

GLOBAL PRODUCT LIABILITY >

OVERSEAS SAFETY, INJURY AND ILLNESS >

GLOBAL SUPPLY CHAIN INTERRUPTION >

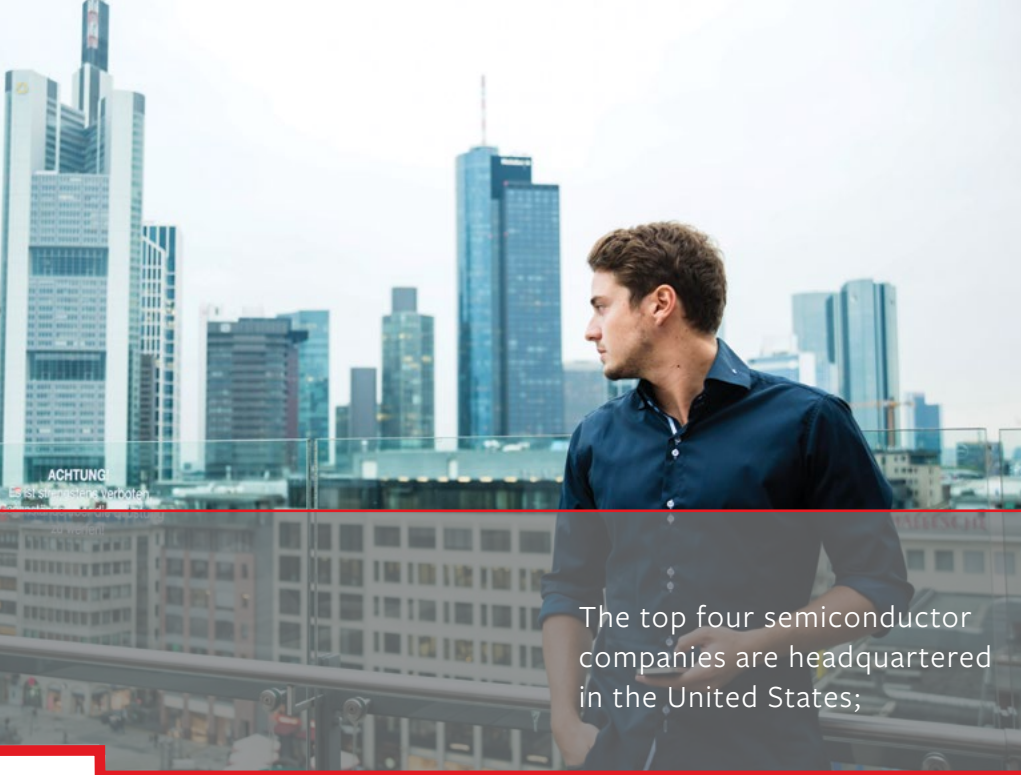
GLOBAL LONG DISTANCE TRANSIT >

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TRAVELERS 

Don't get caught in Shanghai
with your transistors down

INSIGHTS FOR HIGH-TECH MANUFACTURERS ON MANAGING GLOBAL RISKS



The top four semiconductor companies are headquartered in the United States;

however, the top four semiconductor foundries are located in Taiwan, Singapore and China.

Insights for high-tech manufacturers on managing global risks

High-tech manufacturing is a crucial component of the U.S. economy. From the smartphones in our hands to sophisticated medical equipment that saves lives, high-tech manufacturing has advanced dramatically over the past decade.

While many high-tech manufacturers are based in the U.S., many also have operations overseas, in countries where costs can be much lower than the United States. Many “fabless” semiconductor companies design and sell their products in the U.S. but do not have their own manufacturing equipment and clean-room infrastructure to make their products here. Instead, they contract with foreign semiconductor foundries. The top four semiconductor companies are headquartered in the United States; however, the top four semiconductor foundries are located in Taiwan, Singapore and China.

A global supply chain brings global exposures that high-tech manufacturers must manage. Companies who understand these risks will be better positioned to protect themselves from liability should something go awry. This issue of Travelers Technology Risk Advisor exposes some of those risks and highlights actions high-tech manufacturers should consider as part of an overall effort to manage global risks.

Mike Thoma
Chief Underwriting Officer, Global Technology at Travelers

Disclaimers

The “illustrative risk scenarios” described in this document are intended to facilitate consideration and evaluation of risks and are not necessarily based on actual events. Also, these risk scenarios are not a representation that coverage exists or does not exist for any particular claim or loss under any insurance policy or bond sold by Travelers or other carriers. Coverage depends on the facts and circumstances involved in the claim or loss, all applicable policy or bond provisions, and any applicable law. Some risks may not be insurable. Companies should consult an independent agent or broker to evaluate what coverage is right for them.

The “actions to consider for minimizing risk” described in this document are also intended to facilitate consideration and evaluation of how risks can be mitigated. These are not direct guidance or advice on what actions should be taken. Other actions may be appropriate, depending on the circumstances. Companies should consult an independent agent or broker to evaluate what risk management products or services are right for them.

Introduction

IN THIS ARTICLE WE EXPLORE FIVE RISK CATEGORIES THAT ARE PARTICULARLY IMPORTANT WHEN HIGH-TECH COMPANIES OPERATE INTERNATIONALLY:

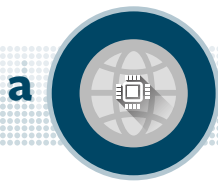
- 1. GLOBAL PRODUCT LIABILITY**
- 2. OVERSEAS SAFETY, INJURY AND ILLNESS**
- 3. GLOBAL SUPPLY CHAIN INTERRUPTION**
- 4. GLOBAL LONG DISTANCE TRANSIT**
- 5. GLOBAL INSURANCE AND COMPLIANCE WITH FOREIGN UNLICENSED INSURANCE LAWS**



For each of these risk categories, we explore hypothetical risk scenarios and highlight specific actions for consideration to minimize business risks. We also highlight insurance considerations that firms should evaluate with their independent agent or broker, as they pursue global opportunities in high-tech manufacturing.

