TOWERGATE
INSURANCE BROKERS
NEWSLETTER

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ISSUE 13 SPECIAL EMERGING RISKS EDITION 2020

EMERGING RISKS SPECIAL EDITION

As a business, your top priority will understandably be keeping a competitive advantage and ensuring that you remain an attractive proposition for your clients in an economy which never stands still; in a challenging environment which demands adaptation.

Of course, this picture is compounded by a landscape where workplace regulations and requirements never seem to settle down. Whether it's changes to the rules around the minimum wage, working hours, or new requirements around data protection, it can sometimes almost seem as if you are running to stand still.

As if all this were not enough, the wider risk environment is growing all the time: with new regulations come new liabilities; with new digital technology comes cyber crime; with increasingly complex supply chains comes new risk.

In recent news, we have witnessed the impact of the Coronavirus, sadly affecting many lives, disrupting travel, events and commerce. While closer to home, we have experienced further environmental and weather related storms causing extensive damage and flooding, to both householders and businesses.

Geopolitical incidents also have a significant influence on insurance; whether it's Brexit or the sanctions imposed by Donald Trump, these can have an impact to businesses or individuals who look to travel or trade with certain territories. As your broker we too have to evolve to both the threats and opportunities presented by this environment of new risks. And we want to help you navigate the changing risk landscape. As such, we have put together this newsletter which both highlights key news items and provides a guide to some of the most important emerging risks facing UK business. We hope that you find it useful.

PRODUCT RECALL: HOTPOINT AND INDESIT RECALL HALF A MILLION WASHING MACHINES

The issue of faulty goods is one which regularly makes the headlines, with the recent news that half a million washing machines in the UK are to be recalled, the latest in a number of incidents in the press in recent months.

Hotpoint and Indesit brand washing machines, made by Whirlpool between 2014 and 2018, now pose a fire risk due to the door locking system overheating, the BBC reported in December.

The mass recall is a further blow for Whirlpool, which was already dealing with the aftermath of the product recall of more than five million of its fire-prone dryers sold over an 11-year time period.

The manufacturer published a message on its website stating that people's safety is its priority which is why it is recalling certain models of washing machines. But appliances under the Whirlpool brand are not affected. Options include a like-for-like replacement free of charge or a free home repair.

Of course, Hotpoint and Indesit are just some of the household names that have been in the news with regard to possibly faulty goods. More recently, for example, Swedish homeware chain Ikea issued an urgent product recall notice for its 'Troligtvis' travel mug over supposedly high levels of chemicals present. Ikea has asked customers to immediately stop using it and apologised for the inconvenience. Marked "made in India", the item comes in pink, beige and blue. In the recall warning, Ikea said recent test reports show the product 'may migrate levels of chemicals exceeding the required limits'.

I'M WORRIED THIS MAY HAPPEN TO ME?

You will be pleased to discover that product recall insurance is an area where policies provide comprehensive cover for a variety of industries and recall scenarios, ranging from product guarantees and contractor errors, to cyber product tamper and software product safety. **Our recall policies provide cover for a number of recall situations including errors by contract manufacturers and product guarantee.** We also include cyber product tamper and software product safety – an increasingly important area of risk given the trend towards automated production and logistics, as well as the prevalence of hardware controlled by software in consumer products and vehicles.

PANDEMIC RISK: CORONAVIRUS COULD TRIGGER $320M WORLD BANK PAY OUT*

The outbreak of the potentially deadly Coronavirus and its spread across China could trigger a $320m insurance pay out relating to the World Bank.

The Coronavirus outbreak, now known as Covid-19, that began in the city of Wuhan in Hubei province China has been spreading rapidly.

The death toll from the outbreak, which began in late December, has risen to 1868, with the total number of cases worldwide now standing at almost 72,436, officials said on Tuesday 18 February.

The potential pandemic payment relates to a pandemic catastrophe bond, designed to trigger if deaths from a covered virus impact multiple nations.

Launched by the World Bank in June 2017 and arranged by Swiss Re Capital Markets, Munich Re and GC Securities, the World Bank's catastrophe bond provides financial backing for a $500m Pandemic Emergency Financing Facility (PEF).

