

What your insurance agent wants you to know about the year 2000 problem

Why is the year 2000 problem such a threat to my business?

Many computers were programmed in such away that they track only two of the four numbers needed to identify a year as falling within a particular century (for example, 81= 1981). When the century changes, they may confuse the year 2000 with 1900.

Besides your computer, the following may be affected: security systems, building equipment, production machinery, elevators, communications equipment, office machinery and medical equipment-any embedded software systems that use dates. These systems may fail or malfunction if potential errors are not identified and corrected before Jan. 1, 2000. Assuming that you rely on your computer for daily operations, you will suffer a loss of income from the shutdown and potential corruption of computer data unless you take steps now to correct the problem.

I have a policy that covers my computer. Won't it cover my lost income if the computer breaks down?

The typical Electronic Data Processing (EDP) policy excludes loss due to "programming error"-a phrase which describes the problem your computer will have in recognizing the year 2000. It will be doing exactly what it was programmed to do.

And though the pending year 2000 malfunction was not likely intended by the manufacturer, it could easily have been foreseen. The insurance mechanism works best when the event for which coverage is sought can be characterized as unintended, unforeseen and unexpected. Otherwise, an insurance company could be taken advantage of with expected losses.

My computer is year 2000 compliant. Should I still be concerned about this issue?

Yes. Everyone you do business with could impact your operations if their year 2000 problem has not been resolved. Your dependence on a supplier, a business partner or a customer makes you vulnerable to an interruption of your business. Again, your insurance protection is not going to respond to this kind of loss.

Your best bet is to ask those people you do business with when they expect to become year 2000 compliant. Being aware of a potential problem could save you in the long run.

What about my liability for damages incurred by people I do business with-am I covered for this?

If any of your property or products contains embedded software that malfunctions on Jan. 1, 2000, there may be coverage for bodily injury and physical damage to property, subject to a number of "ifs." The same would be true for the impact your malfunctioning computer could have on the business operations of others.

A critical factor will be whether you have made a good faith attempt to remedy the year 2000 problem in order to dodge the argument that the loss was intended, foreseen and expected. Most carriers intend to place an exclusionary endorsement on your policy prior to Jan. 1, 2000. Still another factor will be the way "property damage" is interpreted under the policy.

If the standard policies do not effectively cover year 2000 problems, can I purchase the coverage separately?

Yes, however, only a few insurers have entered this coverage arena. Premiums are high and policy limitations are significant. Check with our agency for current developments in this area.

What do you recommend?

Start with a physical inventory of all hardware, software and electronic devices owned, leased, used or produced by your company, and ensure that year 2000 compliance is achieved, beginning with the most critical functions of your business. It may be necessary to call upon the services of a consultant to assess all the exposures.

Next, inventory all business associations you have whose year 2000 problems could impact your operations, and obtain assurance that they will become compliant.

Corporate officers and directors have potential liability to shareholders that must be assessed. There may be government agencies or licensing authorities to consider. Obtaining legal counsel maybe expedient for some businessowners.

It will be necessary to monitor your progress in achieving your compliance goals. Stay informed and keep in mind that prevention is your best defense against year 2000 risks.

Your Professional Insurance Agent ... We want you to know about the insurance you're buying.

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