In a globalized economy, high-tech manufacturers based in the U.S. increasingly have suppliers, manufacturing plants and customers located throughout the world, creating new and unseen risks to manage. The wrong type of event can imperil such a company's financial health and even its long-term viability, because a domestic insurance policy may not provide coverage for these global risks. Through careful study and planning, however, high-tech manufacturers can mitigate the exposures arising from international operations.

GLOBAL OPERATIONS CREATE RISKS FOR THREE CATEGORIES OF HIGH-TECH MANUFACTURERS:



Established high-tech manufacturers with existing international operations.

While usually aware of the need to mitigate global risks, these companies can have “blind spots” or gaps in their preparedness. As their operations evolve, they may benefit from evaluating new global exposures and risk mitigation techniques.



Established high-tech manufacturers currently with only U.S. operations,

who are considering international operations. For example, if a medical equipment manufacturer moves operations overseas, it could face a loss if it is unprepared for overseas product transit. If a U.S. smartphone manufacturer plans to take advantage of overseas manufacturing capacity, it should consider global supply chain interruption risk.

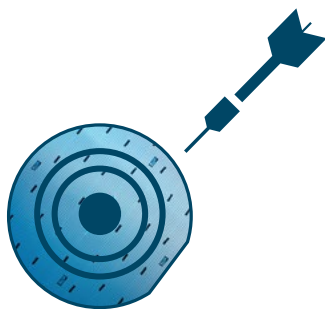


Emerging high-tech manufacturers,

including new venture capital-funded companies, who are planning international operations. For example, if an emerging clean tech company sells an innovative photovoltaic technology overseas, it should consider the potential for product liability lawsuits originating outside of the United States.

■ Category 1: Global product liability

High-tech manufacturers with overseas operations must be constantly watchful for defective or counterfeit components. Due to the complexity of international supply chains, precise tracking of counterfeiting activity is difficult. However, the Semiconductor Industry Association (SIA) estimates that counterfeiting costs U.S.-based semiconductor manufacturers \$7.5 billion annually, and the global information and market research company IHS claims that the five most common reported types of counterfeit semiconductors represent \$169 billion in potential risk per year for the global electronics supply chain.



Electronics manufacturers face significant risks from delivering imperfect products; Very few businesses can afford the damage and liability that can be caused by undetected defective/counterfeit parts. **A company's domestic insurance policy may not provide coverage for this global risk.**

THE FAILURE OR UNDERPERFORMANCE OF COMPONENTS WITHIN END PRODUCTS CREATES SEVERAL EXPOSURES THAT MUST BE MANAGED. **A FAILED PRODUCT COULD:**

- Lead to user injury or property damage;
- Lead to an increase in warranty repairs and costs;
- Be non-compliant with applicable safety and environmental standards;
- Result in a product recall that damages reputation; and/or
- Lead to decreased sales due to customer dissatisfaction.

Of course, no company sets out to buy bad parts. When a company purchases electronic components, it requires – and expects – the parts to meet specifications that make them suitable for use. This may include high quality materials, high precision construction and a lack of defects that could cause malfunctions. However, the seller may claim a component meets the specifications of the buyer when, in fact, it does not. It may be made from inferior or refurbished materials, or made by a noncompliant manufacturer who is not following industry standards for producing the component



In high-tech manufacturing, competition is fierce with rivals waiting to capitalize on the slightest opportunity, and product failures can represent that opportunity. Companies should take care to ensure that they do not provide space for competitors to move in.

ILLUSTRATIVE RISK SCENARIOS: GLOBAL PRODUCT LIABILITY



Consider the following scenarios that may expose a U.S. high-tech manufacturing firm to global product liability risk:

A TROUBLED MICROCHIP

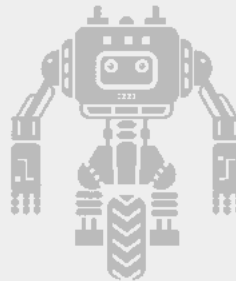
A U.S.-based manufacturer contracts with an Asian supplier of component parts for Blu-ray Disc players. Counterfeit microchips are unknowingly used in producing a batch of the component parts in Asia; these are subsequently imported and installed into Blu-ray players in the U.S. The U.S. manufacturer supplies the Blu-ray players to a European retailer, which sells them throughout Europe. Several DVD players malfunction, resulting in fires and significant property damage. Property owners sue the European retailer and the U.S. manufacturer in Europe.

U.S. SUPPLIER ACCUSED OF PRODUCT DAMAGE

A European manufacturer of electronic equipment alleges that a component part provided by its U.S.-owned supplier was defective and caused damage to its product. Because of the defect, the manufacturer is forced to destroy several batches of the finished product. The manufacturer files a lawsuit overseas against the U.S. supplier. The U.S. supplier's domestic general liability policy does not cover lawsuits brought overseas.

PHYSICAL INJURY IN SOUTHERN EUROPE

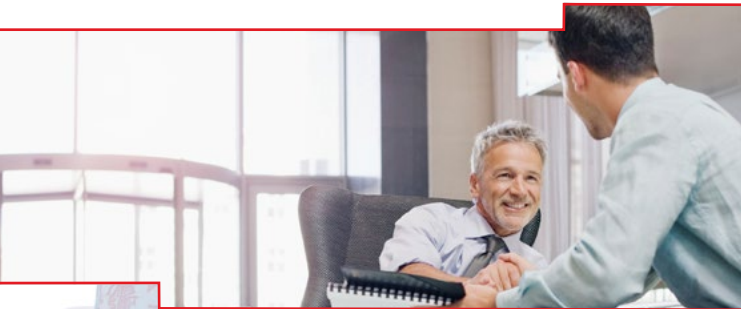
A tourist from Southern Europe, while traveling in the U.S., purchases an electronic toy that contains a counterfeit component. After the tourist returns home, the toy malfunctions and injures a child. The parents of the child file a suit against the U.S.-based toy manufacturer in Europe. Because the lawsuit is brought outside the U.S. and Canada, the manufacturer's domestic general liability policy will not cover it.



