FMCG *Express*

Top five HR issues for 2020

Artificial intelligence -
do you own what you need?

Danger Ahead:

Navigating risk in commercial agreements

April 2020 Edition

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Welcome to the April 2020 edition of

FMCG *Express*

The events of 2020 so far are unprecedented and it is proving to be an increasingly unpredictable time. When we started working on our first edition of FMCG Express for 2020, COVID-19 had yet to hit Australia at full force. Australia already had a tough start to the year with drought and a devastating bushfire season. At that time, terms such as “COVID-19”, “social distancing” and “flattening the curve” had yet to enter our lexicon. The COVID-19 pandemic has since changed things forever.

The impact on the FMCG, retail and hospitality sectors has been profound. Certain areas of the FMCG sector are currently booming, while others are struggling or almost in hibernation. The manner in which businesses have changed their business models to help others at this time has been uplifting. Even McDonalds has pivoted into grocery basics in Australia.

COVID-19 has raised a plethora of issues for our clients, especially those in the FMCG sector, in a rapidly changing landscape. As employment law is a major issue at the moment, we have included an article on COVID-19 from one of our employment partners, Brett Feltham, in this edition. Please see our COVID-19 Hub for articles on a range of issues, from contract law, employment and privacy to temporary changes to insolvency law to deal with the crisis.

Gadens has also had some changes in 2020. We welcomed our new CEO, Mark Pistilli, in March and he has immediately shown his excellent leadership skills in steering us through these difficult times, particularly when we transitioned the entire firm to remote working. We have also welcomed three partners in the Corporate Team across Melbourne and Sydney, along with a new IT/Privacy Partner, Dudley Kneller, who has written an article for this issue of FMCG Express.

As always, please get in touch with any feedback and if you would like any further information on the issues discussed in this edition.

From our homes to yours - take care of yourselves and each other and stay safe.

Hazel McDwyer
Editor

In this issue

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Managing coronavirus in the workplace

Brett Feltham, Partner

To assist FMCG employers we have created a guide to serve as the foundation for business decisions regarding health and legal risk mitigation arising from Novel Coronavirus (COVID-19) and when creating and implementing business continuity plans as they relate to management of employees.

Understand the risk to your workplace and your overall obligations

- Keep updated on any changes to the current health advice and information from the Federal Government, state health agencies, and the World Health Organisation.
- All employers have obligations to ensure the health, safety and welfare of their employees and other persons in their workplace, as far as is reasonably practicable – employers need to assess the risks arising in their workplace and eliminate those risks where possible, and where not possible, implement control measures to minimise those risks.
- Responses to risks will necessarily change as new information becomes available.
- Employers should consult with employees and others with whom they work, and also other organisations who they operate in close proximity to or within a shared space with.
- Consider how any updated information or emergency notification can be provided to employees either using present systems or introducing new systems.

JobKeeper Payment scheme and Fair Work Act changes

- The JobKeeper Payment scheme is designed to help employers who qualify to retain staff during the downturn caused by the COVID-19 pandemic and support business recovery when conditions improve. JobKeeper payments are payable to eligible employers for a maximum of 6 months in respect of each eligible employee employed as at 1 March 2020 and who is retained by the employer (including employees who are stood down without pay).
- Qualifying employers will receive a payment (in arrears) of $1,500 per fortnight for each eligible employee, which must be then paid to the employee. The JobKeeper Payment may also be available to self-employed workers/contractors.
- The Fair Work Act has also been temporarily amended to assist employers who qualify for the JobKeeper Payment scheme to better deal with the economic impact of COVID-19 by increasing the flexible approach that can be adopted. There are strict conditions which must be met.
- An employer may be able to provide a stand down direction to an employee (including to reduce hours of work and to reduce them to nil), where the employee cannot be usefully employed for the employee's normal days or hours because of changes to business attributable to the COVID-19 pandemic or government initiatives to slow transmission. Changes to business could include, for example, less customers and the closing of stores.
- An employer may give a direction to an employee about alternative duties to be performed (if they are within the employee's skill and competency, they are safe and they are reasonably within the scope of the employer's business operations) and/or the location of the employee's work (where the place is suitable and if not the employee's home does not require unreasonable travel, it is safe and reasonably within the scope of the employer's business operations).
- An employer and an employee will also be able to make an agreement in relation to the days or times when the employee is to perform work (provided it does not reduce the employee's overall number of hours of work) or for the employee to take annual leave (provided the employee is left with at least two weeks' leave and can be taken at half pay).
- The Fair Work Commission made the decision to vary most modern awards as a response to COVID-19 to allow employees to access two weeks' unpaid 'pandemic leave' and enable them to take annual leave at half pay.

Employees working from home or remotely

- A primary control measure for infection control is social distancing, that is reducing and restricting physical contact and proximity between persons.
- It is reasonable for an employer to direct its employees to inform it as soon as possible where they are unable to attend work because of contracting COVID-19 or the need to self-quarantine.
- It is also likely to be a lawful and reasonable direction for an employer to direct an employee to not attend its workplace – where it is necessary to do so, an employer should check relevant industrial instruments and employment contracts to ensure that it is able to require an employee to work from home or a different location.
- Where home-based or remote working is possible and being considered, employers need to ensure that employees have all the necessary equipment in order to allow them to work effectively – it is critical that employers test their IT and other services prior to any implementation.

Employee leave

- Employees who are diagnosed with COVID-19 will be able to take their accrued paid personal/carer's leave.
- Consider what, if any, paid leave employees are able to access, in circumstances where they are required to self-quarantine but may not otherwise be sick themselves – advice should be sought in respect of particular circumstances.
- Employees may also take carer's leave where they need to provide care and support to a family member or member of their household.
- Consider what happens once any such leave is exhausted – some employers may grant special paid leave to those employees, while other employees may be required to take unpaid leave.

Establish or update policies and procedures

- It is important for employers to provide clear guidance to employees through their policies and procedures on when and how they can work from home or remotely, when they can take leave and so on.
- Re-review policies to ensure they are in compliance with all applicable laws, including but not limited to occupational health and safety and discrimination laws – if the business undertook contingency planning and/or implemented policies as a result of the past SARS, swine or avian flu outbreaks, then look to re-use that past work where possible.
- Communicate and redistribute existing or new policies and procedures to employees in order to be effective.

Continuous and ongoing communication is key

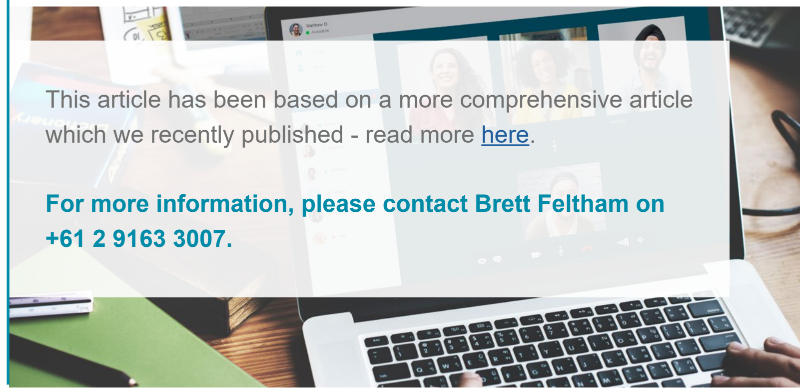
- Educate employees of the potential impacts of COVID-19 to ensure that they are well informed and are taking appropriate and proportionate steps to protect themselves and their family members from risk of infection.
- Employers should circulate information to employees and provide education on sound hygiene practices, respiratory etiquette, and other prevention measures.
- It is critical that employees are instructed to inform management if they believe that they may have been exposed to COVID-19 or show symptoms of infection, and ensure there is clarity around any request or imposed period of self-quarantining.
- Any decision on whether an employee is fit to work should be based on expert medical information and advice.
- Some employees may feel a heightened sense of anxiety as a result of COVID-19 and/or that they are at a heightened, personal risk of the effects of infection – consider how those employees can be supported from a well-being perspective and direct them to any employee assistance program which is in place.
- Where an employee has undergone a period of self-quarantine, consider whether they can only be able to return to the workplace upon receiving some form of medical clearance.
- Any employee who has developed any of the COVID-19 symptoms, such as a respiratory complaint, should be advised to seek expert medical assistance to obtain a diagnosis – if an employee starts to exhibit any of those symptoms while at the workplace, they should be given immediate medical assistance, with precautionary steps being taken to isolate them from other employees.