The PEF is a fund created by the World Bank to channel surge funding to countries facing the risk of a pandemic.

The World Banks's pandemic bond is triggered by number of deaths, speed of disease spread, and the spread of disease across international borders, and provides coverage for six viruses deemed most likely to cause a pandemic, including Ebola, Flu and the Coronavirus.

Under the wording and terms of the bond, this current Coronavirus outbreak has the potential to become an eligible event, should the outbreak cause continue to meet the pre-defined criteria.

However, the virus, would need to cause more than 2500 deaths before it could come under the scope of the bond.

The bond first came under scrutiny after it failed to pay out following the Ebola outbreak in West Africa, despite the World Health Organisation declaring the situation in the Democratic Republic of Congo an international emergency last year.

Official UK government advice:

- Always carry a tissue to catch coughs and sneezes and bin it after use
- Wash hands with soap and water or use sanitiser gel
- Anyone who has travelled from anywhere else in China to the UK (not including Macao or Hong Kong) in the last 14 days, and develops symptoms of cough, fever or shortness of breath, is being told to immediately self-isolate, even if symptoms are minor, and call NHS 111.
- Those in Northern Ireland should call their GP.

*Source: 'Risk Modeling Engagement for PEF' 8/4/2019

SUPPLY CHAIN RISK: £55 MILLION OF GOODS STOLEN EACH YEAR AS A RESULT OF SUPPLY CHAIN FAILURES

Supply chain risks are a vulnerability for many business clients, with disruptions to supply chains accounting for over £55 million worth of goods stolen last year in the UK alone, according to research jointly conducted by The British Standards Institution (BSI) and insurer NMU, part of Munich Re.

Cargo crime is a particular problem. TAPA, the European association of security professionals, reported a 10.3% rise in recorded cargo crimes in the EMEA region in 2018, for example, with total losses exceeding €105 million.

Ian Allman, risk control manager at NMU, said the recent rise in cargo crime was "well documented.whether the proceeds are being used to fund organised crime or terrorism, it is a major concern for all".

Of course, whether your business is affected by cargo crime or not, **effective supply chain management is crucial** as it relates to the oversight of materials or indeed even information as they move in a process from supplier to manufacturer to wholesaler to retailer, before finally reaching the end consumer. As you can see, this is a complex and potentially precarious chain!

Successfully navigating and managing the risks presented by such a complicated supply chain that sometimes spans not only regional and national but sometimes international territory is never going to be easy, especially considering the countless precarious factors that can cause disruptions or liability issues across your entire supply chain.

Can I really manage supply chain risk? Is insurance the answer?

As every company is threatened by supply chain risk, then taking out insurance to protect yourself is strongly suggested, but just as importantly is the need to reduce the chances of being negatively affected in the first place. **We can help you implement a solution that will automatically monitor the health of your entire supply chain, which provides real-time monitoring that will alert you to problems that could bring your business to a halt, before they do.**

Most businesses don't rely on just one supplier, but on hundreds spread across the supply chain, underinsurance is a real risk.

PARAMETRIC COVER: PROVIDING IMMEDIATE LIQUIDITY

Insurers are sometimes unfairly criticised for being too slow to respond to the actual needs of businesses, but there can be little doubt that in one area in particular, notable efforts are being made to broaden the scope of cover significantly: parametric products.

In brief, parametric covers are risk solutions provided by insurance and reinsurance companies that enable organisations to finance or to transfer risk in a non-traditional way.

The solutions revolve around a measurable index and are based on predefined triggers or pay out mechanisms – without necessarily needing physical damage to occur.

According to trade body Airmic, parametric solutions seek to provide clarity of cover by minimising the risk of a mismatch between your coverage expectations and the actual indemnity payment made under the contract.

As Airmic suggests, parametric products can provide a welcome injection of almost immediate liquidity into your business at a time of crisis, required for essential operational and recovery costs, without the extensive scrutiny of indemnity policies, "invaluable in today's world where businesses can be heavily leveraged and maintaining a good reputation with lenders, investors and other stakeholders is critical".

