

ERRORS AND OMISSIONS

Loss Scenarios for Network & Telecommunications Companies



It's a fact – network and communications solutions play a significant role in the way many companies conduct business. The failure of these services for some clients will be little more than a nuisance whilst for others it can result in lost opportunity, business interruption costs and other consequential damages. Given the ever advancing networking solutions being developed by telecommunications companies today and the cross border nature of the industry, a single location fault can spread worldwide in a matter of minutes, the result... a significant errors and omissions (E&O) lawsuit.

So what exactly can go wrong? Security breaches, component failure, delivery failure and downtime are perils that a network company may face. That's why E&O or professional liability insurance policies are recognised as an integral part of a technology company's insurance portfolio and is essential for telecommunications companies.

Consider the following loss scenarios and then ask yourself whether you have adequate insurance protection in place.

DOWNTIME AND LOSS OF DATA

Potential Cost: \$1.4M

A company had a contract with a third party to perform data collection for billing, cellular service upgrades and customer queries. They were preparing to add additional data storage to the system when an employee who was working on the project typed the wrong instruction in accessing the working database and corrupted both the data and third party accessibility. The third party experienced downtime and lost eleven hours of data.

LOST REVENUE

Potential Cost: \$500,000

A telecommunications company that performs data processing and maintenance of call records for others is sued. The customer alleges that because the company was unable to process monthly billings, the customer's company lost subscribers and revenues.

MIS-DIRECTED CALLS

Potential Cost: \$75,000

A telecommunications company was contracted to make promotional lines available to members of the public on a range of "1800" telephone numbers, the call charges applicable ranged from \$3 to \$5 per minute depending on the competition entered. The company failed to direct all calls correctly and as a consequence the public was charged at a higher rate on the majority of calls. The client claimed for the additional cost to customers from the error.

POWER OUTAGES

Potential Cost: \$1.5M

A facility management company that provided a secure hosting environment was sued for damage to equipment due to repeated inexplicable power outages. The outages were due to zinc whiskers that had attached themselves to the underside of galvanised data centre floor tiles and were shorting the power supply. Due to not having a full redundant power supply in place, the facility management company was required to replace the cost of the motherboards and servers which were damaged following each power failure and replace the data centre floor tiles.

NETWORK DESIGN

Potential Cost: \$750,000

A telecom company is sued by a customer for consequential damages arising out of the company's inability to meet several agreed upon requirements specified in the design of the customers high-speed switched data network.

SECURITY

Potential Cost: \$345,000

A telecommunications company is sued for consequential damages alleging breach of security when a hacker accessed the company's telephone system and sent a malicious computer code that diverted communications from its intended recipient, causing the recipient to lose business.

BREACH OF CONTRACT

Potential Cost: \$100,000

An ISP was sued by a group of residents for breach of contract after the ISP slowed down its internet speed connection from 384 kilobits a second to 128 kilobits a second for load balancing purposes. The claim included a demand for damages for breach of contract and misrepresentation.

CONSEQUENTIAL LOSS

Potential Cost: \$110,000

An executive is suing their former ISP, seeking \$110,000 damages alleging that the company's act of withholding her email messages during a billing dispute cost her "a valuable business opportunity". The executive is alleging that the ISP kept her account open and withheld email messages without her knowledge. One of the withheld messages was sent by a potential employer, encouraging her to apply for a \$65,000 contract job. By the time she managed to retrieve the e-mail, the position had been filled.

MISREPRESENTATION

Potential Cost: \$80,000

A reseller of mobile phone connectivity plans and mobile products is sued by a number of customers for damages arising from deficiencies in product and service against specification, coverage, service levels and inadequate explanation of critical functionality.

SECURITY BREACH

Potential Cost: \$345,000

A telecommunications company is sued by a customer claiming they were sold a defective system with inadequate security protections. The customer claims the faulty system allowed individuals to access their phone system and as a result, they incurred fraudulent overseas charges.

DOWNTIME

Potential Cost: \$500,000

A telecommunications company was engaged to provide network support for a client's critical share trading platform. During a peak trading time the network failed and the telecommunications provider could not bring the system on line for a number of hours and was sued for material breach of contractual obligations and loss of revenue.

NOT MEETING CUSTOMER EXPECTATIONS

Potential Cost: \$2.5M

Customers of an ISP filed a class action claiming an ISP had insufficient hardware to handle the demand created by its switch to an unlimited pricing model. The customers claim that the resulting bottleneck has prevented them from getting online and are suing for punitive and exemplary damages and the cost of the litigation.

PROPERTY DAMAGE

Potential Cost: \$4M

A quarterly tower clean took place in the telecom carriers data centre. All the cooling towers were taken off line, causing the condenser pumps to halt, which in turn caused a compressor shutdown in the air conditioning units throughout the centre. Systems were shutdown causing a service outage. Environmental monitoring system indicated over temperature alarms, which were not being closely monitored by operation staff. The result: three computers were "cooked" and the vendor cannot warrant them. The total damage, all computers replaced with brand new gear at a cost of \$4m.

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