

From the Editor

by Iverne "Joan" Greene, CPCU, ARM, AMIM, CPIW



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If it is your responsibility as a risk manager, broker, or insurance company to protect expatriate employees, or if you just want to know more about how to do it, this issue is a "keeper."

Our first article is written by an international insurance practitioner with expertise in international group insurance and who works with clients around the world. A month or so ago, I read two articles by him and immediately asked if he would write one for the *International Insurance Quarterly*. We thank him for graciously accepting our request . . . and I think you will too!

There are some experienced insurance professionals out there (I was one of them) who are not comfortable when asked

questions about the Defense Base Act (DBA). Truly, it is coverage unto itself. However, to help fill this gap, we have an article dedicated to doing just that, explaining the DBA. The author is "hands on" with this risk, and we appreciate her passing information about it to us in a very succinct form.

And if you've ever tried to understand the difference in workers compensation coverage for multi-national U.S. employers employing nationals within their own country, and U.S. employees working at home, we have an article written by an author living and working in Italy that may shed some light. We are very pleased that foreign authors are contributing their experience and knowledge to our members. ■

Understanding What Is Necessary When Creating an International Group Insurance Plan

by David G. Tompkins, CLU

Sending an employee overseas is a huge investment for an organization—large or small. Most firms don't realize that the cost of a failed overseas assignment can often run past \$500,000 once all the costs are accounted for. Thus, it makes a lot of sense to invest in an employee's financial safety net—his or her international group insurance.

These days it is not unusual for a U.S. manufacturing firm to operate a factory in India, an American airline to have its reservations processed in Ireland, or a Bahamas-registered offshore company to have expatriate employees in Africa. As we all know, the world has long since changed into a global marketplace with a global workforce. More and more,

companies are sending their employees abroad to search out new markets or run operations. The employees who are sent overseas are attracted by the exotic locations, a chance to travel and experience various social and business cultures, and, of course, the lower taxation in some countries, and sometimes the higher salary. These employees travel frequently and are key assets for the business. Most companies want to offer them optimized protection while safeguarding the continuity of their business. Many Canadian and U.S. companies are also hiring third-country nationals, especially if they have skills that don't exist in the company or country. More often than not, the offshore company will have to hire local nationals

to fill various positions when needed. Depending on the country and labor requirements, these local employees may require benefits from a local insurance company. However, local nationals can be fully or partially covered by expatriate benefit programs. Such a decision will also hinge on the reliability and quality of the local insurance firms. Generally, most insurers are not keen on covering local nationals. If they do, the insurer will want to make sure the majority of the employees covered are expatriates.

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Selecting an Expat Insurance Company

Some expat employers operating offshore use a local insurance company, but this can be fraught with inconvenience and danger. In many countries, supervisory bodies or cartel arrangements strictly regulate insurance firms. Other nations may have blocked currencies or significant foreign exchange regulations. It must be asked whether the employee really wants to receive his or her benefits in a fragile currency. Of course, this could also be said of the U.S. dollar of late. This is not a problem if the insurance company is reimbursing health or dental expenses, but currency payments for life and disability insurance for an expatriate should be made in a stable currency, such as U.S. dollars, euro, or U.K. pounds. In addition, employees may not be in a particular country long enough to qualify for membership in the local insurance plan, or there may be a citizenship requirement. Having a pooled offshore plan simplifies reporting, administration, and communication because the benefit manager will have one single-source clearinghouse and will not have to negotiate with several foreign insurers. Finally, companies must decide whether they wish to deal with a highly stable European or North American insurance company or a company from a less stable country.

In addition to looking at the overall cost of the expat benefit plan, one should also include ease of administration. Employees are also impressed by a plan that has prompt claims settlement in any currency and the ability to settle claims directly. Once the employee repatriates back to his or her home country, the coverage usually ends. Most expatriate plans are not in compliance with state and federal laws such as HIPAA, COBRA, and ERISA—check with your international insurance broker for guidance on this.