Implement other preventative measures

- Routinely maintain and thoroughly clean the workplace to minimise the risk of workplace transmission.
- Promote and encourage maintenance of personal hygiene at the highest standard and the use of handwashing facilities such as hand sanitisers.
- Provide proper safety equipment including hygiene products and offer employees on-site seasonal flu vacations.
- Consider limiting the number of non-employees and visitors to the workplace, and where it is necessary for such persons to be present, obtaining information from them as to whether they have undertaken any recent travel, and if so, where.

Other issues

- Consider whether it is necessary to suspend or limit business travel, and look for ways in which meetings can be conducted other than face-to-face through the use of technology.
- For employees undertaking non-work related travel, employees should be advised to exercise caution and adopt a practical, common-sense approach.
- Unfortunately there has been a reported increase in unlawful discrimination and vilification being directed at certain racial and national groups perceived to be more likely to have contracted COVID-19 or to be in contact with someone who has – remind employees discriminatory behaviour will not be tolerated and may be considered serious misconduct (businesses can be vicariously liable for conduct of their employees who discriminate against other employees).



This article has been based on a more comprehensive article which we recently published - read more here.

For more information, please contact Brett Feltham on +61 2 9163 3007.

Creative corporate restructures in the retail industry: *Woolworths Liquor* and *Harris Scarfe*

Penny Telfer, Senior Associate

Following the tsunami of retail businesses entering into administration, landlords across the country must be concerned about the future occupation of their retail assets. Many landlords have been in the process of re-weighting their portfolios. However, it remains to be seen whether this represents a good strategy in the longer term, particularly when acquiring such assets at a premium.

Against this backdrop, we have seen very significant activity by two major retailers who have pursued creative ways of restructuring their businesses. Whilst the methods employed are both unusual and in some senses draconian, they do appear to have facilitated the desired result in an ever changing landscape. We think it likely that more retail businesses with the benefit of creative advisors will follow suit in the immediate future.

Woolworths Group Limited – Liquor business

The first example is the restructuring of the Woolworths drinks and hospitality business to separate it from the Woolworths business under the “Endeavour Drinks” umbrella. Rather than seeking to assign the leases to a new entity in the normal way, Woolworths proceeded with the restructure by way of a lesser used restructuring mechanism contained in Part 5.1 of the *Corporations Act 2001* (Cth) (**Act**).

This form of scheme involves application to the Court for a Court ordered arrangement which effectively orders a transfer of assets (and liabilities) to the new entity and enables the applicant to bypass all of the normal assignment provisions contained in the affected leases (in this case numerous). It also has the effect of releasing Woolworths from its obligations once transfer has occurred.

In making a decision under this Part of the Act, a Court is required to consider the interests of affected third parties such as landlords. In this instance, Woolworths, were able to demonstrate to the Court that the restructure would not detrimentally impact third parties and presumably the financial standing of the proposed new entity has posed little if any obstacle to the application.

Harris Scarfe

The Woolworths strategy can be contrasted with the equally bullish strategy adopted in the purchase of Best & Less and Harris Scarfe in Australia by the Allegro funds umbrella (**Allegro**) via a share sale in Greenlit Brands Pty Limited.

In a strategic move as part of the purchase, Allegro also purchased the debt of both businesses. With the benefit of hindsight, it became apparent that Allegro acquired both the business and the debts in a calculated move to hold on to the Best & Less business and only hold on to the Harris Scarfe business if landlords were prepared to accept heavily discounted rents. Failing this, it seems the strategy was for Harris Scarfe to be restructured via a receivership and administration regime under the Corporations Act.

Typically, leases require Landlord consent to a change in control such as transpired in this transaction. However, the parties proceeded with the transaction without seeking Landlord consent and effected a discreet change in control. This was followed (very) shortly thereafter by brief consultations with Landlords and the swift entry of Harris Scarfe into receivership and voluntary administration.

The strategy used by the parties in this instance has been a bitter pill to swallow for many landlords who were no doubt in a flurry to have their leases reviewed and rights identified to challenge the change in control, only to have their efforts torpedoed by the appointment of receivers and administrators.

The administrators of Harris Scarfe will have no doubt received a barrage of complaints from unsecured creditors as Allegro stands in the prime position as a secured creditor. And, against this backdrop, the administrators will be searching for a buyer of the viable portion of the Harris Scarfe business.

No doubt some will query the veracity of the Act, which was originally designed for altruistic purposes to enable corporate entities to trade out of a bad place. It seems now that with some creative application, it can equally well be used to enable a corporation to offload underperforming stores (at the expenses of landlords) and repackage the viable portion of the business for sale.

Gadens has one of the largest retail leasing practices in the country and notwithstanding our extensive experience, we rarely see the Corporations Act coming into view in our day to day practice. Having the above two scenarios landing on our desks within a month of each other late last year is indicative of the brave new world our retail clients have been propelled into in recent times.

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Chinese Trade Mark Protection 101

Hazel McDwyer, Partner and Teresa Elmey, Trade Mark Attorney

With China being one of the biggest markets either by way of selling or manufacturing products, trade mark registration there is extremely important and often overlooked, until it is too late. Chinese trade mark law can be far from straightforward and should be considered well before entering the Chinese market.

There have been many instances where businesses have filed trade mark applications in China only to discover that they cannot use their own trade mark because a third party has beaten them to it, leaving them to face costly litigation, lengthy procedures to cancel existing trade marks, or having to rebrand entirely specifically for the Chinese market.

First to File

Unlike Australia which is a 'first to use' jurisdiction, Chinese trade mark law works on a 'first to file' basis, meaning any prior use of your trade mark is unlikely to assist in obtaining registration if a third party has beaten you to filing.

Similar to domain name squatters, unfortunately, this opens the door for rogue third parties to potentially seek registration of your trade marks in an attempt to extort funds by trying to sell the trade marks back to you, or use the trade marks to trade off the reputation of your business, which also has the danger of harming your valuable reputation. Trade mark squatters have been known to monitor overseas online trade mark databases anticipating a company's entry into China and filing those trade marks first, to see how much money they can extort from trade mark owners to get their own trade marks back, knowing companies will realise this is a cheaper and less difficult option over litigating a bad faith action through the courts.

This can be extremely frustrating, not to mention expensive and inconvenient to essentially 'buy back' your own trade mark, litigate or have to come up with an entirely different brand specifically for the Chinese market.

For these reasons, it is important to take steps to protect your brands in China as soon as possible, and well before any discussion with potential manufacturers or distributors. If China is even considered a possible jurisdiction of interest within three years, it is worthwhile seeking registration, knowing you have three years to use the mark before it becomes vulnerable to non-use cancellation.

