Outsourcing business functions
Protection you need for the benefits you want

Liberty Mutual INSURANCE

Farming out tasks and services cuts costs and helps companies focus on goals, gain expertise, increase efficiency, and share risk.[1] But without proper protection, the downsides could outweigh the gains.

Factors that make outsourcing more popular — and riskier.

Driver shortage.
A limited supply of qualified drivers is forcing companies to outsource, yet they can still hold the liability. Plus, as third parties fill the gap with unskilled drivers, crashes are more likely to happen, further driving up risk.

"Often, companies will outsource thinking they've eliminated their auto exposure. But they may still be responsible for ensuring that a qualified driver is behind the wheel, even if it's not their vehicle or their employee."
— Jon Tellekamp, chief underwriting officer, Excess Casualty

More reliance on the labor cloud.
It's easy for companies to match freelancers with project needs. But when contracts aren't in place or don't provide adequate protection, companies are vulnerable.

A focus on lean manufacturing.
To improve efficiencies and zero in on what they do best, many companies outsource segments of their supply chains. Without protection or backup plans, breakdowns can cause costly QA issues and even halt business.

Unregulated property abroad.
Property that's outside of the United States — and in your supply chain — may not fall under stringent regulations or benefit from risk engineering. This makes it prone to loss.

Increased use of temporary workers.
With a tight labor market and increasing cost benefits, more companies are staffing up with temporary workers. While this might save on labor costs, injuries on the job are often considered general liability losses. This means medical care and associated costs — which are not controlled — could outsize savings.

Shifts in responsibility.
Courts often impose some amount of responsibility for third-party actions on the companies that hire them, asserting the parent company is obligated to investigate the third party's safety practices, past violations, and operations before they do business.

More data privacy laws — and more leaks.
When companies outsource work involving customer data, they might be at risk if data is compromised. The team you're relying on might not have the protective resources and protocols you typically employ or the training to work with the same level of sensitivity.

1 Why Companies Outsource, Marty Pine, June 2, 2019, www.thebalance.com/why-do-companies-outsource-2553035.

7 steps to make outsourcing safer

1 Work with your legal department.

- Track third-party outsourcing and evaluate contracts. They should adhere to specified service standards; meet hiring, safety, and confidentiality practices; include risk management programs; and maintain essential insurance coverage.
- Include language for contractors to indemnify or pay for liability lawsuits that stem from their work.

2 Get extra protection.

- Require contractors and temporary agencies to add your company to their GL policies as an additional insured on a primary and non-contributory basis to make sure they can cover worst-case scenarios.[2] Clients can also add contractors as additional insureds.
- Make sure staffing and leasing companies include alternate employer endorsements on WC policies, so leased employees working on your premises are covered by the leasing company's coverage.
- Perform risk assessments on your suppliers. Put backup plans in place with vetted suppliers that understand and will adhere to your safety protocols. Consider adding third-party business interruption coverage.

3 Plan for rising costs.

Expect increasing frequency and severity of claims to make risk transfer solutions more expensive.

4 Assess supply chain risks.

- Arrange a backup supplier in case your main supplier can't execute.
- Get contingent business interruption coverage for third-party suppliers.

5 Review third-party safety policies.

- Include distracted driving, use of personal vehicles, and disaster preparedness.
- Perform regular compliance checks and follow through with consequences for violations.
- Update policies so workers and potential jurors take them seriously.
- Identify potential threats on premises to protect workers and customers.

6 Take extra steps with third-party auto.

- Look at the third party's Safety and Fitness Electronic Records System (SAFER) and Safety Measurement System (SMS) inspection and violation data.
- Require drivers to sign vehicle use agreements that cover laws, distracted driving, and alcohol consumption. Outline consequences for infractions.
- Evaluate liability coverage and set standards. Keep updated copies of certificates.
- Update your approved driver list and follow it.
- Encourage a culture of safety.

More than **7 million auto accidents** occur in the U.S. every year.[3]

7 Choose an insurance partner who will:

- Share the latest data on trends that are impacting claims.
- Understand your situation, industry, and unique risks.
- Offer tailored solutions for your business needs.
- Offer expert claims management that leads to the best possible outcomes, lowering your total cost of risk.
- Provide risk control resources, frequent webinars, and in-person training to help you identify and mitigate risk.

Partner with Liberty Mutual, and you benefit from the financial strength, security, and capacity of a Fortune 100 carrier. Go beyond business as usual.

We're here to help

By phone and email: Contact our team at the Liberty Mutual Risk Control Consulting Center for additional safety best practices, risk control toolkits, and more.

866-757-7324
rcconsultingcenter@libertymutual.com

Online: Visit SafetyNet™ to find risk control tools and resources, get guidance specific to your industry, and download safety- focused newsletters.

(Have your Liberty Mutual policy number ready.)

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2 Insureon, What is an additional insured? www.insureon.com/insurance-glossary/additional-insured.
3 National Highway Traffic Safety Administration, Police-Reported Motor Vehicle Traffic Crashes in 2016, crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/812501.

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