Avoid Using Domestic Plans

Some expat employers like to use their domestic insurer to cover their expatriate employees. This is not a good idea for a

variety of reasons. First, the domestic firm cannot insure local or third-party nationals. Second, payments can only be made in the domestic insurer's home currency. Third, domestic plans are designed to work in their home country and comply with domestic rules and administration, not the rigors of international administration and claims payments. Fourth, disability payments from the firm's domestic insurer may have to be made if the employee returns home for treatment and often may not cover disabilities occurring overseas. Finally, these insurers will at least want a time limit on insuring someone who works abroad. Basically, coverage when you need it may not be there. One should also check with an accountant to ensure that being part of a domestic employee benefit plan does not affect residency tax status. Compounding the preceding issues, statutory requirements imposed on benefit plans for expatriates vary from nation to nation, and many states have no reciprocal social arrangements or do not allow the transfer of benefit entitlements abroad. Insurance schemes put in place at the various countries may vary so substantially that it is impossible to conduct product/price comparisons. I have found that many human resources managers use domestic insurers because they want everyone to have the same coverage—but this misses the above points plus you can't expect your expat plan to perfectly match your domestic employee's coverage. These are expatriates and they have to be treated as such. Pooled expatriate plans also harness savings potential through higher economies of scale by insuring several operations in various countries under one plan.

A Wide Range of Expat Insurance Policies

The above-all points need to look at consolidating an international employer's global insurance policies with one

offshore benefit provider that will provide solid, portable, and continuous protection. This will help streamline risk management, and cut administration and communication costs. Such pooled expatriate plans also harness savings potential through higher economies of scale by insuring several operations in various countries under one plan. Expatriate plans offer portability of benefits and bring the quality and security of benefits required by employees. Quality benefits at a reasonable price for expatriates are imperative for HR managers. If an employee becomes injured and has to be evacuated or is permanently disabled, he or she will come to the employer for help. Benefit payments can be made in the local or a set currency such as U.S. dollars. Some of the international benefit plans offer a comprehensive program, while others offer just traditional insurance protection, such as life insurance.

Most expatriate benefit schemes offer life insurance based on a multiple of salary, such as two or three times of an employee's earnings. Others offer a flat benefit amount. Two times' earnings is a common amount of life insurance. Dependent life insurance is not very common in expatriate benefit plans. Most employers will match the currency of the cover with the salary the employee is paid in, but this is not a hard and fast rule. As one would expect, the U.S. dollar is the most common currency used for international benefit plans, despite its recent drops in value.

The amount of accidental death and dismemberment (AD&D) usually matches the life insurance. As the name implies, this insurance is paid if an employee dies in an accident or suffers a permanent loss of use or severing of a limb, loss of an eye, arm, finger, etc. AD&D coverage will vary quite a bit from plan to plan.

Most expatriate insurers will not offer short-term disability (STD) coverage. With employees and insurers dealing with each other over such long distances and the relative ease of self-insuring this benefit, a STD plan is usually not necessary for most clients. But an

employer should have a written policy that states when income will be paid if the employee is sick or injured before the long-term disability (LTD) plan from the insurer commences.

Unfortunately, LTD coverage is an often-neglected benefit with most expatriate clients that I encounter. Despite the fact that your employees' most valuable asset is their ability to earn an income, many expat employers still don't have a salary continuance plan in place or worse yet try to self-insure. An LTD claim for an employee with a decent salary can easily exceed a million dollars if the employee becomes permanently disabled. Most disabilities lasting longer than two years are permanent in nature. A typical plan pays 60 to 70 percent of an employee's salary. As you would expect, the rates for the life, AD&D, and disability benefits are based on the age, sex, occupation, income, and location of the employees. As an example, the company of an expatriate who is traveling in Africa in a very politically unstable country can expect to pay more than a company with employees in an office in Europe.

The next benefit almost always offered is a health package. This coverage includes benefits such as hospital expenses, drugs, professional services, maternity expenses, and physicians' charges. The premiums are based on many of the same factors as the life and LTD plans, but may weigh more heavily on the operating nation. Medical evacuation and emergency travel coverage is also available. Dental insurance can be added to the plan to cover basic dental services such as cleaning, scaling, and extractions. Crowns and bridges are usually covered at 50 percent, as is dependent orthodontics. This benefit is more easily self-insured.

Probably the largest factor in the pricing of an international health insurance plan is where the employee can access treatment. Many expat health plans will price their health insurance to either cover or exclude treatment in the United States and Canada because of the high cost of medical treatment in North America. If one has American citizens covered, it is always a good idea to pay extra to make sure they are covered for

treatment back in the United States. If an American expat becomes seriously ill or injured, they will want to get treated in the United States. Some plans will encourage the use of PPOs by eliminating coinsurance or deductibles if the employee is treated in a PPO network or if he or she gets treated outside of the United States.

While some employers don't provide coverage for spouses and children, this can be a shortsighted way to decrease costs. A spouse's dissatisfaction with living overseas is a very common cause of foreign work assignments not being successful with the resulting high costs to the employer. It is a good idea to make sure your expat health plan covers an employee's dependents well. One such important benefit is maternity.