With over seven million trade mark applications having been filed in 2018 alone, and over 22 million registered trade marks on the Chinese Trade Mark Register, this highlights the essential need to seek protection sooner rather than later in case you are faced with issues and end up needing to select a different brand for the Chinese market.

If you do not have the appropriate trade mark rights and are found to be infringing a third party's rights, the consequences can be significant, including being prevented from manufacturing and trading within the Chinese market, as well as from importing to and exporting out of China under your trade mark.

Made in China

Even if you only plan to manufacture products in China for export, it is equally important to obtain trade mark protection there. In December 2019, the Chinese Supreme Court ruled that applying a trade mark to products in the manufacturing process, even if only for the purposes of export, will distinguish the products' origin and therefore constitutes trade mark use.

It will not be enough to rely on any overseas registered rights you may have in the countries to which your products are being exported and, aside from the significant risks associated with infringing other's rights within China mentioned above, if you do not have appropriate registered rights, your products could now be stopped by Chinese customs from leaving China.

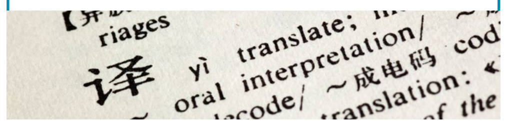
Chinese Language Trade Marks

Consumers in China who only speak a Chinese language may be less likely to recognise an English language trade mark. Therefore it is important to consider protecting the translation or transliteration of your trade mark so it may be recognised by Chinese speaking consumers, distributors and manufacturers. This can also avoid the costly exercise of litigation should a third party attempt to use the Chinese equivalent of your trade mark.

In the case of basketball star Michael Jordan, it took him years of legal battles against China-based sportswear company, Qiaodan Sports Co to partially win the right to stop the Chinese characters for his name, "Qiaodan" which is the Chinese word for "Jordan" and pronounced "Chee ow-dahn". Qiaodan Sports was not only preventing Michael Jordan from being able to use his own name in China, but no doubt trading off his extremely valuable reputation as well. Qiaodan Sports had, in the meantime, built up a multi million dollar business.

In coming up with a suitable Chinese name, there are several considerations. In particular, seeking trade mark protection for both the translation in Chinese characters as well as the Romanized or pinyin version, being how the Chinese characters are pronounced. In Jordan's case, while he was able to stop Qiaodan Sports from using the translation of the name Jordan in Chinese characters, it was far from a 'slam dunk' in that he was initially unable to prevent them from using the pinyin version "Qiaodan".

However, China's Supreme Court just ruled in favour of Jordan in March 2020 to prohibit Qiaodan Sports from using the Chinese translation of his name, ending an eight year legal battle.



If your trade mark is a made up word, it may be a trade mark needs to be created from several Chinese characters and it would be important to select characters that have suitable and positive meanings to Chinese speaking consumers.

In a more recent case closer to home, Southcorp Brands PL (**Southcorp**) was successful in Australian infringement proceedings when it alleged Australian Rush Rich Winery Pty Ltd (**ARRW**) was infringing its trade mark for the Chinese characters **"奔富"**, pronounced "Bēn Fù" in Cantonese and Mandarin and being the translation of "Penfolds".

In this case, ARRW was exporting wine to China bearing the Chinese characters **奔富**. The Australian Federal Court agreed with Southcorp and found that the trade marks PENFOLDS, Bēn Fù and **奔富** all have the same meaning to Cantonese and Mandarin speaking consumers, rendering all three trade marks to be substantially identical with or deceptively similar to each other and a clear infringement by ARRW. It was noted that infringement would occur even if it were only Chinese speaking consumers being misled.

This is a good example of why it is important to seek broad protection for not only the English version of your trade marks, but the Chinese character mark and pinyin version as well.

When selecting such marks, it is important to seek local advice not only to ensure the correct language and Chinese characters are being used, but to also be aware of to whom you are disclosing such information. We have a trusted network of expert agents in China who can assist with such matters, so please get in contact if we can assist you.

For more information, please contact Hazel McDwyer on +61 2 9163 3052.

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Direct marketing - time to switch to an opt-in approach?

David Smith, Partner

Changes to privacy law are coming

It seems almost certain that big changes to privacy and spam law will happen in Australia within the next 1-2 years. There has been a tide of significant changes to privacy law in other jurisdictions, most notably the European Union, through the General Data Protection Regulation (**GDPR**), and California.

In Australia, much of the impetus for reform has come from the Australian Competition and Consumer Commission (**ACCC**). The ACCC issued its final report on its Digital Platforms Inquiry in July 2019.

The Commonwealth Government supports many of the ACCC's recommendations on privacy law, and has announced a program for developing and implementing specific responses. Most notably, the Government will undertake a review of the Privacy Act, to be commenced in 2020 and completed in 2021, "to ensure it empowers consumers, protects their data and best serves the Australian economy". For more on the Government's position, see our earlier article.

Benefits of changing your commercial practices now – opt-in versus opt-out

Companies often run promotions and competitions in connection with their products. Apart from boosting sales, these activities aim to build the companies' direct marketing databases.

In recent years, many companies have taken an "opt-out" approach to building their databases. This might, for example, involve:

- stating in the terms of the promotion that by entering, individuals consent to join the marketing database;
- including a similar statement in the "legal copy" on any advertising for the promotion; and
- including a similar statement on the entry form where entrants complete their personal information.

When a company subsequently sends direct marketing communications to a person who entered the promotion, it includes an unsubscribe message. The company then honours any "opt-out" request by that person.

One of the ACCC's recommendations is that the Privacy Act 1988 (Cth) is amended to strengthen consent requirements. Under the ACCC's proposal privacy settings enabling the collection of user data would be required to be pre-selected to "off" and unbundled with consents for any data collection for the purposes of supplying the core consumer-facing service (such as offering the opportunity to enter a promotion).

Consent would require "ticking a website, actively selecting a setting that enables the collection of personal information, or another statement or conduct that clearly indicates the consumer's acceptance of the collection, use or disclosure of their personal information". Silence or a pre-ticked box would not suffice.

While the ACCC speaks specifically about the Privacy Act, we assume it intends the same consent requirements would apply under the Spam Act.

The Government supports the above recommendation in principle.

The GDPR also changed the requirements for a valid "consent". The relevant definition in the GDPR states:

'consent' of the data subject means any freely given, specific, informed and unambiguous indication of the data subject's wishes by which he or she, by a statement or by a clear affirmative action, signifies agreement to the processing of personal data relating to him or her.

Shortly before the GDPR took effect many companies sent emails to their marketing databases, asking individuals to respond affirmatively if they wished to remain on the database. This had to occur because the GDPR did not grant any exemption to the new consent requirement, for existing databases where consent may not have been obtained to that standard. Many individuals (including in Australia) received a large number of these requests at around the same time, shortly before the GDPR commenced.

It seems almost inevitable that the ACCC's recommendation for strengthening consent requirements, or something similar, will be given legislative effect in Australia within the next few years and quite possibly, in 2021.

It also seems unlikely that any "grandfathering" exemption for existing databases would apply when the change takes effect in Australia. Otherwise, companies that have taken a "riskier" (i.e. opt-out) approach to obtaining consents up to that time would receive what some might regard as an unfair benefit, which they might be able to exploit for some years into the future.

Therefore, it would appear likely that before the change takes effect, we will see a flurry of emails by companies to their databases requesting consumers to "reply yes" to remain on the database. A consumer receiving numerous emails of this type may well decide to ignore some or all of them. Instead, we suggest that a company could consider changing its approach now.