A tourist from Southern Europe, while traveling in the U.S., purchases an electronic toy that contains a counterfeit component.

ACTIONS TO CONSIDER FOR MINIMIZING RISK: GLOBAL PRODUCT LIABILITY

The key to avoiding counterfeit or defective parts is to be aware of the issue in advance and take appropriate countermeasures. Consider the following actions to help establish a procurement system that makes receiving bad components much less likely.



KNOW YOUR SELLER

Don't just accept the lowest bid – if the price seems too good to be true, the components could be of inferior quality or counterfeit. Instead, try to always purchase from suppliers who are Original Equipment Manufacturer (OEM)-approved distributors. Check with others to see if they have had experience with a particular seller. Be cautious before placing your order.



VERIFY SPECIFICATIONS

Make sure the specifications and documentation offered in a bid exactly match what you are looking for. Review the bidder's documentation, quality control and testing procedures. Contractually require the bidder to notify you in advance of any changes they make in the design or if they change their suppliers.



TRUST, BUT AUDIT

Once you have selected your vendor based on your background investigation and have established a relationship, be prepared to audit their performance over time. Make sure they do not switch to inferior parts or supplies after you have been reassured by the first few shipments.



PERFORM QUALITY CONTROL

Establish a system that is effective in screening out counterfeit/defective parts. This should include a document review and visual inspection, and can also include more sophisticated techniques, such as electrical inspection, X-ray inspection, scanning acoustic microscopy and thermal analysis. Decide if there is a need to contract with a third-party testing agency to validate the vendor's product certifications and test/inspection reports you received.



ADOPT INDUSTRY-APPROVED STANDARDS

Adopt industry-approved standards. Review standards that have been set by organizations with expertise, such as the Independent Distributors of Electronics Association (IDEA) or the federal government, and decide which ones would be helpful in making your supply chain more secure.

■ Category 2: Overseas safety, injury and illness

With global operations, international travel is the norm rather than an exception. When employees travel overseas, risks to personal health and wellness should be considered. Employee safety and security may also be at increased risk. Failure to account for these factors can be costly, and **a company's domestic insurance policy may not provide coverage for all of these global risks.**

International travel can take an employee all over the world, from highly developed countries with excellent medical infrastructure, to less developed countries where language and medical facilities can pose a challenge. Employees traveling overseas on company business can become severely sick, requiring urgent medical care and perhaps even transportation back to the U.S. If an employee is accidentally injured during business travel, the issue of eligibility for worker's compensation benefits will need to be resolved.



Physical safety and security factors in some parts of the world may also warrant extra precautions for employees traveling to those destinations. High-tech manufacturers operating overseas should consider the potential for events like kidnap and ransom, extortion, and illegal detention. Though rare, these events can have a significant impact on a company, its employees and their families. A company can manage the impact by being well-informed on such risks and well-positioned to respond effectively.



Consider the following scenarios that may expose a U.S. high-tech manufacturing firm to overseas safety, injury and illness risk:

HEART ATTACK SOUTH OF THE BORDER

An employee of a U.S.-based telecommunications company suffers a heart attack in his hotel room while in Latin America on a business trip. After immediate treatment, medical professionals determine that further care is best provided in the United States. This requires ensuring that the employee is safely brought home to continue care.



A guerrilla group kidnaps the employee and demands a multimillion dollar ransom.

KIDNAP AND RANSOM IN AFRICA

An employee of a high-tech company travels to Africa for business development work. At the end of the trip, the employee spends a weekend hiking in some mountains near the city the meetings were held in. A guerrilla group kidnaps the employee and demands a multimillion dollar ransom.

THEFT IN EASTERN EUROPE

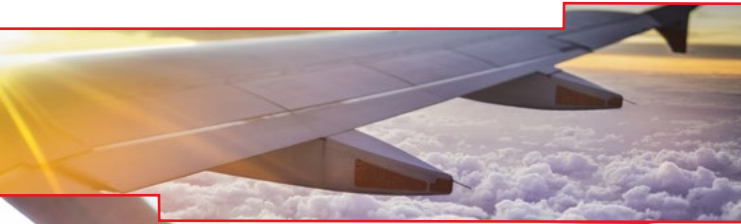
While in Eastern Europe on business, an employee of a U.S. chipmaker finds that she is the victim of a pickpocket and that her passport has been stolen. She is scheduled to return to the U.S. in three days and needs assistance replacing her passport on an expedited basis.

ASIAN CAR CRASH

A U.S. electronics manufacturer hires a local U.S. employee to work overseas for one year. Eight months later, in Asia, the employee is seriously injured in a car crash. U.S. workers compensation benefits are unavailable because the injury occurred outside of the U.S. more than six months after the employee left the country.

ACTIONS TO CONSIDER FOR MINIMIZING RISK: OVERSEAS SAFETY, INJURY AND ILLNESS

Traveling overseas can take U.S. employees out of their comfort zone, exposing them to a variety of factors for which they need to prepare. Helping them do so can promote peace of mind for both employers and employees. Consider the following actions to help manage overseas safety, injury and illness risk:



REVIEW LOCAL WARNINGS AND NEWS

Review any State Department warning bulletins for the countries you are traveling to at travel.state.gov. Read local news and weather forecasts, to arrive prepared.



SAFEGUARD YOUR PERSONAL IDENTITY AND DOCUMENTATION

Keep photocopies of your passport, transportation tickets, credit and debit cards with you in a separate location from the originals and leave copies with a friend or relative in the United States. Avoid carrying a wallet in your back pocket or easily accessible coat pocket; instead carry a bag/purse that you may firmly grip or secure to your body. Have the address of your destination written out in both English and the local language and carry it with you.