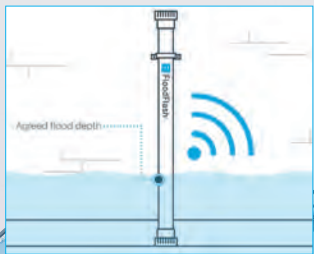
All well and good, but what's on offer in the UK?

Floodflash

With much negative media coverage of the response by UK insurers to those hit by floods, if you are a business owner in a flood-prone area, you might rightly be concerned that your business could not be covered in the event of a flood. But this is not the case. The UK insurance industry has been alive to this issue for some time and there are a number of innovative solutions now available which we also endorse as credible solutions to what can be an extremely worrying commercial risk- including an innovative parametric solution, Floodflash.

FloodFlash is an award-winning insurtech firm which offers a parametric insurance solution for commercial flood insurance. FloodFlash does not use loss adjusters in the event of any incident, nor are there policy wordings to consider. If the flood trigger depth you select has been breached the product will pay the full settlement amount selected within days.

The premium is specific to your business location.



Hotel profit protection

Last year Lloyd's of London unveiled a profit protection policy designed for the hotel industry, automatically indemnifying policyholders when losses from an unforeseen event cross a predetermined threshold.

The product will protect hotels from lost profits due to unexpected events occurring within their market that are outside the control of the hotel, like terrorist attacks, for example – which often result in denial of access when hotels come under police cordon areas or business interruption costs while tourists are deterred.

Once actual profits dip below forecast profits, based upon market trading data widely accepted by the hotel industry, a pay-out will be triggered.

Significantly, unlike similar products on the market, the requirement for named perils has been abolished as the occurrence of an insured event will be determined by industry data. According to Lloyd's, the product can be used to reduce cash flow volatility, negotiate contractual agreements and unlock contingent liability exposures for a number of parties in the hotel and hospitality sector.

INTELLECTUAL PROPERTY:

IP RIGHTS AT CENTRE OF NEWCASTLE UNITED TAKEOVER TUSSLE

The proposed £340m Saudi Arabian-backed takeover of Newcastle United could yet be blocked by the Premier League amid allegations that the Saudi government is effectively facilitating the commercial theft of the top flight league's international television rights.

The League last year accused Saudi Arabia of being complicit in "the ongoing theft of our intellectual property" by refusing to support legal action against pirate broadcaster beoutQ, who it is claimed is broadcasting matches illegally using the state-owned Arab Satellite Communications Organisation (ArabSat) throughout the Middle East and Africa.

According to Rule F.1.6 of the Premier League handbook, changes of ownership will be blocked if "in the reasonable opinion of the Board" the prospective new owner "has engaged in conduct outside the United Kingdom that would constitute an offence if such conduct had taken place in the United Kingdom, whether or not such conduct resulted in a conviction". **Why this matters is because copyright theft – otherwise known as intellectual property infringement - can be treated as a criminal offence in this country.**

What is intellectual property?

Intellectual property (IP) is a work or an invention triggered by an individual's creativity. It might be a manuscript, an invention, a product design, a symbol, name or image used in commerce, or a piece of literary or artistic work.

Creators – those who have the rights to the IP – can apply for legal protection in the form of patent, copyright and trademarks. This enables people to earn recognition or financial benefit from their creation.

Understandably, businesses will do everything they can to protect their IP from the prying eyes of competitors. In recent years, the global importance of IP rights and their related expenditures – lawsuits revolving around infringement of IP – have risen significantly. As a result, the benefits of intellectual property insurance are garnering more attention.

Understanding IP insurance

IP insurance covers companies for the legal costs associated with pursuing infringement or theft of IP. It also covers legal defence costs for policyholders accused of IP infringement or theft. There are two basic types of IP insurance:

Infringement defence is the most popular type of IP insurance. It covers policyholders for infringement claims brought against them.

Abatement enforcement coverage gives IP owners - the insureds – the financial resources to enforce their IP rights and pursue infringement claims.

And this can be an expensive area. According to the International Risk Management Institute, "the cost of IP litigation can be astronomical, and continues to increase each year. In certain cases, the high stakes of IP litigation can pose a very real threat to the company itself".

Simply put, IP litigation costs could have a substantial, material impact on a business, making risk transfer an absolute necessity.