Many group international benefit plans do not cover maternity or place limits and conditions on it because of the inherent high-claims risk. As you would expect, covering maternity is going to increase your costs. Almost all expat group plans will have a 12-month waiting period for maternity—something to think of before you send an employee or spouse overseas who is already pregnant or will be in the next 12 months. A good plan will cover newborns at birth, but administrators have to make sure that the insurer is advised of the birth and that the newborn child is added to the plan.

Dental and vision benefits are less common with many expat benefit plans, but it is still a worthwhile part of your benefits strategy. While dental benefits can be self-insured, you have to weigh the administration cost of adjudicating dental claims. Some employers might prefer to give the employee a dental allowance each year. Employee benefit plans include the payment of eyeglasses and contact lenses. This benefit is quite inexpensive and can be easily self-insured.

Common Exclusions

In terms of fine print, it makes sense to examine the plan, paying particular attention to the exclusions. As discussed,

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some benefit plans exclude maternity expenses and care for newborn children while others place limits on pre-existing conditions. Still other plans have pre-existing clauses that limit the benefits for conditions, which were being treated 90 days prior to being insured by the medical plan. Such exclusions may be removed for an additional premium charge by some firms. The larger the number of employees, the more the insurer may be willing to remove the pre-existing clause for health insurance and even cover employees without any medical questions. Another standard exclusion clause is for war and riot. All firms will have a war, terrorism, riot clause of some sort or another, but some will cover the employees if they are killed, disabled, or injured by such an event as long as they are an innocent bystander. This is what we call passive war risk. It basically means you are not covered if you are actively participating in a war, riot, or terrorist act. Any client who has employees in a country highly susceptible to such events should make sure that passive war and terrorism are covered. Of course, these days, which country is not susceptible to terrorism? As a broker with a background in political studies, I examine the political situation in the countries my expatriate clients operate in to advise them of whether or not they should try to have the war risk clause taken out. Controlled risks offers more in-depth risk analysis for clients who are sending workers to dangerous countries.

Other common exclusions or limited benefits in group insurance plans are participating in a crime, alcoholism, HIV for health benefits, mental illness, nuclear or biological attacks or accidents, contraception, obesity, cosmetic surgery, and fertility treatments.

Accessibility

A company need not be big to obtain these insurance plans. Expatriate plans are available for as few as three employees who may be in different countries. If a company has more than 50 employees, the plan design can be even more flexible. Also, the larger the number of employees, the more the claims experience becomes part of the renewal premium. With some plans, if the annual international net results are positive, a dividend can be paid to the head office of the multinational. If the claims results are negative, it can be written off provided stop-loss protection was agreed or carried over to a new accounting period. For most small- and mid-size offshore companies, their claims experience will not affect their renewal rates. Some clients have combined the local insurance schemes with the expatriate coverage. This can be done, for example, by using the local health and dental coverage with an expatriate disability and life insurance plan. In some cases, it can integrate third-party policies.

Selecting a Benefit Plan

Choosing an expatriate benefit plan does not only depend on price. Another factor is the ease of administration; for example, an employer will want a plan with a 24-hour helpline for employees with queries about their membership or medical coverage. Personalized membership cards and booklets to effectively communicate the plan are also important. In addition, employees are impressed by a plan that has prompt claims settlement in any currency. Finally, it must be determined whether the expatriate insurer is financially stable. This is of obvious importance, especially for employees who become disabled and will be receiving payments for many years.

You Don't Have to Be a Large Firm to Obtain These Plans

Expatriate benefit plans are available for as few as three employees who may be in different countries. If a firm has fewer than five employees with no foreseeable growth, it may want to simply consider an individual international health insurance plan, such as the ones offered by Expat Financial. Once you have more than 10 employees, the plan design can be even more flexible. With some large benefit plans, if the annual international net results are positive, the dividend can be paid to the head office of the multinational. If the claims results are negative, it can be written off if stop-loss protection was agreed or carried over to a new accounting period.

Conclusion

At the end of the day, the expatriate benefits are simply another way of compensating employees. For companies operating overseas, expatriate plans offer the best combination of cost, portability, coverage, ease of administration, and security. International group insurance is a vital part of an employer's remuneration package for its expatriate employees, so making sure that the plan is well received by the employees is an important part of the firm and employee's success overseas. ■

Defense Base Act Coverage

by Sara Payne, CIC



■ **Sara Payne, CIC**, is employed by Rutherford International, Inc. in Alexandria, VA, as senior vice president specializing in international insurance. In addition, she is responsible for the administration and marketing of the firm's Defense Base Act programs.