PLAN AHEAD FOR SECURE CONNECTIVITY

Contact your IT department to determine how your laptop can securely access online resources. Contact your wireless carrier to verify coverage in the areas you will be traveling in.



INVESTIGATE PROXIMITY TO LOCAL HEALTHCARE FACILITIES

Find out if there are local emergency centers or hospitals near your hotel and office. Document their addresses.



SECURE ANY MEDICATIONS

Carry all prescription medicines in their original, labeled container to make customs processing easier. Keep them in your carry-on luggage. Obtain the generic name of all prescription medicines for easy replacement at any pharmacy. If any medicine contains narcotics, carry a letter from your physician attesting to your need to take them.



CHECK WITH YOUR DOCTOR

Long before your planned departure date, ask your physician about any necessary pre-trip medical care. Some immunizations/precautionary measures may need time before they become fully effective and some may need to be administered in series. It's a good idea to have up-to-date tetanus and hepatitis shots.

■ Category 3: Global supply chain interruption



Doing business globally involves managing complex global supply chains, often stretching across oceans and continents. Interruptions to these supply chains can lead to costly business interruptions, impacting a high-tech manufacturer's financial health.

A company's domestic insurance policy may not provide coverage for this global risk. Some key factors that a company can consider to help manage this risk include critical equipment failure, catastrophic weather and political turmoil.

CRITICAL EQUIPMENT FAILURE

A piece of equipment (or a component part) sourced internationally has the potential to be a single point of failure – a bottleneck that can cripple production. This makes it important to consider global supply chain risks related to the failure of specialized, high-value equipment.

For many industries, when equipment breaks down or is destroyed during a catastrophic event (for example, a fire or earthquake), a replacement can be brought into play quickly, even if at great expense, so productivity continues. Construction companies can replace bulldozers, trucks and jackhammers; a financial consulting firm can locate and install new computer equipment; a food services company can obtain new ovens and refrigerators.

In electronics manufacturing, however, equipment is often highly specialized. And damage to specialized equipment can disrupt the supply chain. Factors like vibration and extreme temperature can have an adverse impact on sensitive electronic equipment. When a customized piece of equipment malfunctions and cannot be repaired, it may be impossible to replace at any price, or a replacement may take too long. Equipment that is made by only a single small company in Germany may have a three-year waiting period from placement of order to delivery of the equipment.

Market conditions may change, creating supply issues for less specialized equipment that under normal circumstances can be quickly replaced. A natural disaster can turn normally sleepy markets with ample supplies of second-hand equipment into hotbeds of shortages, escalating bids and disappointing would-be buyers. Critical equipment can be sidelined by more than just breakdowns or disasters. For example, power outages can also take equipment offline and disrupt productivity. If a plant experiences an unexpected outage or a reduction in voltage (a brownout), equipment could be damaged.



CATASTROPHIC WEATHER

Keeping a manufacturing plant operating at full capacity requires a dependable flow of materials. A plant can be idled unexpectedly when a tsunami in Japan puts suppliers out of business, or volcanic ash high above Europe grounds the air transport scheduled to deliver materials to a manufacturer.



POLITICAL TURMOIL

Similarly, political risks should be considered. Changes in government can sometimes result in new government policies that can impair current trade deals, or delay deliveries. A change in administration could result in regulations that make doing business difficult in the country. If the country is a key source of parts or products, this could present a significant supply chain interruption risk that must be planned for and managed.

ILLUSTRATIVE RISK SCENARIOS: GLOBAL SUPPLY CHAIN INTERRUPTION



Consider the following scenarios that may expose a U.S. high-tech manufacturing firm to global supply chain interruption risk:

JAPANESE EARTHQUAKE INTERRUPTION

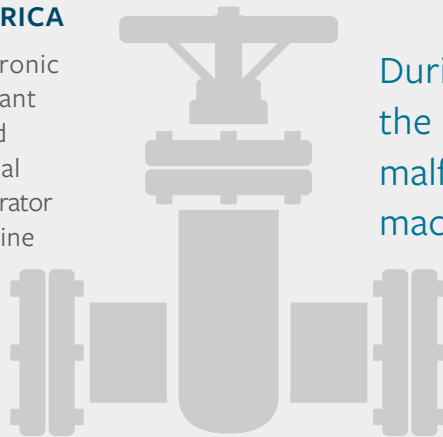
An earthquake in Japan shuts down production at a Japanese plant for three months. This plant was a crucial supplier of parts for a U.S.-based company that cannot be easily replaced elsewhere. Existing stock of parts is sufficient for only two months of production. The company sustains a business loss.

EMPLOYEE SABOTAGE IN EASTERN EUROPE

Employee sabotage at a plant in Eastern Europe damages a critical production tool. The only supplier of this tool reports that it will take two months to deliver replacement parts for fixing the tool. As a result, production is interrupted, causing a business loss.

LIGHTS OUT IN LATIN AMERICA

A sophisticated, sensitive electronic machine at a Latin American plant requires strict temperature and humidity controls. During a local power brownout, the backup generator malfunctions, causing the machine to fail. It takes several weeks to fix the machine, resulting in a production and business loss.



During a local power brownout, the backup generator malfunctions, causing the machine to fail.

ACTIONS TO CONSIDER FOR MINIMIZING RISK: GLOBAL SUPPLY CHAIN INTERRUPTION

Your company may already have a business continuity plan on the shelf – the prescription for what to do when disaster strikes and production comes to a halt. However, many plans fail to address all potential bottlenecks, such as the steps to take when a critical piece of equipment breaks down. The most effective plans help companies prepare for the unexpected, protect assets, respond to emergencies and recover full operational capability in a timely manner. Consider the following actions to manage global supply chain interruption risk:



IDENTIFY KEY EQUIPMENT

The first step is to identify key equipment, taking note of any factors that could make it difficult to replace or repair. Key equipment either has a high dollar value or is critical to the operation of the business.