If a company switches to an opt-in approach now (and clearly records which members of its database provide this opt-in consent), it will probably be able to build its database on that basis for a year or two before any change is implemented at the Commonwealth level. It will not have to get caught up amongst the flurry of emails referred to above, when the law does change. One might reasonably expect that the company will receive more "opt-ins" by "organically" requesting them over the next couple of years at the point of collecting a person's data (e.g. when they enter a promotion) than in response to an email of the type referred to above, sent shortly before the change to the law takes effect.

In this way a company might obtain a material commercial advantage by switching its approach now rather than later.

Pros and cons

Of course, switching now is not a risk-free option from a business perspective. An argument could be made that it is better to persist with a "robust" (i.e. an opt-out) approach to obtaining consents for as long as practically possible, bearing in mind that while a change to the law within the next 2 years or so seems very likely, it is not a certainty. This is a judgement every business will have to make for itself.

A more detailed version of this article is available here

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Artificial intelligence – do you own what you need?

Donna Bartlett, Partner and Aya Lewih, Lawyer

*The use of artificial intelligence (**AI**) has been embraced by many industries, with the FMCG industry being no exception. If you are in the FMCG industry, you may have noticed a shift in how AI is viewed within your organisation. Many FMCG businesses are starting to consider AI as a business necessity, rather than an innovation to gain competitive edge.*

AI has many functions in an FMCG context, but in particular, it is used to enable the driving of efficiencies in the supply chain and provide insight to emerging and trending consumer behaviour patterns. AI programs which pull together data from a range of sources are particularly favoured, empowering businesses to make data driven decisions.

While the benefits of AI to the FMCG industry are clear – the use of AI also raises a range of issues around ownership of outputs from the AI program and its use.

What is AI?

At a high level, AI refers to the branch of computer science aimed at making machines learn how to carry out tasks in a manner that simulates human intelligence and behaviour. A particular subset of AI, which is the focus of this article, is machine learning, which refers to AI programs that learn and improve from experience through access to data rather than from being programmed to do so.

What is AI Output?

In the context of machine learning, we are referring to AI Output as both the learning and improvement in the AI program that derives from the data it receives (i.e. the enhancements, modifications and improvements to the AI program) as well as the actual outputs from the use of the AI program. AI Output is arguably the most valuable component of the AI program to your business. The learning an AI program gains from the data provided to it drives how valuable and tailored the use of the AI program becomes to a particular organisation.

The ownership position

The code in the AI program itself will generally attract intellectual property protection as an 'original literary work' under applicable intellectual property laws. It is less clear however whether this same protection will extend to the AI Output. This is due to the AI Output, when it is a computer-generated work, having no identifiable human author. In Australia, and other jurisdictions, copyright protection requires the creation of original works expressed in material form – however, a human author must create these works.

The requirement for human authorship was considered as far back as 2010 by the Federal Court of Appeal which held, in agreement with the trial judge, that copyright did not subsist in Telstra's White and Yellow Pages as the extraction process to produce the directories, was a largely computerised process. The trial judge, considered that the directories were not 'original works', explaining:

> *"…A majority of the creation process of the WPD and the YPD was **heavily automated. Human intervention was regulated and controlled according to either the various computer systems in place including the Rules… Very few people had any part to play in the final presentation of the Works or the particular form of expression of the information.** Those people, again, could not have been said to have exercised 'independent intellectual effort' and / or 'sufficient effort of a literary nature'…"*

Telstra Corp Ltd v Phone Directories Co Pty Ltd [2010] FCA 44 [at 338].

Protecting AI Output

Given the lack of certainty around intellectual property protection for computer-generated outputs, there is recognition in Australia and globally of the need to review intellectual property laws to address ownership and protection issues in the era of AI technology. Until such reforms in the law take place, appropriate terms in contractual arrangements are necessary to clarify the position for your business.

The particular contractual terms required will depend on the manner in which the AI program is being provided to your business. For example, if the AI program is licensed, it is important that the licence agreement addresses the following:

- who owns the data inputs used to 'teach' the AI program;
- who owns the AI Outputs; and
- who owns the enhancements, modifications and improvements to the AI program which result from use of the data and the machine learning by the AI program.

The licence agreement should also address rights and restrictions, including confidentiality obligations in respect of access, use, reproduction and modification of the AI Output.

By utilising appropriate contractual protections, your business can obtain the necessary rights in respect of its AI Output to maximise the value of the investment into AI and to protect your business from competitors exploiting your AI Output to their own advantage.

For more information, please contact Donna Bartlett on +61 2 9163 3025.

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For the want of a nail, the shoe was lost ….
The Takata Recall

Antoine Pace, Partner and Zein Jomaa, Lawyer

The Takata Recall – the problem

Few recalls in recent times have received as much publicity as the recall of vehicles installed with defective safety airbags manufactured and supplied by Takata, demonstrating that a defect in a relatively small component in a motor vehicle (or any goods) can have potentially severe impacts.

At its core, the defect arose from an instability in the propellant used to inflate the airbag. As a result, when the airbag is triggered and deployed during a collision, it may deploy with too much explosive force, rupturing the airbag inflator housing so that sharp metal fragments are ejected, potentially injuring or killing vehicle occupants.

The manufacturer of the airbags has filed for bankruptcy protection in various jurisdictions, resulting in the vehicle manufacturers being left primarily liable for the defect in the vehicles themselves.

Prior to the responsible Minister issuing the compulsory recall notice, a number of vehicle manufacturers and importers in Australia had undertaken voluntary recalls, but the response from the automotive industry was not uniform, with inconsistent treatment between brands leading to consumer confusion.

The recall notice for the Takata Recall

On 27 February 2018 the responsible Minister issued a compulsory recall notice pursuant to section 122 of the Australian Consumer Law (ACL) in Schedule 2 of the *Competition and Consumer Act 2010* (Cth) regarding defective Takata airbags, which commenced on 1 March 2018 (the Takata Recall).

The compulsory recall notice was issued because the responsible Minister had formed the view based on evidence provided by the Australian Consumer and Competition Commission (ACCC) that:

- a reasonably foreseeable use of vehicles with defective Takata airbags may cause injury to drivers and/or passengers; and
- one or more suppliers of vehicles with defective Takata airbags had not taken satisfactory action to prevent those vehicles causing injury to drivers and/or passengers.

Consumers are being urged to take immediate steps to have their airbags replaced and to stop driving their vehicles immediately if their car is under "critical" recall. Takata airbags in the "critical" category pose a heightened risk of injury or death.

Product recalls and the role of the ACCC

The ACCC monitors and facilitates consumer product recalls in accordance with the ACL. Generally, a product recall is initiated when a consumer product is identified as having a safety risk to members of the public. This can occur on a compulsory or voluntary basis.

Compulsory vs voluntary recalls – what's the difference?

A voluntary recall involves the supplier of a consumer product commencing a recall and taking action to remove and retrieve unsafe products from consumers and the marketplace. In consultation with the ACCC, suppliers will typically dictate the manner and timing of the recall. Voluntary recall notifications are most conveniently submitted by suppliers or their representatives through the ACCC Product Safety Australia portal which also satisfies the mandatory notification requirement under section 128(2) of the ACL.

In contrast, a compulsory recall empowers the responsible Minister to

"order a supplier to recall goods that may cause injury to any person if it appears to the Minister that the supplier has not taken satisfactory action to prevent the goods from causing injury"

(see the ACCC's "Consumer Product Safety Recall Guidelines"). Unlike a voluntary recall, the responsible Minister will dictate the manner and timing of the recall.

