

## Liability Exposures in a Rough Economy

An economic downturn can be a turbulent time for businesses in every sector worldwide. Sinking revenues and economic uncertainty can exacerbate our already litigious society, and even companies that successfully weather economic downturns relatively unscathed can still face long-term uninsured risks.

For this reason, we have compiled these tips to effectively manage your company's exposures as it adapts to the current business climate and moves into the next economic cycle.

### Supply Chain Dependency

It's no secret that in times of economic downturn, cutting costs is a necessity. However, it is important to remember that the financial security of your business can hinge on that of your partners, vendors and suppliers.

In a tough economic climate, do not rely on the insurance coverage of your business partners to protect your assets or prevent third-party liability claims. Any member of the supply chain can be held responsible for its counterparts' torts. A distributor, for example, may be liable for a claim filed against its manufacturer when it goes out of business.

Therefore, in order to protect your company, it is a wise long-term investment to expand your coverage limits. While it may be tempting to cut costs by limiting coverage, this decision could expose you to severe liabilities due to your supplier's shortcomings. If you currently

deal with foreign manufacturers or if you're considering outsourcing for the first time, talk to your local advisor about covering the associated risks.

### Rely on Solid Contracts

In times of economic change, it is more important than ever to ensure your protection with thorough, seamless contracts. They should clearly outline both parties' obligations and discuss dispute resolution policies to avoid messy and expensive disagreements. An indemnity term can be included in contracts with foreign suppliers in which the supplier consents to the jurisdiction of Canadian courts and indemnifies its sellers here in the event of a claim involving one of its products. However, that this contractual indemnity is only as valuable as the manufacturer's ability to pay.

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It is never a good business decision to sign a contract hastily, so be sure to explore all the risks and legal ramifications, especially in difficult economic times. Small companies who partner with larger companies are often strong-armed into making decisions with which they are not completely comfortable.

## Changing to Survive

For many businesses, change is an intelligent way of reacting to an economic crisis. It allows you to explore new customer bases and offer additional products or services. While expanding in either of these ways can revolutionize your business and keep you afloat in tough times, it could also expose you to additional liability you have not dealt with before.

When you begin to step into new lines of products or services, you will inevitably face a learning curve, which puts you at a larger risk of facing product liability claims. You may want to consider purchasing additional lines of coverage to protect yourself, as your surplus lines insurance policy may only cover claims arising from one particular product.

Shifting or expanding your customer base may also open you up to class action lawsuits. New markets may react differently to product failure. Thus, it is vital to be covered for potential liabilities resulting from a change in your business.

*If you have questions specific to your business, or would like additional information on accessing exposures associated with your business plan, contact your local advisor today.*



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Regina  
Moose Jaw  
+1 (888) 661-5959

[www.hendersoninsurance.ca](http://www.hendersoninsurance.ca)  
[www.navacord.com](http://www.navacord.com)  
H11@hendersoninsurance.ca

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