PLAN SPARE PARTS INVENTORY

The plan should identify all spare parts that are kept by the company, as well as provide a list of sources for purchasing necessary equipment that could be used to repair or replace a non-functioning machine. Each year, the list should be updated with pricing and delivery times for obtaining necessary parts.

PREPARE FOR RENTAL EQUIPMENT

A list of sources for rental equipment should be developed, with details about cost for rental, set-up, breakdown, shipping both ways and estimated time from placement of order to start-up. If permits are required to move heavy equipment or install a new machine, the necessary steps should be identified.

FIND QUALIFIED CONTRACTORS

Several contractors who are qualified to work on or repair equipment should be identified and their capabilities and availability should be documented.

DEVELOP BUSINESS LOSS ALTERNATIVES

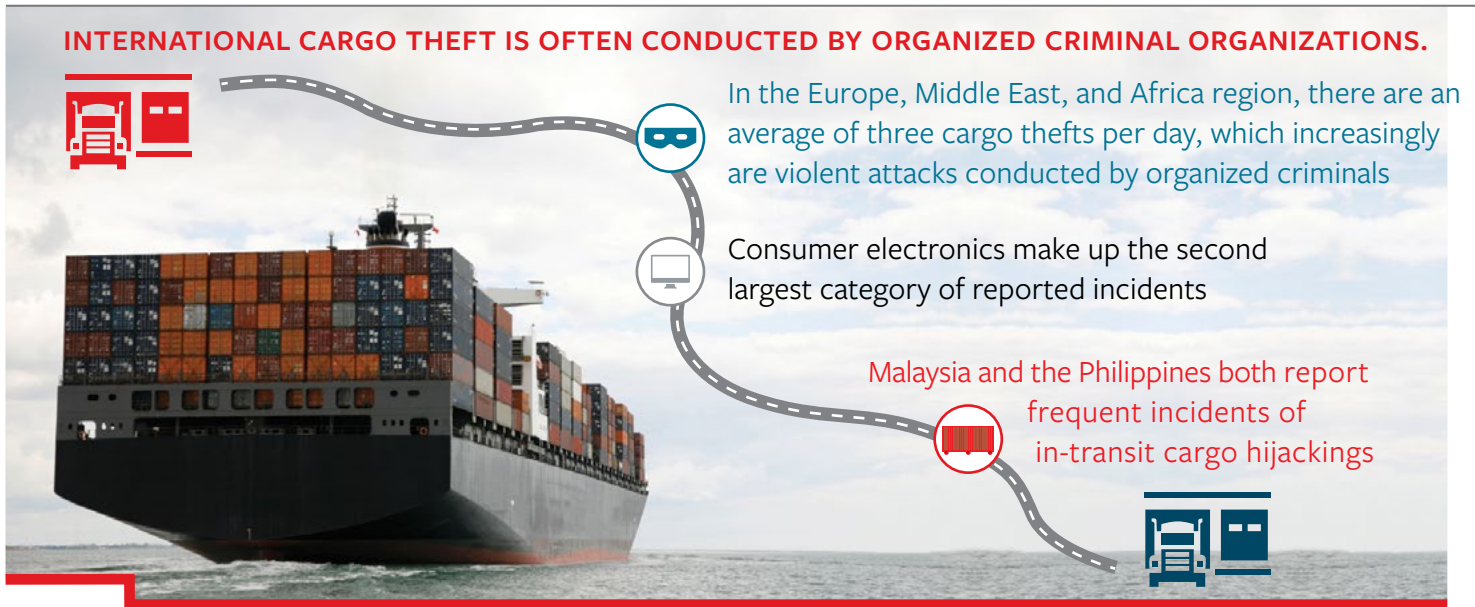
To avoid losing sales or falling behind on contractual obligations, a manufacturer may want to consider several alternatives if an equipment failure disrupts production. These include making arrangements to outsource work during an emergency; keeping inventory on hand to provide products to customers when the manufacturing line is down; and temporarily running other equipment for longer hours to make up for lost production.

IDENTIFY ALTERNATIVE SITES

Other considerations in the company's business continuity plan can include identifying or developing alternative sites for manufacturing: A "cold" site is a place where machinery and people could be placed to restart production in the event of an emergency. A "warm" site typically makes use of someone else's resources in off-hours to allow return to production much more quickly. A "hot" site, often implemented in the technology world, replicates existing facilities and operates in tandem with current operations.

Category 4: Global long distance transit

INTERNATIONAL CARGO THEFT IS OFTEN CONDUCTED BY ORGANIZED CRIMINAL ORGANIZATIONS.



The graphic features a large container ship at sea. A winding, dashed grey path starts from the ship and leads to several icons and text boxes. At the top left, there is a red icon of a truck and a train. The path leads to a blue icon of a mask, then a blue icon of a laptop, then a red icon of a train, and finally a blue icon of a truck and a train at the bottom right.

In the Europe, Middle East, and Africa region, there are an average of three cargo thefts per day, which increasingly are violent attacks conducted by organized criminals

Consumer electronics make up the second largest category of reported incidents

Malaysia and the Philippines both report frequent incidents of in-transit cargo hijackings

Adverse weather events (e.g., hurricanes) can also pose a risk, particularly when high-value products are being shipped. Risks related to intermodal shipping should also be considered, including handoffs and transitions at ports, airports and international borders. Each transition may present a risk that something may go awry and result in a loss.

With the significant amount of high-tech manufacturing that takes place overseas, shipping parts, components and finished products over long distances – internationally – is the norm for many technology manufacturing companies. Over the past few decades technology has also become increasingly sophisticated. We now have smartphones that have the computational capacity of large computers from the early 1990s. Advanced electronic components play a role in flight scheduling and tracking, patient health management, and mass transit systems. As the sophistication of technological components has increased, so has the value of these components.

A variety of options are available to manufacturers for transporting goods – boat, train, plane and auto – and each of these poses risks that must be managed. There is risk of substantial loss from both damage and theft when expensive parts, components and products are transported over long distances. A company's domestic insurance policy may not provide coverage for this global risk. Choices made in packaging material, shipping practices/protocols and security standards can all play a role in mitigating the likelihood of damage or theft during long distance transit.