This has been evidenced throughout the Takata Recall, in which the responsible Minister has:

- determined that the replacement of defective airbags to be the most appropriate form of remediation; and
- imposed a recall and replacement timetable on suppliers to facilitate the recall in a timely fashion.

Domestic and global implications of the Takata Recall – the numbers

The ACCC has reported that:

- the Takata Recall is the world's largest automotive recall with an estimated 100 million affected vehicles worldwide and is the most significant compulsory recall in Australia's history with over 4 million affected Takata airbag inflators and involving more than 3 million vehicle recalls;
- defective Takata airbags have resulted in at least 29 deaths including at least one in Australia and over 320 injuries worldwide including at least one serious injury in Australia.

The ACCC has also reported that approximately 3.56 million airbags have been replaced however approximately 300,000 airbags are yet to be replaced.

Product recalls can be extremely costly with the average cost of a significant recall amounting to US$12 million and "ripple effect" events potentially costing billions.

You can check if your motor vehicle is subject to the Takata Recall here.

Takata's troubles continue

On 17 December 2019 the ACCC announced that approximately 78,000 further vehicles manufactured by Audi, BMW, Ford, Honda, Mazda, Mitsubishi, Suzuki and Toyota between 1996 and 2000 were fitted with defective airbags separate to those subject to the Takata Recall. This is known as the Takata NADI 5-AT airbag, and suffers from a similar defect.

All eight manufacturers have each since commenced voluntary recalls with current remediation efforts ranging from airbag replacements (BMW) to vehicle buy backs (Audi, Ford, Honda, Mazda, Mitsubishi, Suzuki and Toyota).

You can check if your motor vehicle is subject to this most recent recall here.

Sale or advertising of recalled products

The sale or advertising of products that are the subject of an active recall may give rise to the imposition of pecuniary penalties. On 31 January 2020 the ACCC announced that three corporations had paid penalties amounting to $63,000 for selling or advertising vehicles that were subject to the Takata Recall.

Lessons to be learned

- Any "consumer goods" (see section 3 of the ACL) that are defective and that may give rise to a safety risk to members of the public must be recalled under the ACL.
- Voluntary and compulsory recalls significantly differ from one another with the former allowing greater flexibility and control in determining the manner and timing of a recall.
- Persons selling products that are subject to an active recall must cease selling or advertising such products.
- The manufacture, importation or sale of unsafe products can give rise to liability not under the ACL, but under various other laws (including the law of negligence) as well.
- The most insignificant components can give rise to a risk and consequently a recall. But for the nail (i.e. the airbag inflator propellant), the horse and rider, and so the battle, were lost (i.e. vehicle had to be taken off the road to be remediated or scrapped).
- It may be prudent to include product recall and indemnity clauses in product manufacture and distribution agreements, requiring the manufacturer to assist the distributor in the event of a recall.
- It is also very important for suppliers to engage collaboratively, as far as possible, with the ACCC before commencing a recall particularly where recalls have commenced globally to ensure compliance with domestic requirements.

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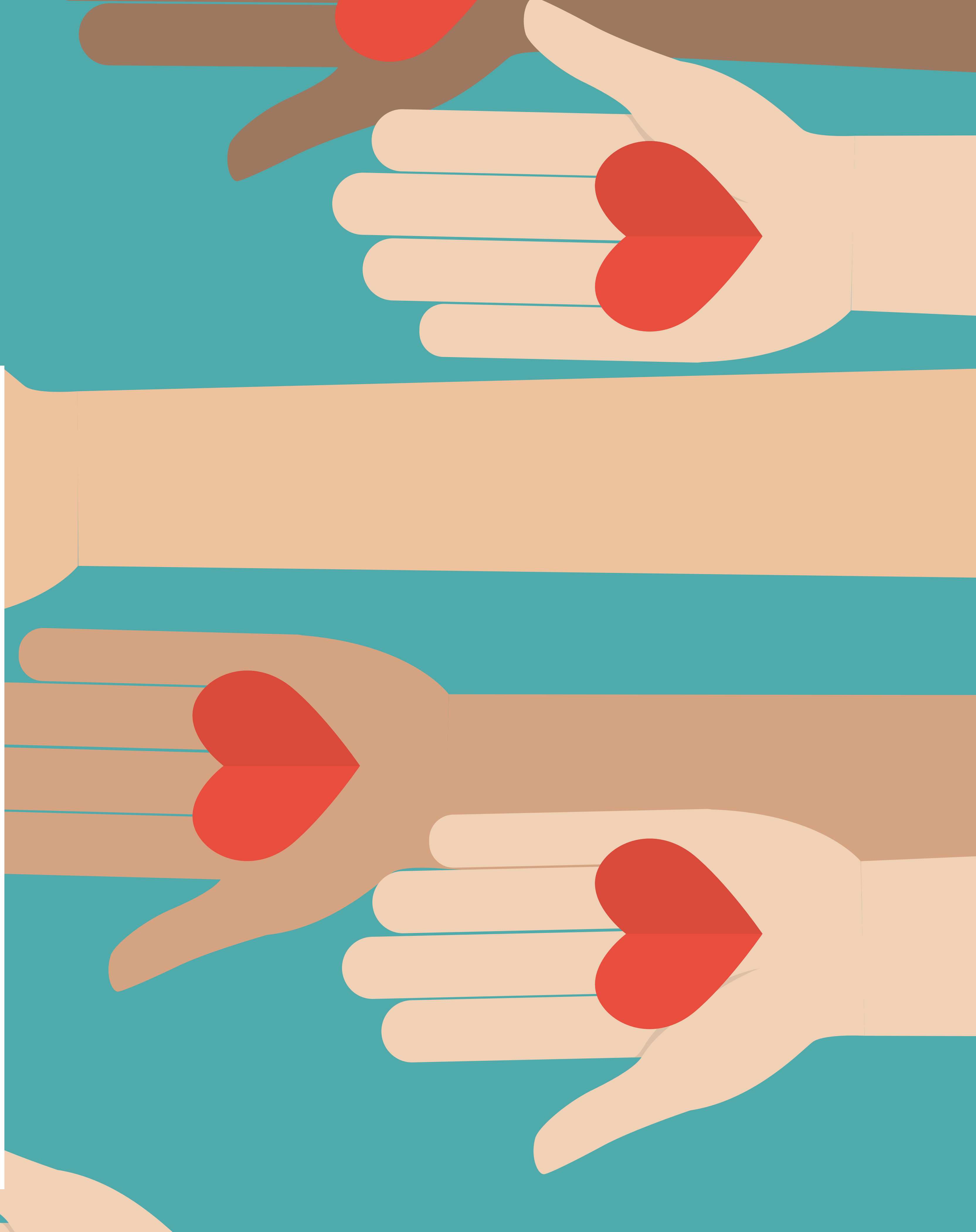
Cause marketing claims: the dangers of using charity as a marketing tool

Edward Martin, Partner



Many companies have announced significant charitable donations and initiatives, which seem indicative of their commitment to corporate social responsibility and corporate culture. Not the point obviously, but these efforts are good for the brand and good marketing generally.

There is, however, a risk of businesses getting publicity around charity wrong, so it is important to take some care when announcing and engaging in these kinds of initiatives.

