

## ZURICH CANADA

# Manufacturers should anticipate future risks

**On the first day of snow in December, Martin Lynch, national director for manufacturing at Zurich Canada, gave his perspective on the issues and emerging risks facing manufacturing insurance customers and brokers. He also offered his thoughts on when the frost on the Canadian manufacturing sector might melt.**

### **What are the biggest issues facing the manufacturing industry in 2010?**

On a macro level, the uncertain state of the economy will undoubtedly continue to be a profound issue for the manufacturing industry. The recession's job losses and plant closures fuelled by a hurting U.S. export market, plus the appreciating Canadian dollar, will likely continue to contribute to pressure on the bottom line. The headlines may not be new, but the reality of staying afloat financially will undoubtedly remain ever-present in manufacturers' minds. Thankfully, the economists and experts are increasingly optimistic about the future road to recovery for the industry.

From an insurance perspective, with revenues down, naturally insurance costs have remained under pressure – consistent with other markets. Interestingly, when our customers were asked about financial pressures and the issues keeping them awake at night, they were quick to mention the threat of new and emerging exposures, including: super-tight, just-in-time production and contractual delivery commitments; cross-border protection for U.S. and global transit and storage of goods; and the threat of hidden and unforeseen pollution exposures with potentially costly remediation. Not forgetting the potential threat of terrorism within Canada's major cities and industrial parks.

### **What's Zurich doing to help tackle some of these risk issues?**

We've recently refreshed our manufacturing proposition to include some new and extended coverages, including E&O, environmental and terrorism. Talking about E&O, for example, isn't new for our brokers. However, if you look at an instance whereby a manufacturer's product breaks down and causes a purely

economic loss to a third party, there can be a coverage gap and ambiguity on a traditional GL policy. Say a manufacturer of conveyor belts sells a new belt to a customer, and the customer subsequently installs it on a conveyor belt system. When the production line is started, the belt immediately fails due to a manufacturing error. No one is hurt, and no property is damaged other than the belt itself. The customer's production line, however, is out of service for one week, incurring \$200,000 of lost business, and the customer looks to claim this loss from the manufacturer. It's an interesting yet plausible event, which may not be covered under a typical general liability policy, but it's built into Zurich's new solution for manufacturers. It is also an important demonstration of our commitment to deliver when it matters most for customers.

Since we introduced this new coverage in the summer of 2008, the response has

been fantastic. Even with revenues down and manufacturers looking for ways to cut costs – and that includes insurance costs – we've seen a significant increase in demand for this product. This reaction by customers shows us they are acutely aware of, and care about, threats to their business.

### **Why is cross-border coverage for Canadian manufacturers important as the economy recovers?**

With exports accounting for two-thirds of Canada's industrial output (Source: CME, 2000), cross-border risk management is essential with most trade travelling north-to-south rather than east-west. As U.S. unemployment starts to slowly shrink, demand for Canadian goods will increase, which should spur a turnaround in Canada's manufacturing base.

Part of being ready to take advantage of those opportunities is to make sure manufacturers have compliant insurance coverage for their cross-border operations, including locations they may have in the U.S. Understanding and ensuring tax compliance in other countries such as the U.S. can be complex – and costly if you don't get it right. Individual states have seen their tax revenues shrink



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sharply and are actively looking for ways to increase revenue, and that includes pursuing unpaid taxes on non-compliant/unlicensed insurance. The last thing Canadian manufacturers need as they fight through these challenging times is an unforeseen tax bill.

Just as important as tax management are contractual requirements for licensed or admitted coverage and potential claims-handling problems with unlicensed coverage. Working with an experienced international insurer gives customers peace of mind when dealing with the U.S., where regulations vary state to state.

#### **How costly can hidden environmental risks be for manufacturers?**

In Canada, whether or not your company is the cause of a pollution event, you could still be held responsible. Environmental risks can remain hidden and unknown. Perhaps the manufacturer moved into a new facility and the previ-

ous occupant was unaware (or didn't disclose) there was pollution on the premises. Environmental risks can also arise suddenly. Manufacturers often have fuels, lubricants and other raw materials on-site that could spill or leak and affect a neighbouring property or the natural environment. While there are many uncertainties when a pollution event occurs, one thing is certain: remediating pollution is neither easy nor cheap. Protecting your customer from these unforeseen instances through environmental liability insurance can safeguard the stability of their organization.

#### **How does partnering with Zurich give brokers and customers "the Manufacturing Advantage"?**

As I've mentioned, we continue to deliver new and innovative solutions to the marketplace to help our brokers and customers feel confident in their recommendations and selection. Zurich customers benefit from access to a number of risk

tools – from crisis management planning to claims insight and exposure analysis using Virtual Consultant. They also have access to hazard-analysis training and guidance. In 2010 we also hope to introduce new emergency spill-management services too!

#### **What are your thoughts on the future?**

I think Canada's manufacturing sector has a very bright future ahead of it. Its economy in general has fared better than many of the world's economies, and Canadians' natural inclination toward innovation, hard work and great ideas will propel the country's manufacturing sector to bold new heights. Canadians can compete with anyone.

Zurich is proud to be supporting the Canadian Manufacturers and Exporters Association at the Innovation Awards, presenting **Zurich Manufacturer of the Year** on February 2, 2010 at the Chateau Laurier, Ottawa. Visit [www.zurichcanada.com/manufacturing](http://www.zurichcanada.com/manufacturing) for details. **IW**