DIL policy provides primary coverage. It should rarely come into play because under most scenarios, premiums and losses are paid in the countries where the exposures are located through the local policies. Still, the DIC/DIL policy is available if shortfalls or gaps occur.

Coverage benefits aside, a controlled master program purchased from a large multinational insurer also provides a number of administrative benefits. For example, the DIC/DIL policy and local policies essentially can be purchased as a package, eliminating the need to buy coverage locally on a country-by-country basis.

In addition, a multinational insurance company is typically responsible for staying abreast of local insurance requirements and for assuring that the program fulfills the requirements of each country in which coverage is provided. The insurer typically handles the premium allocation and payment too. Further, while local claims adjusters may be employed, claims can be centrally coordinated.

Although coverage may vary by insurer, controlled master programs for larger companies typically cover commercial property, commercial general liability, commercial automobile and foreign voluntary workers' compensation and employer's liability. For smaller companies, some more specific coverages may be available as part of the controlled master program, or as a package of coverages bundled with the controlled master program.

While a controlled master program addresses many of the exposures companies with foreign operations face, many companies might confront risks not typically addressed by this package of coverages, including:

- Local directors & officers (D&O) insurance coverage for companies with foreign subsidiaries, although multinational D&O programs may also be structured as a master DIC/DIL policy in tandem with local policies—similar to a controlled master program
- Political risk insurance for companies with assets in politically unstable regions, whereby coverage typically is available for exposures such as governmental expropriation or confiscation of assets, governmental frustration or repudiation of contracts, and inconvertibility of foreign currency or the inability to repatriate funds
- Marine cargo protection for companies that ship goods
- Specialized errors & omissions (E&O) policies for firms that provide professional services to foreign clients

Your risk, our solution

The legal landscape in foreign countries varies greatly, and understanding what is required of a company in the regions it operates from operational and insurance perspectives is challenging. Nonetheless, the exposures stemming from these challenges may need to be evaluated and addressed.

Contemplate the potential impact of hiring a U.S. consultant who does not implement the required local standards to insuring your business abroad. When a fire breaks out at your company's international location, a government investigation reveals your insurance program is not in compliance and may levy huge fines.

Your business could be faced with loss of profit, a lawsuit alleging an unsafe workplace, government fines, claims that cannot be settled locally, breach of contract, reputation damage and the revoked privilege of continuing production in the country.

As a multinational insurer with experience in navigating the vast legal landscapes in a multitude of countries, Zurich can offer solutions like property and business interruption coverage; general liability, foreign liability and employee practices liability coverage; local admitted policies; and environmental professional indemnity.

- Local environmental liability insurance, especially for manufacturers, contractors or companies that handle hazardous materials
- Kidnap and ransom coverage for companies with employees who travel to dangerous countries
- Travel accident protection for employees that travel abroad

Experience counts

Today, only a few insurance companies have the knowledge, experience and resources to effectively manage the complexities of multinational insurance programs.

The first step in developing a successful multinational insurance program is to find a broker experienced with multinational clients and who knows the relative strengths and weaknesses of the insurance groups offering controlled master programs and other types of foreign coverages.

Since multinational insurance programs can be very complex, and may need to be carefully tailored to a company's specific exposures on a country-by-country basis, changing insurers can be time-consuming and expensive, and can lead to inconsistencies and gaps in coverage.

Companies and their brokers should carefully select an insurer that is a good prospect for a long-term business relationship. Some qualities to look for include:

- Long-term experience with multinational insurance programs
- Ability to provide coverage and service not only in the countries in which the insured operates today, but in every country in which the insured is likely to do business in the future
- Demonstrable knowledge of local market requirements, and an infrastructure to keep that knowledge up to date
- Experience with other companies in the insured's business sector
- Good value in coverage and price, though rarely the lowest cost provider
- Stability and financial security

Globalization is a business and economic reality, but insurance still is regulated locally. A well-structured multinational insurance program with a top-tier global insurance company can help minimize the friction caused by insurance regulation around the world, and allow management to focus on growth and profitability without liability and insurance issues being an impediment.

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