Preparation is key when managing IP litigation risk. It is much easier to protect IP that's registered with a patent, copyright, or a trademark than it is for an unregistered creation.

In addition to formal registration, companies can make use of written agreements to further protect their IP assets. These written agreements can include: employment contracts, non-disclosure agreements, non-competitive agreements, and licensing agreements. Essentially, keeping a paper trail and keeping track of people involved in that paper trail is very important.

ENVIRONMENTAL RISKS: WEETABIX FINED £140,000 FOR RIVER POLLUTION

Weetabix's recent £140,000 fine for polluting a river with thousands of litres of diesel fuel and putting at risk fish and plant life has once again shown the importance of environmental risks.

The Environment Agency brought a prosecution against the cereal maker for polluting the River Ise, which is close to the company's plant in the town of Burton Latimer, near Kettering, Northamptonshire. The clean-up operation cost Weetabix £500,000.

The pollution happened on 10 November 2016 when 23,000 litres of diesel road fuel leaked from tanks contained in a bund on the Weetabix site and entered the river. Thankfully, wet weather combined with the way the river was flowing at the time limited the amount of damage to fish and plant life.

The firm, which uses locally grown wheat, has been manufacturing the breakfast cereal in the area since 1932.

Sailesh Mehta, prosecuting on behalf of the Environment Agency, referred to "corporate amnesia" by Weetabix in its failures to carry out appropriate checks on pipes and valves in storage facilities on the site.

Judge Mayo said in his ruling: ***"My considered conclusion is that this corporate amnesia amounted to a negligent failure Weetabix failed to keep records of what was on their site. Their plea recognises this failure."***

The judge said: ***"Had the diesel permeated the river in drier conditions there could well have been a significant adverse effect on animal health or flora."***

The leak occurred because of a problem with secondary valves which controlled the flow of the diesel fuel from five storage tanks overground.

There is a disused fuel storage facility onsite which was decommissioned approximately 20 years ago. In 2007 the Environment Agency sent Weetabix notices advising them to remove the pipework from the decommissioned tank but the company did not do this. When the valves in the fuel tanks overground were left open the fuel drained through these pipes into the river.

In his ruling, Mayo said Weetabix should have had proper records of the valves and underground pipes in the former storage facility but the company's risk assessment did not contain information about these secondary valves.

However, the judge accepted that before the incident Weetabix had a near spotless record on environmental compliance, employing highly qualified people to monitor health, safety and environmental factors, while a spokesman for Weetabix said its pleas reflected ***"how seriously we take our responsibility to the local environment".***

"We have operated safely and securely from our site in Burton Latimer since 1932 and are proud of our local record which includes promoting sustainable farming through our Wheat Grower's Group," the company spokesman added.

Can I mitigate the risk of environmental liability?

Our pollution liability policy addresses the core risks faced by any company operating from a site they own, lease or control, including their contracting activities at third-party or project sites, or transportation activities they perform in connection with the business.

This includes costs to clean up their own property or surrounding land and water, liability for third-party bodily injury, property damage and clean-up costs, environmental damage and costs incurred in responding to an emergency.

This policy also combines the coverage and benefits of our site pollution liability and non- project specific contractors pollution liability products.

WARRANTY & INDEMNITY INSURANCE: SELLER BEWARE!

When a business is sold a seller is usually required to provide various warranties to the buyer, but unfortunately these can be problematic further down the road.

Warranties are, in essence, statements of fact about the target business which protect a buyer in two primary ways: they help to flush out information which is inconsistent with the warranties that the seller is asked to give, and they give the buyer a contractual right to bring a claim against the seller in the event that they suffer losses in circumstances covered by a warranty.

According to law firm Michelmores, a seller will therefore remain at risk for the duration of the warranty period, which is typically up to 2 years from the date on which the business is sold for non-tax warranties, and up to 7 years for tax warranties.