Technology companies should understand the risk of international cargo theft, which is often conducted by organized criminal organizations. **In their 2014 annual report on cargo crime in the Europe, Middle East, and Africa (EMEA) region, the Transported Asset Protection Association (TAPA) reports that there are an average of three cargo thefts per day, which increasingly are violent attacks conducted by organized criminals.** The same report indicates that consumer electronics make up the second largest category of reported incidents, with 124 cargo thefts in 2014. In their 2013 Global Cargo Theft Threat Assessment, FreightWatch International reports that Mexico, Brazil, South Africa, Russia and the U.S. are most at risk for cargo theft. The same report indicates that Malaysia and the Philippines both report frequent incidents of in-transit cargo hijackings, while India is developing a reputation for large-scale thefts, including warehouse robberies and truck hijackings.

ILLUSTRATIVE RISK SCENARIOS: GLOBAL LONG DISTANCE TRANSIT



Consider the following scenarios that may expose a U.S. high-tech manufacturing firm to global long distance transit risk:

EUROPEAN COMPONENT THEFT

Expensive components shipped to a manufacturing facility in Europe are stolen in transit. There is a direct loss caused by losing valuable components; however, the sophisticated nature of the part requires substantial replacement time, resulting in additional loss from forgone sales revenue.

TRUCK OVERTURNS IN CENTRAL AMERICA

A high-tech components manufacturer ships product via road from a plant in Central America. During transit, the truck is involved in a one-vehicle accident and overturns, and the entire cargo of expensive electronic parts is destroyed.

HONG KONG RENDEZVOUS

Smartphone components produced in Malaysia for a U.S. manufacturer are placed on a ship bound for a Hong Kong port. An inspector at the port finds a shortage in the expected number of components. Further investigation finds evidence of a theft by an organized criminal organization known for making inroads with Asian shipping companies.

STORMY PASSAGE FROM ASIA

An electronics manufacturer transports finished products via cargo ship from Asia to the U.S. During transit, the ship encounters turbulent weather and water seeps into the shipping containers, resulting in extensive damage to the products.



Water seeps into the shipping containers resulting in extensive damage to the products.

ACTIONS TO CONSIDER FOR MINIMIZING RISK: GLOBAL LONG DISTANCE TRANSIT

To operate internationally, high-tech manufacturers must move valuable products and components across long distances and across borders. Companies can act to limit the risk of product damage and theft. Consider the following actions to manage global long distance transit risk:



CAREFULLY SELECT TRANSIT/SHIPPING COMPANIES

Screen potential transit companies on several criteria, including overall reputation in the industry, experience transporting high-value goods, technology used to track and safeguard product, security protocols, and history of loss. Based on these criteria, create a list of the best-qualified transit companies in each region of the world your company has shipping needs.



INVENTORY SHIPMENTS

Maintain a detailed inventory of shipments, including makes, models and serial numbers for all parts and products as well as any unique or identifying features. This inventory will be very important in case there is a need to track specific products or in the event of a loss.



REVIEW SHIPPING PRACTICES

Review current practices at both shipping and receiving points to identify opportunities for minimizing potential damage or loss in transit. This includes reviewing packaging materials, product tracking tools and technology. In addition, review the process used to check for product damage.



ASSESS SHIPPING ROUTE RISK ENVIRONMENT

Research recent crime history involving theft of high-tech products along the route, including types of products stolen and methods used. Research weather and climate conditions along the route.



STREAMLINE ITINERARY

Make every possible effort to streamline the itinerary. This includes minimizing the number of parties that will come into contact with products and handoffs that have to be made between parties, the number of stops between shipment and destination, and the packing and unpacking of materials. A streamlined itinerary greatly reduces the risk of loss in transit.

■ Category 5: Global insurance and compliance with foreign unlicensed insurance laws

With international operations and global exposures come the added complexity of ensuring that insurance policies comply fully with local laws and regulations.

This aspect is a critical but often overlooked part of purchasing insurance coverage for global exposures. If overlooked, this factor can leave high-tech manufacturers at significant financial risk.

There has been increased attention over the past few years among foreign country regulators and tax authorities on the issue of licensed insurance. **In short, in many circumstances, carriers cannot provide insurance to companies or for property located in jurisdictions where they are not specifically licensed or admitted to provide such insurance.** Many jurisdictions do not recognize non-admitted insurance as valid insurance in their jurisdiction. In some of these jurisdictions, supervisory authorities can impose serious consequences – including regulatory penalties and civil and criminal fines – on policyholders, brokers or agents, and insurers involved in the placement of the non-admitted insurance.

To account for this risk, a global insurance policy may contain wording specifically providing that, if insurance laws or regulations of a foreign jurisdiction regarding unlicensed insurers prohibit an insurance carrier from covering a loss sustained by a foreign subsidiary of a U.S. company, or a loss to an insured's foreign property, to which the carrier's coverage would have otherwise applied, the carrier will reimburse the parent company for the amount of such loss because of its financial interest in that subsidiary or property. Financial interest provisions confirm that, if payment for such loss cannot be made to an insured company in a specific country, payment will be made to its U.S.-based insured parent company.

Since unlicensed insurance is a complex issue, with laws and regulations changing over time, a thorough review of global exposures and local laws is needed to protect your financial interests.



ILLUSTRATIVE RISK SCENARIOS: GLOBAL INSURANCE AND COMPLIANCE WITH FOREIGN UNLICENSED INSURANCE LAWS



Consider the following scenarios, which illustrate how not having the right financial interest wording in an insurance policy can expose a U.S. high-tech manufacturing firm to significant risk.

EUROPEAN COMPUTER THEFT

Ten laptops are taken from the premises of a European subsidiary of a U.S. technology company. The theft takes place during the lunch hour when no one is around. The local insurer denies coverage because there was no forced entry. The loss would otherwise have been covered under the global (non-admitted) policy, but in-country laws prevent that non-admitted policy from applying to or responding to the risk. If the U.S. parent company does not have financial interest wording in its global policy, there may be no coverage available for this loss.

