

NEWS LETTER

n.p. james insurance agency



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Problems Found and Their Solutions

IT as a commodity: The Premise

Let's look at a few interesting facts:

- Robert Weisman's editorial in 4/30/05 *Boston Globe* argues a shift of IT from asset to commodity.
- Nicholas Carr's May 2003 Harvard Business Review article titled "IT Doesn't Matter" (referenced by Weisman 4/30/05) looking at the staggering increases in IT spending.
- The February 2002 Newsletter editorial article teasing readers with my opinion that hardware and software has never been worse!
- My (Nancy James) September 2004 Newsletter describing a greater and greater dependency on sub-assemblers and outsourced services.

A Review:

Nicholas Carr in his 2003 HBR article cites some staggering statistics regarding US capital expenditures on IT: 1965 = 5%, 1980's = 15%, 1990's = 30% and 2000 = 50% (*NPJ comment: remembering that Y2K remediation was part of the millennium's expenses*).

I have maintained in my newsletters for the past several years that legacy systems and legacy processes have been updated with new hardware but obsolete methods. Low-cost processing workers have been replaced with high-cost IT professionals. As a

consequence, corporate leaders, with Y2K remediation systems still not functioning, are understandably reluctant to invest in new technologies. Thus, the current drag on our business costs and economy.

We also see a trend by manufacturers to outsource work to precision assemblers for board and component assembly. In fact, precision parts manufacturing more and more defines the Massachusetts technology corridors.

"Small business solutions" suppliers from IBM to local providers offer outsourced support to harried executives tired of IT headaches. For example, among small business outsourcers is a local Waltham provider, New England Data Services (NEDS), providing solutions to the disruptions caused by in-house supported networks. Craig Brenner, CEO of NEDS, stated: "We offer a wide range of outsourced services designed to remove the headaches of complex IT structures, security, and reliability from client's facilities. With NEDS support our customers can return to their business's core competencies."

As our technology becomes more complex, focused solutions are needed. Commoditization may not be a bad resolution!

The Issues:

So now your processing functions as well as some hardware is scattered locally or widely. *What do you do with respect to fire, theft, security, privacy, and other protection?*

- Your outsourcer's contract will disclaim any direct or consequential damages. You can expect that!
- Your own property/liability insurance policy will be your corporate location site specific, with only limited coverage at any other location.
- The privacy of your internal and client data is now way out of your control (even while you hold your provider harmless!).

As a business you are now a part of a complex web of communications movement and storage. What you gain in service capability and reliability, you lose in direct control.

The Solution:

Be sure your insurer understands your new operational configuration and has solutions within at least the same boundaries as before you outsourced.

You will need to consider all outsourced services as branches of your own offices and operations. Coverage for each function should be analyzed and insured by you if not by your outsourced service provider.

Nancy P. James is the principal of N. P. James Insurance Agency in Concord, MA, where she specializes in risk analysis and insurance for technology-based clients. She can be reached at 978-369-2771 or npjames@npjames.com.

N.P. James Insurance Agency specializes in technology risks

Clients have relied on Nancy James for over 20 years to help protect them from unexpected losses that range from hardware and software failures to attacks from "shark-infested" cyberspace.

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Citigroup..... Wachovia..... Bank of America..... Tufts University..... Iron Mountain..... Time Warner..... Cisco Systems..... LexusNexus..... ChoicePoint..... SuperPages..... *all of my readers know the statistics of an Internet breach.....* ..remember, I have said that the US Attorney's Office points to insiders (employees) as leading the list of intruders.

Internet/CyberLiability Insurance is designed to cover.....

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