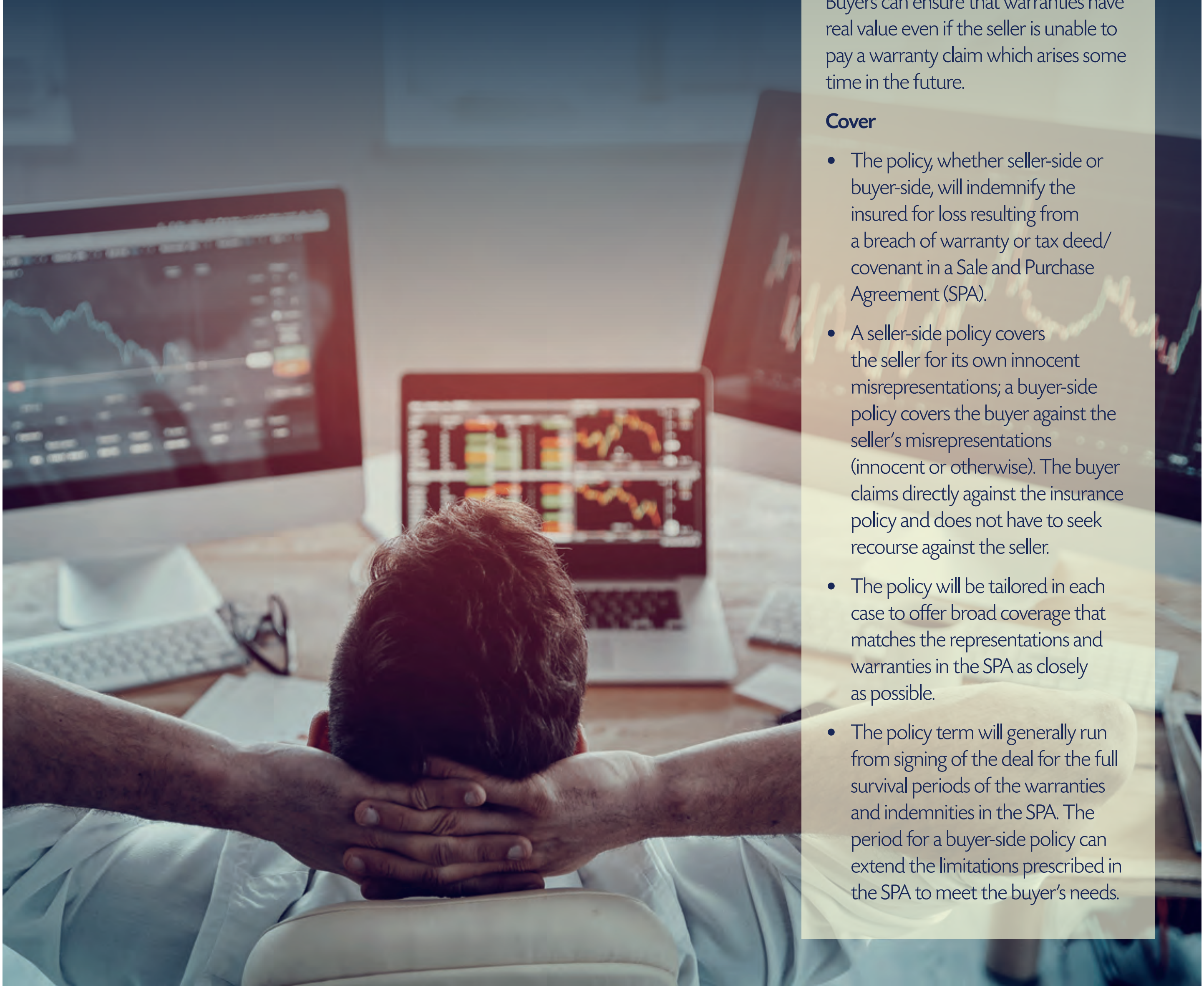
In the worst-case scenario, it adds, a successful warranty claim could result in a seller being obliged to pay back some or all of his sale proceeds. Indemnities can be even more severe, as they provide the buyer with a pound-for-pound remedy in the event that losses arise from a pre-identified set of circumstances.

What is W&I insurance?

Warranty & indemnity ("W&I") insurance is a tailored insurance product from which covers breaches in representations and warranties given in the sale of a business. Sellers can cover themselves to prevent sale proceeds being tied up in escrow accounts. Buyers can ensure that warranties have real value even if the seller is unable to pay a warranty claim which arises some time in the future.