Regulatory Guidance

There are no specific guidelines directed to advertising donations of profits or advertising a charity affiliation from the Australian Consumer and Competition Commission (**ACCC**), the Advertising Standards Board or the Australian Association of National Advertisers. That said:

- While the ACCC does provide guidelines for charities that outline their obligations under the Australian Consumer Law (ACL), the document is not directed towards companies engaging in one-off or short term donation or fundraising campaigns. So-called 'cause marketing' claims against companies are instead primarily made under ss 18 and 21 of the ACL for misleading or deceptive conduct where the fundraising activity is in the course of trade or commerce.
- In NSW, other than one-off advertisements that a portion of profits will be donated, under the *Charitable Fundraising Act 1991 (NSW)* companies wishing to embark on a marketing campaign with a charity partner would need to enter into a written agreement with the charity partner and include details of the intended distributions of the funds raise in the marketing campaign.

Cause marketing case law

The most important guidance around cause marketing is likely to come from relevant ss18 and 21 case law.

An example of a cause marketing case is currently playing out in the Federal Court as in December 2019, the ACCC commenced proceedings against eyewear company Oscar Wylee for alleged misleading or false representations about its charitable donations and affiliations. The case is due to come before the Court in September although the timing and nature of any hearing is likely to be affected by the strains that the COVID-19 pandemic has placed on the Court.

Oscar Wylee ran a 'Buy 1 pair, give 1 pair' campaign and issued marketing materials that said every time a consumer bought a pair of glasses from Oscar Wylee, it would donate a pair of glasses to someone in need. The ACCC alleges that only 3,000 pairs of glasses were donated, despite over 320,000 pairs of glasses having been sold.

The ACCC also alleges that although Oscar Wylee represented that it had 'partnered' with a charity to help build sustainable eye care programs in Cambodia, the actual association with the charity was limited to a one-off donation of $2,000 and 100 frames.

If the case proceeds to trial (noting that the parties were ordered to mediate), the Court may have an opportunity to provide some judicial clarity around approaching cause marketing but, in any event, the commencement of this case alone provides a salutary lesson for FMCG companies.

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Danger Ahead: Navigating risk in commercial agreements

Breanna Davies, Special Counsel

You don't need to be a High Court judge to recognise that the average commercial agreement is becoming lengthier and more complicated, and there seem to be more and more of them coming across everyone's desk.

The challenge for an organisation to mitigate the risk of that exposure is immense, and can be overwhelming. Many organisations do not have the time, energy or budget to outsource the review of all of these agreements to external legal advisors or even to specialist in-house legal counsel (particularly when such lengthy agreements may relate to what appear to be financially insignificant transactions).

While the key risk drivers will be different depending on the industry and the tolerance of each organisation, there are some legal drafting points that we suggest you should always take heed of. This may also be of assistance in preparing an internal contract playbook, or a guide to streamline your contract review and approval processes, where you need to explain to your team why a certain position is taken.

A playbook is a helpful tool to allow an organisation to set out frequently negotiated clauses (especially in internal precedent contracts), explain why the provision is included and then set out the parameters by which the final document may deviate from the preferred precedent position. Such a guide can be helpful so that those team members (both legal and non-legal) understand how they may negotiate the clauses without needing to liaise directly with legal on each occasion.

1 | Indemnities

If there are no indemnity provisions in an agreement, then any claim by a party pursuant to that agreement would simply be for breach of contract (and, where successful, the remedy is most typically an award of damages). Alternatively if the agreement does contain indemnities, then a contractual claim may potentially be made on an indemnity basis. Indemnities could cover losses connected with damage to property, personal injury, intellectual property breach, or even for loss suffered as a result of breach of contract. The latter turns what would typically be a contractual breach claim, into an indemnity claim.

Being able to make an indemnity claim gives specific advantages for the claimant by generally providing them compensation for all loss suffered, and allowing them to pursue the matter as a claim in debt. Depending on the drafting of the indemnity, it is possible that loss or damage which does not usually flow from a breach of contract, or which was not contemplated by the parties at the time the contract was entered, may be recoverable under an indemnity.

If there are indemnities in your agreement they should be reviewed carefully. If you are the party most likely to be affected by those indemnities (eg you are the party providing the services) then you may wish to consider if those indemnities can be deleted entirely, amended to limit the scope, or that relevant and appropriate limitations on your liability can be included.

Where indemnities are expressed to apply mutually, the overall outcome may not be mutual in circumstances where one party has significantly more exposure to a claim being made against it pursuant to those indemnities. Therefore, if you are a party providing the services or selling assets don't blindly concede on mutual broad form indemnities.

If indemnities are included in final agreements, please also be aware of any obligations to notify and consult with your insurers to confirm that risk is insurable. If you cannot insure against an indemnity risk, you may need to walk away from the transaction. In our experience there is usually a path forward.

2 | Limitations of liability

There are various ways that liability can be limited under an agreement, for example by:

- excluding defined heads of consequential loss;
- including time limits for the making of claims and financial limits on claims (including liquidated damages or limited to a multiple of fees received);
- including an obligation to mitigate loss (particularly relevant when considering indemnities); or
- limiting claim amounts to insurance proceeds.

If you have limited negotiating power to amend your commercial agreement, the inclusion of such limitations on your liability may be an effective way to minimise your risk. In your internal contract negotiation guide it can be useful to set out options for these limitations of liability. For example, we are finding that an exclusion for consequential loss is likely to be accepted, but the drafting of the definition of consequential loss is then hotly debated.

3 | Final thoughts

- Consider a playbook or internal guide to have pre-mandated positions on commonly negotiated terms.
- Ensure that there is recurrent team training so that contractual risks are understood and escalation protocols are in place.
- Seek legal advice to ensure that precedent contracts are updated, and that any requested unusual terms are negotiated in the most favourable position for your organisation.

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When is a style name, product description or sub-brand a trade mark?

Kerry Awerbuch, Partner and Madeleine McMaster, Associate

Good brand management dictates that all signs, such as words and graphics, used to identify a product are reviewed prior to use to understand whether the proposed usage is "use as a trade mark" and if so, whether the sign is available for use or already in use by a third party.

"Use as a trade mark" is an important concept in trade mark law. It is not possible to infringe a third party trade mark unless the threshold requirement of "use as a trade mark" is met. Further, trade mark registrants must ensure they use their trade marks "as a trade mark" to remove the risk of successful non-use cancellation actions being run against them.

Two recent Federal Court decisions are of interest to businesses that use prominent style names or product names to differentiate their products. Both decisions make it clear that not all style names or product descriptions operate as "trade marks", but the context of use, industry norms, the nature of the sign and the purpose of use are all relevant considerations.

The bikini battle

In *Pinnacle Runway Pty Ltd v Triangl Limited* [2019] FCA 1662, Pinnacle Runway Pty Ltd (**Pinnacle**) brought an action for infringement of its trade mark, DELPHINE, against Triangl Limited (**Triangl**).

Triangl sold a range of floral bikinis under the "Triangl" brand, using various female names as style names in the range. It used the style name "Delphine" for three of the bikinis in a series of website and electronic direct mail (**EDM**) contexts, including as shown below:

Pinnacle's DELPHINE trade mark was registered in class 25 in relation to clothing, headwear and swimwear. Pinnacle alleged Triangl's use amounted to trade mark infringement. Triangl denied infringement on the basis that the use of the style name "Delphine" was not use "as a trade mark". Triangl argued it was common practice in the industry to use female names as style names (and in fact, was a practice adopted by Pinnacle itself). Further, consumers understood the brand "Triangl" as the badge of origin in the context in question.

