



## 2018 Market Outlook: Industrial

*Despite Optimistic Economic View, Key Challenges Threaten Industrial Firms' Ability to Compete*

Manufacturing companies are entering 2018 with significant optimism about global economic activity. Earnings and productivity are expected to increase this year as tax cuts signed into law in December 2017 boost economic growth and consumer spending. Nonetheless, there are key challenges that will continue to threaten companies' ability to compete effectively. A widening skills gap within the workforce, supply chain concerns, technology-related risks and regulation are among several major challenges facing the industrial sector in this New Year.

### Technology Risks

According to a report from the US Department of Homeland Security, manufacturing is the second highest industry of reported cyberattacks.

In 2018, increased connectivity and automation, with advancements in Internet of Things (IoT), robots, and 3D printing will only result in increased vulnerabilities. A cyberattack on Industrial Control Systems (ICS) could result in not only physical damage but also injury and death, especially if critical infrastructure facilities are targeted. Industrial firms remain vulnerable to data breach related to trade secrets, physical social engineering and hacking attacks, which include the use of sophisticated malware and other hacking software intended to cause denial-of-service attacks and business interruption losses.

A complete risk assessment and policy review is critical going forward. Companies need to make sure they have access to specialists who can perform these sophisticated tasks as well as risk management experts who can help them secure broad cyber and privacy policies.

### Impact of GDPR (General Data Protection Regulation)

In May 2018, the European Union is expected to enact GDPR, new regulations that will impact organizations established in the European Union, organizations that offer goods or services to EU citizens, including US companies, and organizations that maintain or process data on EU citizens.

The regulation requires organizations to demonstrate that they can safeguard and safely share information pertaining to EU citizens. Breaches must be reported to the national regulator of the EU member within 72 hours of discovery and in certain cases, companies are required to appoint a "Data Protection Officer" – a position that can be outsourced to a 3rd party provider in certain instances.

Non-compliant companies (regardless of their geographical location) can face fines of up to 4% of revenue.

To minimize GDPR exposure, US companies should work with their risk consultants to review

#### Key Points

- Key challenges ahead amid optimism
- Manufacturers frequent target of cyberattacks
- GDPR will impact US companies

their Cyber and Directors' & Officers' insurance policies to determine how they address GDPR-related exposures. Experienced risk consultants can assist companies with a thorough risk assessment and insurance preparation related to GDPR as well as assist in selecting vendors to perform GDPR compliance audits and other needs.

## Automation

Advances in technology have resulted in increased automation, which in turn is transforming the manufacturing industry and its workforce. These changes have created a need for different types of jobs and employee skill sets.

These changes have created more flexible and independent work environments. The changing workforce and skills required also mean companies have a greater need for employee training and effective loss control and safety programs.

Effective risk financing strategies and a tailored risk control plan are available to help companies address changes in risk profile, risk appetite, financial strength and loss history, and promote growth in this changing environment.

## Product Liability

Tougher consumer regulation, complex global supply chains, use of social media and consumer awareness have significantly increased product risks over the last decade, with this trend expected to continue in the coming years.

A recent study found that defective product risk was the largest driver of liability claims with recall being the largest cost driver. In addition, the food and beverage industry was found to have the highest number and cost of recall claims, second only to auto and industrial suppliers.

With regard to product risk, an organization's size doesn't matter; a third of recalls were from companies with five or fewer employees, with the average cost of a recall event approximately \$550,000. A thorough risk assessment, policy and contract review, and effective risk transfer programs can minimize exposure to a product liability event.

## What Insureds Can Do

It is recommended that clients be as proactive as possible and work with their broker to clearly articulate to carriers how their specific risk differs from other companies in the same industry. Pre-loss safety and loss control and post-loss claims handling strategies should be revisited, implemented across the organization and spelled out in market submissions, to ensure markets are aware of their strong risk management practices. *For more information on how USI can help protect your business, contact a USI consultant.*



Click to read the [2018 USI Insurance Market Outlook](#) report, which details expectations for 19 coverage areas including new expert insights on specific industry vertical markets.

### Key Points

- Greater need for employee training
- Product recall remains major cost driver
- Stay proactive on pre-loss safety, loss control
- 2018 Insurance Market Outlook