Cover

- The policy, whether seller-side or buyer-side, will indemnify the insured for loss resulting from a breach of warranty or tax deed/ covenant in a Sale and Purchase Agreement (SPA).
- A seller-side policy covers the seller for its own innocent misrepresentations; a buyer-side policy covers the buyer against the seller's misrepresentations (innocent or otherwise). The buyer claims directly against the insurance policy and does not have to seek recourse against the seller.
- The policy will be tailored in each case to offer broad coverage that matches the representations and warranties in the SPA as closely as possible.
- The policy term will generally run from signing of the deal for the full survival periods of the warranties and indemnities in the SPA. The period for a buyer-side policy can extend the limitations prescribed in the SPA to meet the buyer's needs.



EMERGING WEALTH: INSURANCE FOR YOUNG PROFESSIONALS

Although the insurance market has often been criticised for failing to embrace technological change, there can be little doubt that in recent years attitudes have changed dramatically, and there are now a wealth of so-called 'insuretch' products available, providing new means of accessing insurance for a new demographic.

A key market for such products are the so-called 'emerging wealthy', who do not need to reduce debt, but are looking for the next steps as they begin to accumulate wealth, including protecting their assets. Typically, this group is more entrepreneurial in nature, and will have been born in the late eighties and 1990s onwards.

In partnership with Managing Digital Agent (MDA), Azur, we have therefore developed a product designed to cater specifically for this important sector. Called 'Smart Home', it provides clients with blanket buildings cover, unlimited contents and global all-risks cover, as well as tackling one of the key emerging risks with the addition of personal cyber cover.

KEY FEATURES:

- **Blanket Buildings** – We will pay what it costs to rebuild your client's home as long as the building sum insured of their home does not exceed £1,000,000.
- **Unlimited Contents** – Unlimited cover for general contents, £15,000 single article limit.
- **Jewellery** – Choice of up to £100,000 in cover for jewellery, £15,000 single article limit.
- **Art and Collectables** – Choice of up to £100,000 in cover for art and collectables, £15,000 single article limit.
- **Pedal cycles** – Choice of up to £30,000 in cover for pedal cycles, £4,000 single article limit.
- **Home Emergency** – £1,000 on cover for home emergency call outs that require immediate action.
- **Personal Cyber** – £50,000 in cover against cyber-attacks such as cyber fraud, cyber bullying and phishing.

HEALTH AND PROTECTION: ANNUAL SICK LEAVE COSTS UK £100BN A YEAR**

As any employer will be only too well aware, sickness absence can have a huge impact on a business due to the size of the workforce, so helping to meet the health and wellbeing needs of people before problems arise is crucial to keeping your business running successfully. Indeed, Public Health England estimates that the combined cost of "worklessness and sickness absence" amounts to around £100bn annually - or around 5% of GDP.

That's where having the right health and wellbeing benefits in place can make a real difference to your business and help to support your employees at the same time. **The right benefits package gives your employees far more options, helping to reduce time off work for appointments and offering faster access to treatment.**

Providing benefits such as private medical insurance or a health cash plan can give employees more freedom of choice and access to online GP services, reducing the need to take time off. Private health care cuts the time they need to wait for operations or other treatment, providing peace of mind.

Preventative health measures provided through a wellbeing programme can also encourage employees to be healthier overall and support them before health issues become a problem requiring time off work.

Including wellbeing as part of your overall benefits package can boost staff morale as well as reducing sickness levels, by showing staff how much you appreciate them.

What does a wellbeing programme involve?

- Employee assistance programmes (EAP) as part of a wellbeing strategy, offer access to counselling for all kinds of everyday worries and strains, by phone or even face-to-face.
- Mental health support such as access to an EAP or educational programmes and mental resilience training can all help people in crisis.
- Financial worries are a major cause of stress or anxiety for employees, leading to time off work. Access to financial education programmes or debt counselling can help improve wellbeing.
- Health screening services can make employees aware of potential health problems before they become real issues, enabling them to take control of their own health.

**Source: Public Health England released on 28/8/2019, 'Workplace Health: applying All Our Health'