Payne commenced her insurance career in 1980 working for an insurance company. Through a merger she was transferred to the east coast where she worked in both wholesale and national brokerage firms in administration and marketing, joining Rutherford in 1993. Payne is licensed as an agent for property and casualty and life and health, and has received the Certified Insurance Counselor (CIC) designation.

Payne has two children, is a Brownie troop leader, and is actively involved with therapeutic horseback riding.

The Defense Base Act (DBA) was passed by Congress under Public Law 208. It extends the protection of the Longshore and Harbor Workers Compensation Act to civilian employees at any military, air, or naval base acquired by the United States from foreign governments after January 1, 1940. The Act also applies to public works contracts outside the continental United States.

The term public works means:

any fixed improvement or any project, whether or not fixed, involving construction, alteration, removal or repair for the public use of the United States or its allies, including but not limited to projects or operations under service contracts and projects in connection with national defense or with war activities, dredging, harbor improvements, dams, roadways, and housing, as well as preparatory and ancillary work in connection therewith at the site or project.

In the past 60 years, the Act has been amended to include virtually all U.S. government-funded contracts where private contractors perform work outside the continental United States. All employees are entitled to DBA benefits regardless of the "country of origin" unless the contracting officer for the U.S. government agency issuing the contract has submitted and obtained a "waiver" from the Department of Labor. Please note that the "waiver" is only valid when an alternative workers compensation benefit is purchased for those "waived" employees.

The Department of Labor must approve all U.S. insurance carriers that offer DBA coverage. A current list of approved carriers is available on the Department of Labor web site at www.dol.gov. The Department of Labor requires that all DBA insurance carriers report all DBA claims in order to monitor the adjudication process. There can be penalties assessed by the Department of Labor for improper handling of a DBA claim by an insurance carrier and late reporting of a DBA claim by an employer.

It is important to note that the benefits provided under the Defense Base Act coverage are extended to include the provisions of the War Hazards Compensation Act (42 USCA Sections 1701-1706; Sections 1711-1717). War is not an excluded peril under Defense Base Act benefits coverage. The intention of the Act is to cover civilian employees for war exposure if they work in a potentially hostile area of the world.

Insurance carriers providing DBA coverage have the ability to subrogate war claims with the U.S. government as long as they can confirm they **did not** charge a premium for "war risk" coverage. This is normally accomplished through a stamp on all policy declaration pages that states: "It is understood and agreed that there has been no charge for War Hazards as it is understood and agreed that the U.S. government self-insures this exposure."

The insurance carrier must "adjudicate" the claim and then request reimbursement from the U.S. government once the claim is deemed "compensable" under the Defense Base Act. Reimbursement of a war hazards claim can typically take between three to five years from the date of submission.

DBA Benefits

- **Medical treatment** related to work-related injury or illness, including diseases endemic to an area.
- **Loss of wages** payable in U.S. currency and are similar to those provided under the Longshore and Harbor Workers Compensation Act. Disability compensation is currently calculated at 66 2/3 percent of the AWW (average weekly wage) up to \$1,030.78 per week. The amount allowed is based on "reportable wages" 12 months prior to injury or illness. The weekly amount is increased annually on October 1 based on COLA by the Department of Labor.

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Vocational Rehabilitation

Death Benefits

- Fifty percent of the AWW for the surviving spouse (non-taxable for life or remarriage [if surviving spouse remarries, a two-year lump settlement is paid]), or if no spouse for one surviving minor children.
- Sixteen and two-thirds percent for one or more surviving children, shared equally, in addition to the 50 percent for the spouse and one child.
- Child benefit (non-taxable) is paid up to age 18, student benefit through age 23 if a full-time student.
- There is a burial benefit of \$3,000.

All DBA policies included a medical evacuation/repatriation benefit for injured workers. The coverage responds when it is deemed medically necessary by the treating physician to relocate the “employee” to a medical facility better equipped to handle the individual needs of the injured employee. The evacuation can be to

another country or the injured employee’s “country of origin.” Repatriation is the “return of mortal remains” to the employee’s home country. Typical limits included for medical evacuation/repatriation coverage are \$50,000 per employee/\$250,000 annual policy limit.

The Department of Labor can assess fines up to \$14,000 to an employer that fails to purchase DBA coverage for work under a contract that requires DBA coverage. The employer would then be responsible for paying benefits under DBA to that injured/deceased employee from corporate assets. If the corporate assets aren’t sufficient, the corporate officers including the president, vice president, treasurer, and corporate secretary can be held individually responsible.

