

Risky business

How to make sure you're protected when doing business in other countries **Interviewed by Lisa Murton Beets**

It's a reality of business today: many of the products sold in the U.S. are part of a global supply chain. There is even a debate surrounding what percentage of a product has to come from the United States in order to be labeled "Made in the U.S.A."

"Unless they are very small, most manufacturing and distribution companies in the U.S. are involved with at least one other country," says Debra F. Scalice, vice president, Millennium Corporate Solutions.

"Importing from China alone has increased from \$109 billion in 2001 to \$365 billion today — that's huge; almost a 300 percent increase. Obviously the removal of U.S. manufacturing jobs has had multiple impacts, and among these is increased international risk," Scalice adds.

Unfortunately, she says, many U.S. companies are not fully cognizant of the consequences that may occur if they are not covered properly while conducting business with and in other nations.

Smart Business asked Scalice about some of the exposures businesses face and what they can do to minimize them.

Why is international risk such an important topic right now?

Many U.S. manufacturers are fighting to stay alive and they are often resorting to smaller, niche markets, leaving their old product skewed behind and innovating new products or parts, which are imports. They must change or face extinction via lack of competitive price points. Nearly all U.S. companies are involved to some degree with importing or exporting. All too often, U.S. companies think they are protected from various liabilities when in reality they are not. It is easy to misinterpret your coverage. Countries have very specific mandates about the types of coverage you need to have and who is legally able to provide that coverage — Mexico is a good example. If you don't have a Mexican insurance company and something goes wrong, you're going to jail.

What are some of the risks involved with property exposure?

Typically, international property exposures are similar to domestic exposures. You need to know where the property is located, whether there are any nationally mandated coverages, availability of coverage subject to increased hazards, if the



property is adequately covered while in transit, and if you are using the shipper's coverage or purchasing your own.

Are there any time constraints regarding the arrival of your property? What if the goods arrive at the harbor and half of the product isn't there? Or, has the product been substituted using trickery? What level of risk are you prepared to take on yourself? On the other hand, if you are exporting, what happens if the companies you are exporting to owe you money and disappear? Can you handle the financial loss or will you need credit insurance?

What key factors about liability exposure do companies need to be aware of?

If you're manufacturing in the U.S. and your policy says you have worldwide coverage and protection, don't let that lull you into a false sense of security. It probably means you're only covered for lawsuits initiated in the U.S. Let's say you sell something in Europe and someone gets hurt. You think you have worldwide coverage, but if you don't have proper *international* liability in place, there could be terrible financial consequences.

Liability exposure for importers is another consideration. There are many domestic carriers who are not interested in covering imported products. So if you're an importer and something goes wrong with the product you imported, you will be held accountable, as there is no domestic manufacturer

to seek financial restitution from. It is very difficult to sue in other countries, which are often 'developing.' Who will you sue in that country? Are they even liable according to their laws? What if the products you're bringing in and selling to your clients start to fail? This is a nuance of international business you can't insure for, but you have to contemplate the risk.

What are some considerations for traveling overseas for business?

In today's world, you do not want to be walking around a foreign country without proper risk assessment and coverage. Let's say you're a salesperson who travels to London for your boss; you and your boss decide you should live there temporarily. The employer needs to cover you for workers' compensation in that country — it's a human resource issue. Or let's say you're the CEO of your own business and you've excluded yourself from workers' compensation insurance. You go to Europe and something happens to you — you have a car accident or a health event, or a political act takes place. Who will pay to bring you back to the U.S.? Kidnap and ransom are also real concerns. If you are an American traveling abroad, you are a target. There are hotter spots than others in terms of exposure, but it's actually quite common and happens all over the world. For any executives who are traveling, you need to ensure that risk management techniques have been employed to help assure your safety and that the right coverage is in place.

How can companies ensure that they are protected properly?

Talk with your international attorney and a diligent insurance broker who will show you how to protect your interests. They will help you determine your own risk tolerance, where you are exposed, and what needs to be covered. Seek a broker familiar with international risk who will know the insurance vehicles available to cover international risk. Equally important, the broker will help you understand what is *not* covered. This is a very dynamic and fluid area so it's important to keep in touch with your broker on a regular basis to ensure you are properly covered at all times. <<

DEBRA F. SCALICE is vice president, Millennium Corporate Solutions. Reach her at (949) 679-7139 or dscalice@mcsins.com.

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