THEFT AT LATIN AMERICAN CONTRACTOR SITE

A theft at the Latin American subsidiary of a U.S. technology company results in loss of equipment. Since the equipment was being stored at a contractor's site, the local (admitted) policy does not cover the loss. The loss would otherwise have been covered under the global (non-admitted) policy, but in-country laws prevent that non-admitted policy from applying or responding to the risk. If the U.S. parent company does not have financial interest wording in its global policy, there may be no coverage available for this loss.

UP IN FLAMES AT ASIAN SUBSIDIARY

A fire at the Asian subsidiary of a U.S. technology company results in substantial property damage to a neighboring business. The business files a lawsuit in Asia against the subsidiary for damages. The low limits of local (admitted) policies are insufficient to completely cover the damages. The property damage would otherwise have been covered under the U.S. parent company's global (non-admitted) policy, but in-country laws prevent that non-admitted policy from applying or responding to the risk. If the U.S. parent company does not have financial interest wording in its global policy, there may be no coverage available for this loss.



ACTIONS TO CONSIDER FOR MINIMIZING RISK: GLOBAL INSURANCE AND COMPLIANCE WITH FOREIGN UNLICENSED INSURANCE LAWS

Risks of non-compliance with foreign laws regarding unlicensed insurance are the emerging frontier in global insurance coverage. The issue is not only whether a company has coverage to protect against exposure but also whether policies have been written appropriately, containing wording that correctly protects a company's interests if laws or regulations of a foreign country prohibit the insurer from providing such coverage. This is a complex and evolving area with local rules and regulations subject to change. Consider the following actions to manage global insurance and this compliance risk:



REVIEW GLOBAL EXPOSURES

Conduct a systematic review listing all countries where there is current or potential exposure to risk. This may include countries where you have no physical plant presence – for example, countries where product transits through to a final destination or countries that employees visit for business purposes.

DETERMINE LOCAL RULES AND REGULATIONS

With the help of your broker or agent, identify local rules governing unlicensed insurance. What coverage can be provided through a non-admitted policy? What coverage must be issued by an admitted (locally licensed) insurer to be valid?

REVIEW CURRENT POLICY WORDING

Scrutinize your existing insurance coverage to make sure that you have a policy that specifically and explicitly addresses the full range of exposures that your company may be subject to while operating in different jurisdictions.

IDENTIFY GAPS IN POLICY WORDING

Evaluate potential consequences if your policy language is silent regarding claims that occur in countries with unlicensed insurance laws or regulations. A clear understanding of this is essential to identify gaps in the applicability of current coverage.

ALIGN POLICIES WITH LOCAL RULES

Along with your broker or agent, develop a plan for cost-effectively aligning insurance needs with the right combination of local and global policies to cover those needs.

