Commercial Insurance Update

Topics Affecting Buyers of Commercial Insurance

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International Insurance: Do You Need It?

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I recently had to call support for my Quicken software; it turns out that the customer service for Quicken is handled out of India!

This exemplifies the fact that the business world is getting smaller, and more and more companies are either doing business in foreign countries or using foreign suppliers or service providers. All of these situations create international insurance exposures.

Most commercial insurance policies written today only provide coverage in the United States of America, its territories, possessions and Canada. Even when worldwide products liability coverage is provided, the suit usually must be brought within the policy territory defined above to be covered.

In addition, doing work in foreign countries or having work done in foreign countries creates some very unique risks, including kidnap and ransom, political risk, endemic disease, and a higher exposure to terrorism.

International insurance is conceivably required for even the smallest of operations. If you have an employee or executive officer traveling abroad, if you sell your product abroad, or even if you use a foreign distributor, you have an exposure.

Firms with an international exposure usually fall into one of three broad categories.

1. **Incidental** – A firm may have employees that travel internationally or even maintain temporary residency outside the United States and Canada. This might involve sales people and/or quality control representatives of a manufacturing company.
2. **Dependent** – A company may not have their own facility outside the United States or Canada but they might contract with a foreign warehouse or distribution center to obtain their product.
3. **Extensive** – This involves foreign operations including the ownership or leasing of property in a foreign country. It might include foreign subsidiaries and or foreign service operations.

Fortunately, a number of major insurers offer relatively broad foreign insurance programs. Chubb, St. Paul and AIG are among the three largest.

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For a firm with an incidental foreign exposure, a package of coverages that includes foreign voluntary workers compensation, incidental property and general liability as well as non-owned and hired automobile liability can be purchased for as little as $2,500 a year. Needless to say, this price can go up depending on the magnitude of the exposure.

International operations create numerous exposures to loss. The more common exposures are discussed below.

Accident, Sickness and Health (ASH)

Should one of your employees traveling abroad become sick or injured, it is possible your U.S. medical insurer will not cover the incident, or that the foreign medical facility will not accept your employee's U.S. health insurance.

Coverage for ASH in foreign countries can be purchased from a number of sources. This usually includes 24-hour coverage and can also extend to family members traveling with your employee.

ASH exposures are even greater outside of the United States. Certain diseases that are rare in the U.S., such as malaria, tuberculosis, hepatitis, cholera, and other endemic diseases can be prevalent in other countries. In addition, your domestic health insurance program may not cover repatriation expenses – the cost of transporting a sick or diseased person back to the United States.

Automobile

This is one of the more common exposures of traveling abroad.

When you rent an automobile in a foreign country, you should purchase both liability and physical damage coverages. Even with these coverages, we recommend that you include on your international policy both non-owned and hired car coverage to fill in the potential gaps in coverage that may exist with the rental car company's insurance program. If you own vehicles in a foreign country, they will almost without exception have to be insured with an admitted insurer in that country.

Kidnap, Ransom and Extortion (K&R)

Although this exposure is not unique to doing work in foreign countries, it is more commonly purchased by those companies with extensive foreign exposures. The probability of being kidnapped in a foreign country simply is higher.

K&R coverage is readily available. It generally provides coverage for not only employees of a company but also their family members. Most of these programs are backed up by specialist K&R consultants who respond in the event that the coverage is triggered.

Letters of Credit

Letters of credit are common in multinational business transactions. A letter of credit actually serves as guarantee that each party in a business transaction will get what they paid for.

Credit Insurance

Some U.S. banks may not recognize receivables deposited in foreign banks. By purchasing credit insurance on the foreign accounts receivables, many U.S. banks will recognize the foreign accounts receivables. The credit insurance policy pays the U.S. firm if the foreign firm defaults. The credit insurer in this case would pay the entire amount (up to the limit of insurance) that the foreign firm owes the U.S. exporter.

Liability Insurance

Most domestic liability policies provide worldwide products coverage if a suit is brought in the United States. However, they provide no insurance for suits brought outside of the United States. In addition, this coverage only extends to products.

If you have a physical presence in a given country, it is generally recommended that you buy admitted liability insurance in that country. If you only have an incidental exposure, you can usually rely on liability extended from the international program offered by a domestic insurer. Regardless, this exposure needs to be evaluated carefully.

Ocean Marine

Most domestic property policies provide limited transit coverage within the policy territory. For significant exposures however, separate transit coverage needs to be purchased. If your goods are going to cross international borders, this is typically known as ocean marine coverage (even if the transit takes place on a truck or a plane). Typically, these

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policies are written on a warehouse-to-warehouse basis. In other words, the cargo is covered, regardless of the method of shipment, from the time it leaves the exporter's warehouse until it arrives at the importer's warehouse.

Coverage for damage or loss resulting from war is not automatically included, although it generally can be added for an additional premium.

The value of the shipment generally includes the export and import tariffs, shipping costs and other related items that are part of the shipping process.

This coverage is often provided directly by a freight forwarder. In these situations, it is imperative that you carefully review the insurance that they provide.

Political Risk Insurance

Political risk insurance protects you from financial loss arising out of the actions of a foreign government. If your company owns a manufacturing facility in a foreign country, it's possible that the government of that country could decide to expropriate all foreign investments. Political risk insurance would pay your firm for the value of the plant that was seized by a foreign government.

Political risk insurance covers a broad range of perils including third party blockades, selective discrimination, forced project relocation, forced abandonment, currency inconvertibility, contract frustration, deprivation, expropriatory conduct, and political violence.

Property and Time Element Exposures

Fixed property locations in a foreign country require special attention. Often you may have to buy admitted coverage. If not, you will want to make certain that your domestic international policy provides appropriate coverage.

Even if you don't have a fixed plant in a foreign country, you may have a contingent business interruption exposure if one of your foreign suppliers' facilities is damaged or destroyed. You might also have product in those facilities that needs to be insured as well.

Workers Compensation

Employees who travel outside the country present a unique exposure to their employers. If they are temporarily (the word "temporary" is not defined in the policy) out of the country, the domestic workers compensation policy should apply. However, if an employee is away for an extended period of time, or if a company actually hires citizens of a foreign country, a different approach will be required.

Most countries provide workers compensation as part of their social security system. If you hire employees in a foreign country, you should make certain they are appropriately covered in that country. Nevertheless, you will probably want to back this up with foreign voluntary workers compensation coverage. This not only fills the gaps of any admitted workers compensation coverage which might apply, but it also extends to U.S. citizens working abroad. In addition to basic workers compensation benefits, a foreign voluntary workers compensation policy also provides unique extensions:

- 24 hour coverage when an employee is working abroad
- Coverage for endemic diseases
- Coverage for the cost to repatriate an injured worker or a deceased worker's remains

For a more detailed discussion of foreign voluntary workers compensation, please refer to our December 2003 newsletter.

Summary

International exposures are a reality for many firms in the United States. Fortunately, with appropriate diligence, these exposures can be quantified and, in most cases, transferred to an insurance company. Careful analysis by an experienced insurance broker is critical to managing this exposure.