The premiums charged typically follow the rates of the USL&H rates; however, underwriting of the location of work, i.e., Iraq, can increase those rates substantially due to reinsurance costs that are factored into the premium charges.

All DBA insurance carriers have “minimum premium” requirements in order to issue a DBA policy . . . the current marketplace requires between \$10,000 to \$25,000 minimum premium based on the location of the work, services rendered, number of employees, length of the contract, and payroll for the exposure.

Although this is a detailed article, please note DBA benefits are governed by case law and precedents. There are other clauses in the Act I have not discussed such as the “zone of special danger,” which can convert the coverage into “24 hours” depending on the location of the work and other specifics to the claim. There is also a “capture and detention” clause, which can respond when an employee is “held hostage” by a terrorist group for example . . . benefits are paid as an injury claim until the employee is recovered or declared dead at which time death benefits would be payable to a surviving spouse and/or minor child. ■

Workers Compensation Italian Style

by Emanuela Turri, AIC

■ **Emanuela Turri, AIC**, is deputy claims manager with XL Insurance. She currently lives and works in Milan, Italy.

Turri graduated from the Catholic University of Milan in early 1996 with a degree in law, following which she worked in London for BDB Insurance Brokers for a year.

In 1997, she accepted employment with Winterthur International in Milan, Claims Department.

She attended a master’s program in loss adjustment in 1999 at the Polytechnic University of Milan, which she completed in a year and was awarded Best Student of the Year. In 2002, she commenced her studies to obtain the AIC designation, which she completed last June.

I recently completed a course on handling U.S. workers compensation claims for those who normally work in the U.S. insurance environment. This was a great opportunity for me because I was able to compare both the U.S. and Italian systems. To date, the rate of work-related bodily injury claims remains high in Italy despite the introduction through the last decades of very strict work-related safety laws. Although these laws aim to reduce the injury frequency and severity, they have not so far had the desired effect.

In most jurisdictions in the United States, workers compensation is considered the exclusive remedy for any worker who suffers an injury arising out of and in the course of employment. Workers are provided benefits almost exclusively by private insurers with the exception of monopolistic state funds and self-insured employers.

In Italy, the system is fundamentally ruled by a governmental entity called the National Institute of Insurance for Injuries Suffered at Work (INAIL). INAIL was instituted to handle and compensate the financial losses of injured workers. The role of private insurers differs from those of their U.S. colleagues.

The financial damages an Italian worker (or his or her dependents) suffer following a work-related accident do not exhaust the indemnity he or she is legally entitled to collect, because the compensatory system is not exclusive. The injured worker maintains the right to sue the employer in tort, independent from his or her right to be financially compensated for lost wages. This right automatically follows the determination by INAIL that the injury is work-related and that it has caused the worker to incur a temporary or permanent wage loss.

How Does the INAIL System Work?

First of all, INAIL operates regardless of liability. All Italian employers are required by law to insure all their employees with INAIL.

Employers are also obliged to promptly notify the INAIL following a work-related accident. This includes injuries that occur while workers are commuting.

During the period the worker is disabled, the employer has the duty to provide the payment of the wages as if the injured employee continued to work (a waiting period of three days generally applies). Once the worker returns to work, the employer is almost entirely refunded by INAIL for the temporary total disablement wages paid to the worker. Hence, unlike in the United States, the employer maintains the duty to pay a disabled worker.

When a worker suffers a bodily injury that results in a total or partial disability, the ensuing loss for the worker is paid by INAIL, provided it exceeds a statutory deductible of 6 percent, which was established with the new compensation statutes in 2000 (Decreto Legislativo n.38/2000). INAIL has the worker examined by its own physicians to determine when this percentage has been exceeded. Bodily injuries that do not exceed the 6 percent are not indemnified by the entity because they are considered at a level that does not deserve social consideration and protection. In these cases, INAIL simply refunds the employer for the wages paid to the disabled employee.

Workers who are excluded from the INAIL benefits are entitled to file an action against the employer in tort to collect both special and general damages such as medical expenses; pain and suffering, an indemnity for having even temporarily lost their ability to attend their daily non-professional occupations; and an indemnity for having permanently lost their general physical integrity. This last item of damages is called “danno biologico” or biological injury.

In the determination of the employer's fault, the courts' trend is to consider it in fact almost a strict liability, even though a civil code legal environment technically

does not provide for the concept of strict liability. The U.S. traditional defenses for the employer (such as the employee's assumption of risk or the negligence of a fellow employee) are in practice ignored in the Italian environment, due to a body of laws that have led courts to a strict interpretation against employers.