Justice Murphy found Triangl's use of "Delphine" as a style name was not use as a trade mark and therefore did not infringe Pinnacle's trade mark registration for DELPHINE on the basis that:

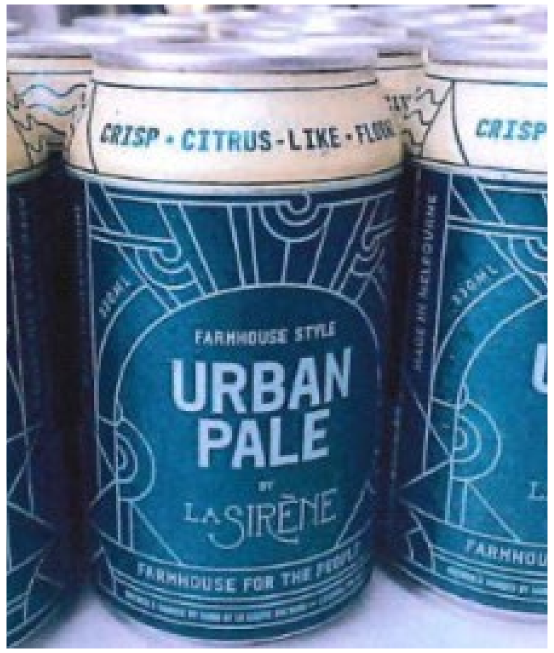
- Triangl did not intend to use the style name "Delphine" to distinguish its products from the products of other traders. The intended use was as a reference point for consumers to distinguish between goods in its range;
- the context of the use meant that TRIANGL was always the dominant sign, whether on the webpages or in EDMs sent to subscribers, with the "Delphine" style name listed in smaller font; and
- there is a widespread industry practice of using style names for fashion garments, in particular female names, such that consumers do not consider style names to have any particular trade mark significance.

Pinnacle has appealed the decision, despite Justice Murphy describing the initial proceedings as "ill-advised".

The beer brawl

In *Urban Alley Brewery Pty Ltd v La Sirène Pty Ltd* [2020] FCA 82, Melbourne-based brewer, Urban Alley Brewery Pty Ltd (**Urban Alley**), sold beer under its URBAN ALE trade mark, which was registered in class 32 for "Beer".

La Sirène Pty Ltd (**La Sirène**), sold and continues to sell a significant number of beer products under labels which incorporate the "La Sirène" trade mark. In 2016, La Sirène launched a new pale ale product. The label for the product incorporated the words "Farmhouse Style Urban Pale by La Sirène" with the words URBAN PALE prominently featured, in the following format:



Urban Alley commenced proceedings for trade mark infringement on the basis that the use of URBAN PALE infringed its rights in the URBAN ALE trade mark.

There was no dispute on the question of whether URBAN PALE was substantially identical with or deceptively similar to URBAN ALE. However, La Sirène argued that its use of URBAN PALE was not "use as a trade mark".

La Sirène's defence was successful, with Justice O'Bryan finding:

- the use of the words "La Sirène" was sufficiently prominent to convey the source of origin of the product (this was irrespective of the large format of the words URBAN PALE);
- each of the words ("urban" and "pale") were descriptive when used in relation to beer and therefore less likely to function as a trade mark. Consumers would understand the name to indicate the nature and style of the beer (i.e. "urban" signifies that it is an inner-city craft beer, and "pale" indicates the style of beer, being pale ale); and
- other use by La Sirène of the URBAN PALE name was always closely associated with the La Sirène brand (i.e. on its website and Instagram account).

Key principles

It is important to view style names, product descriptions and sub-brands objectively to understand whether they are being used "as a trade mark", in particular:

- Consider the context. How will a consumer understand the word or sign to function? Is the font size and style prominent? Is there a more prominent core brand that consumers will understand to function as the sole badge of origin?
- Consider the industry. Is it common to use a series of names or terms to distinguish between products in a range? If so, a name or term within a range is less likely to be used, or understood to be used, as a trade mark.
- What is the sign? Distinctive signs, including made-up words, are far more likely to function as a trade mark than a term that describes the qualities or characteristics of the product.
- What is the purpose of the usage? While the question of trade mark use is primarily an objective one, if the purpose of a sign is to distinguish between products in a range, or to describe the features of a product, rather than to distinguish the product from those of another trader, the usage is less likely to be understood as "use as a trade mark".

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Top five HR issues for 2020

Brett Feltham, Partner

Last year saw a number of changes across the employment landscape that have had a significant impact on HR and people teams in all industries, and that trend seems set to only continue. In this update we summarise what we see as the top five HR issues of 2020 for our FMCG clients.

1 | Employee (mis)classification

In recent times, the Fair Work Ombudsman, government and media have devoted substantial attention to outing and prosecuting those employers who do not meet their minimum obligations. One of the particular areas of continuing focus is in relation to employee classification, both for part-time and casual employees. Ensuring that employees are correctly classified is a critical first step towards compliance.

Part-time employees cannot be used as "de facto" casual employees, with a roster that varies from week to week but without the benefit of a casual loading. Failing to agree on, and in practice provide, a regular pattern of work could expose an employer to significant overtime payments. See our recent article on the risks that can arise with part-time employees.

There are also significant risks in relation to casual employees. In response to the landmark 2018 case of *WorkPac v Skene*, where the Federal Court found that despite Mr Skene's employment contract stating that the employment relationship was casual, the Court found that he was not a casual employee for the purposes of the *Fair Work Act 2009* (Cth) and he was entitled to the same benefits as a permanent employee (such as annual leave), the Federal government introduced new regulations. Those regulations allow employers, in certain circumstances, to offset the casual loading paid to an employee against entitlements that may otherwise be owed to the employee if they are found in the future to be a permanent employee. If relied upon correctly, the regulations may prevent casual employees from 'double dipping' and claiming permanent entitlements in addition to their casual loadings. See our summary of the regulations. There is much more to come in this area, with a further test case awaiting judgment and multiple class actions on foot.

2 | Underpayments and #wagetheft

Last year and this year already has seen an ever growing list of companies and name brands being investigated by the Fair Work Ombudsman or self-reporting wage underpayments – commonly referred to as "wage theft". There have unfortunately been many recent examples. Following an investigation by the Fair Work Ombudsman, MAdE Establishment Group (the restaurant group headed by George Calombaris) agreed to pay over $7.8 million in wages and superannuation contributions to more than 524 employees for the period from 2011, plus a $200,000 fine, and has now been placed into voluntary administration.

Late last year Woolworths self-reported that it had underpaid some of its employees over the last nine years, with compensation levels now estimated to be close to $300 million. Coles recently announced a total of $20 million in underpayments for its salaried team members across its supermarkets and liquor businesses. In addition to the significant financial impact and reputational damage arising from non-compliance and underpayments, directors and managers need to be aware of their own potential exposure through accessorial liability.

While each example will be fact specific, there do appear to be some general causes behind non-compliance – employers not properly understanding their modern award and enterprise agreement classifications, obligations and entitlements, increasingly complex payroll arrangements, poor payroll processes, time recording and record keeping, and a lack of checking and auditing. These are obvious areas for all employers to consider in their own operations to ensure compliance.

3 | Annualised wage arrangements

The Fair Work Commission has determined that revised annualised wage provisions will be inserted into a number of modern awards, including the *Clerks – Private Sector Award 2010* and *Manufacturing and Associated Industries and Occupations Award 2010*, to mostly take effect from 1 March 2020. Not all modern awards have been varied in this way however.

While many employers already pay an all-inclusive annualised rate of pay to their award covered employees, with the intention being to compensate an employee for all award related entitlements, many of those employers fail to comply with all of their compliance and record keeping obligations. Employers that wish to utilise an annualised wage arrangement under a relevant modern award will be required to notify employees of how the annualised wage has been calculated (including assumptions in relation to the likely amount of overtime hours and hours attracting penalty rates), keep additional records, and conduct annual audits. See our detailed analysis here.