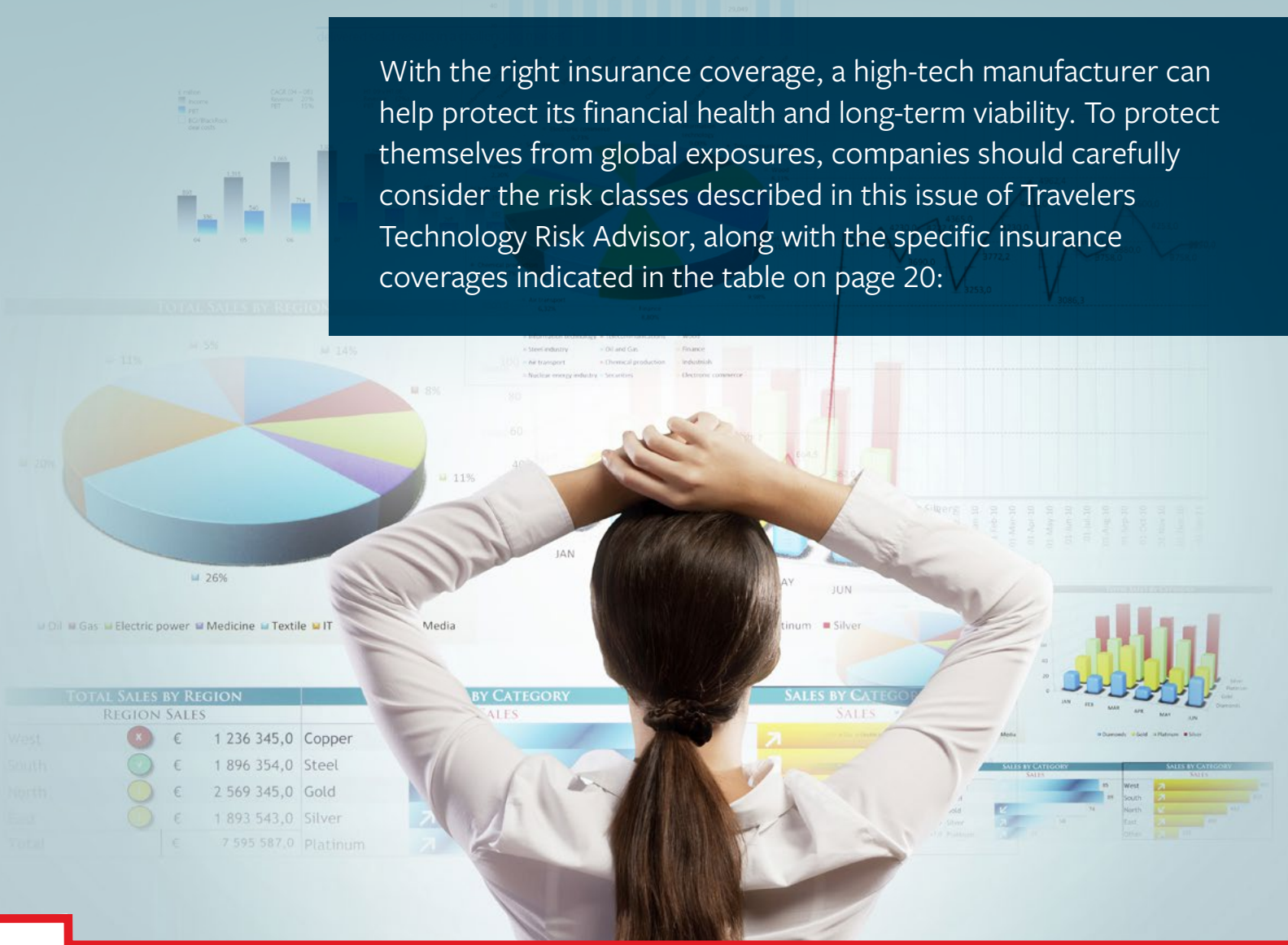
DEVELOP A CONTINGENCY PLAN

Prepare a crisis management plan outlining the steps to be taken in case you are found to be non-compliant with unlicensed insurance laws or regulations in any jurisdiction.





The last line of defense: Insurance considerations for global high-tech manufacturers

Operating internationally is a fact of life for many electronic manufacturing companies. And with a global scope of operations comes unique exposures that must be managed. Overlooking these exposures can create unnecessary financial and reputational risks for companies. High-tech manufacturers can be proactive and take precautions to limit the likelihood of losses arising in major classes of risk.

With the right insurance coverage, a high-tech manufacturer can help protect its financial health and long-term viability. To protect themselves from global exposures, companies should carefully consider the risk classes described in this issue of Travelers Technology Risk Advisor, along with the specific insurance coverages indicated in the table on page 20:



GLOBAL INSURANCE CONSIDERATIONS FOR HIGH-TECH MANUFACTURERS

			
Risk class	Illustrative risk scenarios	Actions to consider for minimizing risk	Relevant insurance coverage to evaluate with an agent or broker
Global product liability	<ul style="list-style-type: none"> • A troubled microchip • U.S. supplier accused of product damage • Physical injury in Southern Europe 	<ul style="list-style-type: none"> • Know your seller • Verify specifications • Trust, but audit • Perform quality control • Adopt industry-approved standards 	Global Product Liability Coverage provides protection for foreign claims or suits for bodily injury or property damage resulting from the use of a manufacturer's product.
Overseas safety, injury, and illness	<ul style="list-style-type: none"> • Heart attack south of the border • Asian car crash • Kidnap and ransom in Africa • Theft in Eastern Europe 	<ul style="list-style-type: none"> • Review local warnings and news • Safeguard your personal identity and documentation • Plan ahead for secure connectivity • Investigate proximity to local healthcare facilities • Secure any medications • Check with your doctor 	<p>Foreign Voluntary Workers Compensation Coverage picks up where a domestic workers compensation policy leaves off. The benefits payable under the policy are typically keyed to the benefits available under the workers compensation law of the state designated by the employer.</p> <p>Global Kidnap & Ransom Coverage provides protection for overseas kidnap, illegal detention, extortion, product extortion and hijack. It is also possible to obtain cover for threats (without an extortion demand), mysterious disappearance, political evacuation, express kidnap, hostage crisis and product recall as the result of an extortion.</p>
Global supply chain interruption	<ul style="list-style-type: none"> • Japanese earthquake interruption • Lights out in Latin America • Employee sabotage in Eastern Europe 	<ul style="list-style-type: none"> • Identify key equipment • Plan spare parts inventory • Prepare for rental equipment • Find qualified contractors • Develop business loss alternatives • Identify alternative sites 	Global Property Business Interruption Coverage provides protection for lost income due to events that force a business to temporarily shut down a portion of their overseas operations. In addition to lost income, policies may also cover funds to meet fixed costs, relocation expenses, and other extra expenses.
Global long distance transit	<ul style="list-style-type: none"> • European component theft • Truck overturns in Central America • Stormy passage from Asia • Hong Kong rendezvous 	<ul style="list-style-type: none"> • Carefully select transit/shipping companies • Inventory shipments • Review shipping practices • Assess shipping route risk environment • Streamline itinerary 	Global Property Transit Coverage provides protection for damage to property in transit overseas. Look for policies that include any mode of transportation within and outside the coverage territory.
Global insurance and compliance with foreign unlicensed insurance laws	<ul style="list-style-type: none"> • European computer theft • Up in flames at Asian subsidiary • Theft at Latin American contractor site 	<ul style="list-style-type: none"> • Review global exposures • Determine local rules and regulations • Review current policy wording • Identify gaps in policy wording • Align policies with local rules • Develop a contingency plan 	Global Financial Interest Coverage provides protection when local non-admitted insurance laws or regulations prohibit direct payment to an overseas subsidiary of a U.S. company for a loss incurred overseas. Financial interest provisions enable payment to a U.S. insured parent company for such a loss.



High-tech manufacturing operations vary significantly, and few insurance policies are standard. Circumstances vary, and all risks may not be insurable. It is important to contact your independent insurance agent or broker to make sure you get the right coverage and services for you and your company.

How Travelers can help

Travelers understands the unique needs of technology firms. We often insure what other carriers won't, because we've been protecting tech companies longer than most. So as high-tech manufacturers expand around the globe, Travelers will be there to help manage their risks with the right insurance products.

Travelers stays ahead of technology industry risk. From the rise of PCs, to the Y2K scare, to the Internet economy, Travelers continues to evolve with effective coverage options to provide technology companies with important insurance coverage for exposures as they continue to innovate. As Chief Underwriting Officer for Travelers Technology, Mike Thoma says, "You come to expect unique exposures when you work with cutting-edge tech companies. And you just figure it out. We've been doing that for 30 years."

For more information, contact your independent insurance agent who represents Travelers Technology, or visit us on the web at travelers.com/technology.



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Risk expertise for the technology industry



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