The role of the private insurer becomes clear in this environment. Employers need to purchase employers liability coverage to protect themselves against claims made by workers who have suffered minor injuries and to protect themselves from suits.

For more serious injuries that exceed the statutory deductible but are not higher than a threshold of 16 percent, INAIL will provide payment referred to earlier as “danno biologico.” This is calculated on the basis of a scale conceived by INAIL, which is not related to the wage of the injured person.

For bodily injuries that exceed the threshold of 16 percent, the worker also receives compensation directly from INAIL for the loss of wages that follows a permanent total or partial but serious disability.

INAIL, as mentioned before, works according to a compensatory principle. However, it can recover from any liable party that has been determined to have in some way caused or contributed to the work-related accident, including the employer. Thus, whenever the employer is found to be at fault, which is not uncommon in the administrative and criminal investigation that follows an accident at work, the social insurer INAIL subrogates by asserting a lien against the employer to recover any sums paid to the worker.

Employers liability coverage is designed to cover these claims, which can be substantial, not only because of the seriousness of the injuries but because of the lack of use of medical rehabilitation aimed at early return to work of the employee as seen in the United States.

The exposure faced by employers in Italy is increased because of the lack of an exclusive compensatory system. Workers who have incurred a work-related accident and are found to have a permanent

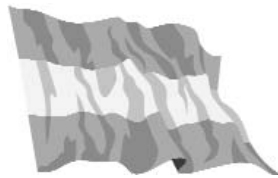
disability exceeding the statutory deductible of 6 percent are entitled, just like those who do not reach the threshold, to sue the employer to collect the general and special damages. This compensation is in addition to the benefits collected from the social insurer and proportionate to the seriousness of the bodily injury. Dependents are also legally entitled to make a claim for any consequential loss, pain and suffering, discomfort, and the like.

Another aspect that complicates the picture is that the statutory scales on which the social insurer, INAIL, calculates the compensation for disabilities exceeding 6 percent are lower than those used by courts to calculate the same item of damage (danno biologico). This leads the injured workers to sue the employer in order to obtain the difference between what has been paid by INAIL and what he or she is legally entitled to obtain. Employers' liability policies provide for this coverage.

In Italy, general damages can be roughly quantified by the insurer and are not as volatile as in the U.S. courts where jury verdicts dominate the scene. Yet, the final cost, both direct and indirect, generated by an employer's liability claim is substantial because of the complexity of a system that refuses to change. ■

News from Home and Abroad

Argentina



Although Argentina has fallen several places in business environment rankings for

2003–2007, its absolute score has improved. This forecast is based on the assumption that the incoming government will try to restore sound economic institutions and a more effective and transparent government. A first step will be a successful debt renegotiation, which will help to restore the solvency of the public sector. The new government will also have to tackle the restructuring of the financial system following the collapse in 2001–2002.

Africa, Asia, Eastern Europe, Latin America, and the Middle East

Property and casualty premiums may rise to U.S. \$250 billion from U.S. \$123 billion last year. In a new Swiss Re research report, it is estimated that the emerging markets for life insurance products in China and India will more than double over the next 10 years on account of their huge populations, growing economic importance, and fast liberalizing regulatory regimes.

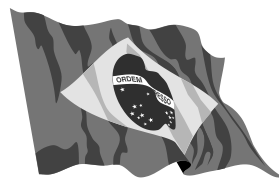
Australia



Sydney— AXA Asia Pacific is expected to spend up to U.S. \$300 million over

the next three years expanding into China and Southeast Asia—the capital will be taken from internal resources according to the chief financial officer.

Brazil



The recent fall in the value of the Brazilian real is affecting clients and reinsurers in a

number of ways, based on assumptions that macroeconomic stability will be consolidated and that advances will be made in tax and social security reform. The government has made pension reform and tax proposals a priority. Progress in this area would provide a powerful confidence boost, but the difficulties of securing political agreement should not be underestimated. External trade will be the sole source of dynamism in 2004 while domestic demand remains subdued.

Canada



Quebec— The local federation of all-terrain vehicle clubs may have to consider

becoming a member of the federation of snowmobile clubs so its members can get liability insurance. The vehicle club federation feels this is ridiculous because the two federations are virtually identical but the snowmobile clubs are allowed to sell insurance while the ATV clubs are not.