4 | Whistleblowing reforms

New whistleblowing laws were introduced in 2019, with those laws largely taking effect from 1 July 2019. In addition, all public companies (excluding charities and non-for profits) and large proprietary companies were required to implement a new whistleblowing policy from 1 January 2020.

In simple terms, under the new laws an eligible whistleblower (which includes a current or former officer, employee or contractor, or their relative, dependant or spouse) may make a protected disclosure to an eligible recipient (which includes an officer or senior manager of the entity) or regulator, where they have reasonable grounds to suspect that their information concerns misconduct or an improper state of affairs or circumstances. In those circumstances the whistleblower, who may remain anonymous, will be entitled to various strengthened protections.

For HR practitioners, it is important to understand that only some "personal work-related grievances", which includes interpersonal conflict between the discloser and an employee and decisions affecting the employment or engagement of someone, will amount to protected whistleblowing disclosures. The distinction is critical in the context of any investigation being undertaken, and any subsequent action being taken in relation to the whistleblower. Please see our comprehensive guide to those laws.

5 | Modern slavery reporting

The United Nations estimates that over 40 million people around the world, and 4,300 people in Australia, are victims of some form of modern slavery. While many Australian organisations may see modern slavery as being far removed from their own operations, when overseas based product supply chains are taken into account modern slavery becomes a very relevant issue.

The *Modern Slavery Act 2018* (Cth) came into force on 1 January 2019 and requires entities based, or operating, in Australia, which have an annual consolidated revenue of more than $100 million, to report annually on the risks of modern slavery in their operations and supply chains, and actions taken to address those risks. Most Australian companies will need to first report by 31 December 2020. Although many smaller organisations may not have direct reporting obligations, if they form part of the supply chain for larger organisations then they should expect to have to provide this type of information "up the chain". See our previous articles for a comprehensive overview of the legislation and the steps that organisations should be taking to meet their obligations. The Federal government has also published useful guidance for reporting entities.

A more comprehensive version of this article which we recently published is available here.

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“The Big Print giveth and the small print taketh away”: Cyber insurance cover – some background and basics

Dudley Kneller, Partner

We recently worked with an online retail client who experienced a major data breach across its online shopping and marketing platforms affecting its customer records extensively. It was a costly exercise for them in terms of remediation, data breach notification obligations both here and overseas and management time spent dealing with the myriad of issues arising as a result of the incident.

The client did not have any insurance in place specifically dealing with cyber liability. We thought it may be helpful to our retail clients to outline some of the key issues around cyber insurance. What is it? What does it cover? What do you need to know?

What has been a growing trend overseas has now reached Australian shores with companies now turning to specific cyber insurance policies to cover themselves for losses in relation to cyber breach events. As a result, cyber insurance policies are playing a bigger role in mitigation strategies. A review of your cybersecurity risk profile will assist you in assessing both whether your business should consider a separate cyber insurance policy and whether to impose obligations on your third party vendors to obtain this type of cover as well.

Cyber insurance policies provide specific cover for liability and expenses incurred by a business as a result of a data breach or cyber attack. These events are often excluded from standard business policies, particularly where they relate to privacy or breach of confidentiality.

Typical cyber insurance policies cover the following risks:

- unauthorised access to or unauthorised use of physical or electronic data within a computer network or the business;
- network outages, viruses, malicious code, computer theft or extortion;
- business interruption;
- costs of notifying breaches; and
- costs of responding to regulatory investigations.

Cyber insurance policies will have different requirements to standard business insurance policies so it is important to ensure you access brokers and insurers who specialise in the area.

What to look for in a cyber insurance policy?

Cyber insurance coverage is generally conditional on organisations having adequate security systems and risk management strategies in place — in some instances it can be quite difficult to obtain and policies are becoming increasingly costly. 2019/2020 has seen a tightening in capacity in the Australian market with some smaller players dropping out.

Cyber insurance should be seen as an additional tool for organisations and part of a holistic approach to managing data breaches and technology risks. Organisations will not be able to simply rely on cyber insurance without putting in place appropriate security practices and procedures to avoid breaches in the first instance.

Some watch outs for businesses looking to take up a policy include the following:

- Carefully consider the policy terms and conditions. This generally goes without saying but “the big print giveth and the small print taketh away”.
- Often policies will impose minimum security requirements before offering any sort of coverage. You can expect to be “qualified” by the insurer who will want to confirm you have adequate security controls in place to begin with.
- Are there any steps you can take from a security perspective that may give the insurer additional comfort and more importantly reduce the premium? If so what are they, how can you implement such steps and at what cost?
- What ongoing audit and compliance obligations do you have to undertake to ensure the policy remains current and will respond appropriately? Some insurers will expect a level of ongoing reporting and reserve the right to audit your systems and security protocols in place.
- Ensure you are very clear on your role in the event of a security breach incident and how this ties in with your insurance obligations. Getting this right may be the difference between the policy responding or not.
- Beware policies which only respond after a minimum downtime period. Cyber security breach events once triggered happen very quickly. You will not want to have to wait 12 hours or 24 hours before you are able to call on the protections in your policy to assist — by then it may be too late.
- How does the policy fit with your existing insurance coverage — beware any overlaps or more importantly “gaps” between policies which will leave you exposed?
- Make sure you understand how the policy evolves over time to pick up and include additional risks as they become apparent. What does your insurer do to enable the policy to remain “ever green”? Is this something that happens once a year or is it ongoing? What is the associated cost of amending the scope of the policy and will there be new exclusions which come with this change in scope which may impact your business risk profile?
- Understand the impact on your premium and any additional obligations which are likely to be imposed in the event you need to make a claim. Are there any benefits in not making a claim — will this reduce your premium at all?
- Does your insurer understand your industry and any unique regulatory requirements which may apply. The retail space is becoming tighter as traditional retail moves online. Make sure your broker and insurer understand how your business is evolving and what new technology platforms and arrangements you will be seeking to implement to take better advantage of the more lucrative online marketplace.
- Often breach events take months or in some cases years to discover. Be aware of any applicable exclusions and ensure you understand what happens in this situation. It may well be that your policy has expired. Some insurers will allow organisations to pay an “optional extended reporting period premium” to provide additional time in which you can notify of a claim arising during the period of the policy. This optional period is generally no more than 12 months however, so may not pick up on these “sleeper” events.
- Insurers will typically not provide insurance cover for any action for damages brought in a court outside the policy’s specified territories. It is therefore crucial to ensure you are aware of any territory limitations which may apply to your policy and if they conduct business outside Australia how claims affecting these interests will be impacted.

Many insurers will seek to use their own “panel” firms to undertake legal or forensics work in the event of a claim. Whilst it is open to you as an organisation to go with that recommended option, a number of organisations will more often require their own independent firm undertake the legal/forensics work on their behalf. They do this for several reasons:

1. Their own firm knows their business and has familiar touch points within the organisation.
2. More importantly the panel firm reports to a different master – the insurer – for whom they rely on for ongoing “referrals”. The “independence” of such firms has been called into question in a number of recent incidents.
3. Finally many of these firms are insurance law firms rather than those with a capability in privacy/technology/cyber.

Choose wisely and ensure you insist on having independent advice from the get go.

With such a long laundry list of issues to consider, cyber insurance policies are not to be considered lightly. However, with cyber breach events on the rise and with technology now forming such an integral part of Australian retail business, cyber insurance coverage is increasingly likely to form part of your strategy to combat this risk. Your customers, suppliers and partners will no doubt be expecting you to be up to speed with the latest developments.

Dudley Kneller, Partner

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