

Insuring

by Thomas G. Kaiser

While overseas markets hold enticing opportunities, they also serve up new challenges. Fortunately, international risks can now be managed with greater ease and efficiency, by both first-time exporters and experienced multinationals.

Exporting is often a company's maiden voyage into foreign territory and its first international exposure. The most basic coverage needs at this stage are threefold: goods in transit, nonpayment of receivables and product-related liability.

Standard ocean cargo insurance protects against loss or damage of products shipped overseas. While most coverage extends warehouse-to-warehouse, you'll need to close any costly gaps in protection when goods are transferred at dockside or temporarily warehoused during transit. If shipments are small and limited to a particular geography, coverage from a local freight forwarder may suffice. The wiser route, how-

CATE BEHRINGER

Global Growth

ever, even for small exporters, may be to align business with an insurer that has established operations both in North America and in the local overseas market where goods will be distributed.

Since receivables can account for as much as 75 percent of a company's current assets, the creditworthiness of customers can be an exporter's largest single exposure. Export credit policies protect against nonpayment of receivables, and can be a cost-efficient alternative to letters of credit. Securing export credit insurance also allows exporters to offer customers better payment terms—an essential advantage for a new player in a foreign land.

This brings us to our third core concern, foreign product liability lawsuits. Overseas liability judgments are not nearly as fright-provoking as those in the United States, but defense costs coverage can be vital. If a customer alleges that your product

caused harm, mounting an effective legal defense in the local marketplace is essential to assure continued operations and customer loyalty. You can also extend product liability coverage to your subsidiaries, distributors or others that represent you.

The Coverage Question

Surprisingly, while no fast-track company would go bare on such significant exposures in the domestic marketplace, many fail to address the risks they face overseas. Some are under the impression that international insurance coverage is prohibitively expensive. Others assume that coverage that works stateside will do the job.

On the contrary. In the vast majority of cases, entrusting a policy designed to cover domestic business risks to address foreign exposures is like trying to plug your American electric razor into an outlet in Prague. Insurance requirements around the world are different, primarily because legal systems differ. Cultures are unique. Insurance terms vary. Regulatory environments range from essentially no insurance regulation in areas like Saudi Arabia to stringent government oversight in countries such as India that have nationalized insurance.

At the same time, new coverage options make it easier and more cost-efficient for even small exporters to secure coverage that fits any and all local market requirements. Global exporter packages are a good example. These packages can wrap all of the coverages just discussed into a single, affordable program for a small or mid-sized exporter, and also generate a separate tower of limits for foreign exposures, effectively shielding domestic program premiums from any adverse loss experience overseas.

But all exporter packages are not created equal, so follow some basic guidelines:

- Go only with financial strength rated A or above by A.M. Best.
- Choose a company that backs up coverage with local claims servicing, and keeps you in touch with local claims activity.
- Think ahead! Be sure that the insurer you select has the resources and the wherewithal to expand your coverage as your operations grow.

With such a package in place, your international risk management program will be ready for the more daring plunge into overseas markets: Putting investments on the ground.

Putting Down Roots

Setting up an overseas operation—whether it's a small warehouse or a massive production facility—steps up exposures significantly. New considerations include property insurance—including business interruption coverages—for any buildings, their contents and equipment. General liability insurance and special employee concerns must also be addressed. For expatriates, for example, you may want to assure a level of workers' comp coverage on par with the domestic standard.

At this point, chances are that the market in which you are investing requires that you carry locally issued insurance coverage. Even if this is not mandated, it is strongly recommended. Local carriers are familiar with the local laws, regulations and culture. There are also significant tax implications: Premiums paid in the U.S. for coverage on foreign exposures are not deductible against U.S. tax; premiums paid on local policies covering local exposures are. Claim payments made under a U.S.-issued policy covering foreign exposures may be subject to capital or other tax when sent to the country where the loss occurred. In addition, proof of insurance coverages tied to the local economy speaks volumes for your civic intentions and can facilitate local financing arrangements.

Securing indigenous policies should not, however, be confused with giving your local operation insurance-purchasing power. Such decentralization can give rise to unexpected gaps or expensive overlaps in coverage. Moreover, the quality and financial strength of insurers can vary drastically, leading to inconsistent coverage, lukewarm service and even a lack of local protection or service when you need it most.

Arranging the right coverage for premises, people and products that are oceans away may sound complex, but it doesn't have to be. Working with an insurer whose global operations match your own makes it easy to manage international risks from your U.S. office—or from your Siberian sales office, for that matter. And if you've thought ahead and chosen an insurer that can accommodate your growth, it's likely that you already have a trustworthy insurance partner, with the know-how to manage your local risks and claims.

Global Control

As business booms and your operations begin to dot the map, it's time to graduate to a global controlled master program. Such a program assures that coverage for multiple operations worldwide meets uniform high standards set

Entrusting a policy designed to cover domestic business risks to address foreign exposures is like trying to plug your American electric razor into an outlet in Prague.

forth in a single master policy. Often your U.S. coverage serves as the basis for this master contract; your insurer translates this coverage to the local equivalent worldwide. With this approach, you'll enjoy central coordination, eased administration, new efficiencies and the other benefits that come with locally issued policies.

Site-Specific Risks

Specialized risks must be addressed as well. Developing markets often carry political risks, such as foreign asset confiscation, expropriation and nationalization, or losses resulting from political violence or currency inconvertibility.


When considering coverage for these exposures, bring all of your risks to the table. Chances are you'll get a more efficient program in return. Think carefully before choosing government-issued political risk cover, which could make you dependent on the host government to cover risks that emanate largely from its own instability. Ask your broker about other key financial or specialty coverages you might need in specific territories. For example, in some regions it is prudent to insure against the

government's wrongful calling of letters of credit or guarantees, or to secure kidnap and ransom coverage for your executives.

Financing

While today's soft market conditions make risk transfer highly efficient, sharpening margins and minimizing the cost of risk remain ongoing challenges in the global marketplace.

Seek a partner that can break out the risk financing tools—self-insured retentions, layered programs for property, captives—to skillfully ensure that coverage not only matches your risk profile, but also your changing budget and cash flow requirements. As your financial and operational risks become more diverse, explore the potential balance sheet advantages of an integrated multi-line, multi-year structure. Among other benefits, managing risk in aggregate can reduce frictional costs, ease administration and lessen overall volatility.

Most importantly, don't sell your business short. Choose a partner that shares your forward-thinking approach to managing risk and has solid products and services to support your growth strategies, wherever they take you. 

RISK MANAGEMENT.

THE MAGAZINE OF THE RISK AND INSURANCE MANAGEMENT SOCIETY, INC.

Risk Management, the magazine of the Risk and Insurance Management Society, Inc. (RIMS), represents the voice of over 7,700 practitioners representing more than 4,200 corporations and organizations in the United States and Canada. With feature articles written by risk managers as well as other experts in the insurance, consulting and brokerage communities, **Risk Management** serves as a platform for the latest trends, innovations and challenges in risk management today.

Risk Management is read by professionals responsible for risk and insurance management in business, industrial firms, public administration, government, insurance companies, business services and others allied to the field including members and nonmembers of the Risk and Insurance Management Society, Inc.

You can rely on **Risk Management** to keep you up to date on cutting-edge issues and discussions that are relevant to the industry. Each month, **Risk Management** features thought-provoking and practical articles as well as columns that specifically address the concerns of small and midsize employers, technology and legislative issues.

Subscribe today!

CONTACT

Risk Management

Box 10568, Riverton, New Jersey 08076-8568

Fax: 609.786.4415

Questions? Call 212.286.9292 ext. 218