China



Beijing— China lifted the lid on its commitments to the World Trade Organization

(WTO) for the first time by releasing procedure details for foreigners entering China's insurance market. A total of eight foreign-funded insurance companies were recently approved by the Chinese government: Germany-based Gerling-Konzern Allgemeine Versicherungs AG and Allianz; Swedish Zurich Insurance

Company; the CNP from France; Transamerica Occidental Life from the United States; the Commercial Union Assurance Co. PLC and Royal & Sun Alliance Insurance Group PLC, both from Britain; and a Shanghai-based joint-venture with investment from French AXA, are either allowed to start businesses in life and property or enlarge their business scales. Experts believe that China, with a huge population and the anticipated reform of its social welfare system, will become the largest potential insurance market in the world.

Colombia



During the first half-year of 2004 the Colombian market showed profits of 242.2

billion pesos (almost U.S. \$90 million). However, this is 12 percent less than in 2003 even though premium income increased 4.8 percent reaching 2.9 trillion pesos (about U.S. \$1 billion). The information, supplied by the supervising authority, shows that paid claims increased 5.8 percent and investment earning fell 16.5 percent.

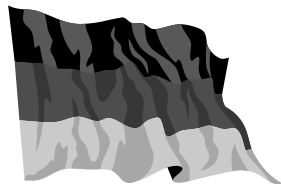
France



A recent report by Standard & Poor's says that the French

insurance market remains stable, despite downward pressure on motor rates and only recovering financial conditions. S&P comments, "The market as a whole boasts strong capitalization, conservative reserving, and strong levels of financial flexibility. Moreover, it is supported by a stable fiscal environment in life insurance."

Germany



Frankfurt—Shares in European insurers rose on hopes the fallout from a U.S. probe

into suspected bid-rigging and kickbacks would be less dramatic than expected. While the suit sites one major broker, analysts have said it is aimed at practices that are common across the industry, fanning fears that scores of primary and reinsurance firms could end up becoming embroiled.

India



The IRDA has asked insuring broking companies to inform it of any change in

the position of the Principal Office (PO) as it has warned that the position of PO in an insurance broking company cannot be kept vacant. The four public-sector general insurance companies have regained as much as 2 percent market share in the first quarter of the current financial year. The four companies—New India, National, Oriental, and United India—have been steadily losing market share to the new private companies.

Aviva Life in India is expected to raise its capital by R 500m to R 2.9bn early in 2005 to sustain its growth in this fiscal, which is over 200 percent. Premium income stood at R 1.1bn for the first six months compared to R 250m with the company expecting to maintain the present growth trend, according to its managing director.

Japan



Kyodo—Standard & Poor's has said that although claims caused by the typhoon

season in Japan are expected to reach the highest level since 1991, they believe that the impact on insurers is likely to be limited because of reinsurance indemnity and catastrophe loss reserves.

Mexico



XL Insurance has been licensed in Mexico. The Mexican supervisory authority

SHCP authorized XL Insurance Mexico to start non-life operations in that country, including liability, professional risks, marine, fire, miscellaneous risks, earthquake, and other CAT exposures. The minimum capital requirement for this operation is close to U.S. \$3.6 million.

Romania



Non-life insurance continues to provide to the Romanian market the

largest value of gross written premiums. The value of the insurance policies for the first semester of 2004 reaching about ROL 14.379 billion and rising up with 26 percent comparing this with the similar period of 2003. Motor insurance still prevails in the portfolio with insurance.

Spain



The Spanish market issued 4.1 percent more insurance policies than in 2003

according to a survey among companies that control 98.6 percent of premium income. Life policies increased 6.7 percent and non-life 3.3 percent.

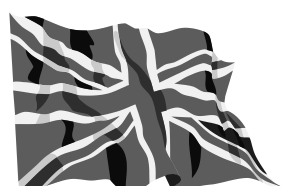
Taiwan



Life insurers in Taiwan have increased first-year premiums for the first nine

months to NT 324.8bn, up 33.2 percent, according to the Life Insurance Association of the Republic of China.

United Kingdom



London—Almost half of major U.K. companies are considering switching insurance

brokers because of a U.S. probe into fees, and 60 percent of them want Britain to launch a similar investigation, a survey recently showed. A survey by The Association of Insurance and Risk Managers (AIRMIC) (which AIRMIC includes most of the U.K.'s leading corporate buyers of insurance, including 80 percent of the FTSE 100 companies) showed a desire to overhaul how commercial insurance is sold, with one-third of respondents calling for an outright ban on so-called contingent commissions at the heart of the U.S. probe.

Continued on page 10

News from Home and Abroad

Continued from page 9

London—A recent study done by an independent financial services consultancy indicates that 33 percent of consumers in the U.K. say they would switch financial services providers if their bank or insurer announced that it was moving some of its operations to lower-cost offshore locations such as India or China. However, at the moment only 4 percent of consumers surveyed have actually switched.

