

## INSURANCE

# Manage Risk in Technology Manufacturing

From the perspective of your risk manager's desk, technology manufacturing is changing in both important and subtle ways.

Assemblers are becoming a more and more significant part of the manufacturing flow, reducing costs while continuing strong quality production. Overseas markets continue to be a vital source of revenue, growth and business viability to Northeast technology products in spite of terrorism threats.

Cost containment is a crucial factor in profitability as margins continue to experience pressure. Data security holds steady as the No. 1 Internet-based problem, forcing businesses to slow or redirect their plans for Web-based sales and service. The realm of consumer and corporate litigation continues to be robust, often giving executives the feeling of being held hostage to fears of litigation.

How can you manage everything while continuing innovation and profitability? Read on.

### Assemblers

Cost-effective JIT methodologies have caused complex systems manufacturers to turn over more of the parts assemblies to large specialists in the market. This solution creates its own set of additional risk problems. Initially, you will need to look at this new assembler facility on your survival critical path. How dependent are you upon the continuous operation of that assembler? Have you established a substitute plant in the event of an unforeseen shutdown due to loss? Are there any geo-economic issues at that site?

Then you need to address the finer points of parts, capital equipment and inventory protection. Who owns the fire loss (check your contract), you or the assembler? How quickly can you replace capital equipment? How



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secure is your intellectual property (designs, tools, finished product) in the assembler's plant? Is someone on your staff responsible for seeing that certificates of insurance are kept current? Have you calculated the additional cost of lost income at this location should the assembler go down? Do you have employees reporting to the assembler's plant regularly?

#### Your To-Do List:

- Don't treat your assembler just like any other vendor!
- Look at each assembler as an independent unit of your own operations and configure the insurance for each as if it were one of yours.
- Take each part – property, liability, shipping, loss-of-income – and determine who owns each piece.
- Transfer as much as you can to the assembler via your contract.
- Negotiate your insurance rates carefully (remember, since your insurer has no control over hazards management at the assembler, the more building engineering you can provide your own insurer, the lower your rates).
- Be sure your workers compensation policy reflects the new state exposure if the assembler is in another state (Massachusetts manufacturers purchase a lot of assembly services from New Hampshire) and your people either report there or visit regularly.
- Adjust each of your insurance policies to reflect the exposures represented in your new manufacturing model.

### Overseas Customers

Assuming that you are a U.S. company with no overseas offices but you sell worldwide, you probably already have a global shipping policy in place. Be sure that your products liability covers your products

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globally for suits brought abroad as well as in the U.S. If you and/or any of your employees travel overseas, it is mandatory for their protection to place global package insurance. This global policy looks just like your domestic program, offering property, general and products liability, hired auto liability, workers compensation and repatriation (the cost to bring an injured or deceased employee back home). Premiums begin at \$2,500 to cover five or six annual trips overseas.

Remember, however, that new threats of terrorism have changed the climate of risk. No global shipping or package policy has ever provided for terrorism coverage since it was not part of the cultural mentality. There is a growing "excluded country" list, which automatically denies coverage for losses in those listed countries. Keep current with that.

#### *Your To-Do List*

- Place a global package insurance policy with one of the several insurers specializing in overseas risk. For short money, you need to protect company people traveling overseas for you.

- Ask about kidnap and ransom coverage costs while you're at it.

### **Margin Slip**

One red flag to very cautious underwriters now is what kind of margins your product enjoys. Do you have enough cash to properly quality control, repair, upgrade and service your product? When companies are squeezed, quality degrades. Litigation ensues. Underwriters know this.

#### *Your To-Do List*

- Your brokers and underwriter are part of your risk team. Use them; let them help you.

### **Data Security**

Data security is currently the greatest area of technology concern for both consumers and businesses. Credit card and identity theft are increasing, especially via the Web. Only a few years ago most businesses fully expect-

ed to be using the Internet to receive orders and accept payments, anticipating Web-based sales as an important segment of their revenue.

Wide publication of security breaches has dampened Internet business enthusiasm, postponing plans for direct e-commerce sales while retaining basic e-mail sales contact information. Have these security problems retarded economic growth? Are successful (but large) investments in Internet data security solutions a decisive factor in separating growth companies from slow or static sales? Does this issue continue to plague your management team?

Assuming your Web site is primarily a product-advertising vehicle, your own Web design team probably does not have the necessary legal skills to assess the magnitude of the exposures associated with possible security breaches. Outsourcing your e-commerce function still falls short of any real protection from liability for security breaks since transference of your security risks via contract is complicated and typically impossible.

The lack of insurance for these complex first-party and third-party exposures continues to be one of the many problems still to be solved. Insurers are excluding most if not all Internet security exposures. Only specialty products address these perils at noticeable associated costs.

#### *Your To-Do List*

- If your business is not an Internet-based talent house, do not yet embark on Internet sales without the help of Internet and legal professionals.

Remember, your risk management team includes your lawyer, accountant and insurance broker. Let them help you plan and execute a strategy to keep as far from the threat of litigation as possible.

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