United States



Chicago—With respect to the Terrorism Act Extension, a Chicago-based law firm is

advising companies to create an ongoing compliance team that reviews policies and endorsements and to examine business plans to make sure they understand how both the federal Terrorism Risk Insurance Act (TRIA) and unfair discrimination law could affect their business, according to the Urban Insurance Partners Institute (UIPI).

“TRIA was meant to be a temporary solution, and we understand that TRIA’s congressional backers are reluctant to extend the program beyond 2007,” said UIPI President Suzanne Reade.

“Companies should make sure that in an effort to limit their long-term exposure, they don’t take any legal missteps in the urban arena.”

California—In response to the rising difficulty consumers now face in securing homeowners insurance following the firestorms in 2003, Insurance Commissioner John Garamendi announced that he has eased eligibility requirements for the state’s FAIR Plan, the so-called homeowners insurer of last resort. The commissioner’s action allows property owners to bypass certain cumbersome application requirements, and effectively expands the areas covered by the program. Since 2003’s southern California wildfires, numerous consumers had difficulty securing homeowners insurance, particularly in high-brush areas

of the state. In those cases, the Fair Access to Insurance Requirements Plan offers an alternative—a “bare bones” fire policy that will give minimal coverage in case of disaster. The policy is not inexpensive, and does not offer the complete level of protection a standard policy would provide, but it is an important tool for those who would otherwise go without.

New York—A huge insurance news story broke last quarter. It announced a suit being brought by the New York attorney general against a major broker, an AAA+ insurance company, and reported wrongdoing by a very large offshore insurer. It is accused of rigging bids and colluding among the broker, the insurance company, and other insurers to fix prices. There will be much press, talk, and speculation about this in the next few months and damage to the industry’s reputation is probably legion. So, by the time you read this anything more we print here will be old news. However, if you have not seen the CPCU Society Board of Governors policy statement response to the allegations, please read it. ■

CPCU Society Board of Governors Policy Statement Response to Allegations Made by New York Attorney General

Adopted October 23, 2004

The Board of Governors of the Chartered Property Casualty Underwriters Society (CPCU Society) denounces all pricing or compensation practices that undermine an open and fair marketplace or jeopardize the interests of the insurance buyer.

The CPCU Society Ethics Code states that its members “shall not engage in practices which tend to discredit the Society or the business of insurance and risk management.”

The Ethics Code also states specifically that the violation of any law or regulation duly enacted by any governmental body whose authority has been established by law is unethical.

In addition, willfully misrepresenting or concealing a material fact in insurance and risk management business dealings also violates the Society’s Ethics Code.

Finally, breaching the confidential relationship that a Society member has with a client or principal is a breach of the Society’s Ethics Code.

The almost 28,000 Society members have pledged to abide by these and other professional practices that place the needs of others first. The Society’s Ethics Code demands that all members in good standing “use due diligence to ascertain the needs of his or her client or principal and shall not undertake any assignment if it is apparent that it cannot be performed by him or her in a proper and professional manner.”

The Society Board of Governors is proud that all Society members commit to the highest ethical standards. Society members also are educated, experienced, and diverse, representing every major

discipline practiced in the industry today, placing it in a unique position in the industry. As such, the Society Board of Governors agreed unanimously to:

1. Understand all practices and actions alleged to be illegal by New York Attorney General Eliot Spitzer.
2. Transform this information into knowledge so that CPCU Society members and others may be guided as to how to avoid practices that violate the CPCU Society’s Ethics Code.
3. Provide a forum for dialogue that builds public confidence in the insurance mechanism and the insurance industry.

The Society has, and will continue to, hold CPCU Society members accountable for ethical breaches under its enforceable Ethics Code.

The CPCU Society urges all insurance practitioners to abide by the same high ethical standards it demands of its members. An efficient, ethical, and trustworthy property and casualty insurance industry is essential to the world economy and to civilization. The CPCU Society Board of Governors pledges to do what is necessary to build public confidence in the insurance industry and in the overwhelming majority of its professionals. ■

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International Insurance Quarterly

is published four times a year by and for the members of
the International Insurance Section of the CPCU Society.

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Statements of fact and opinion are the responsibility of
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CPCU Society.

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Printed on Recycled Paper



International Insurance Quarterly

Volume 18

Number 4

January 2005

CPCU Society
720 Providence Road
Malvern, PA 19355-0709
www.cpcusociety.org

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