

The Global Insurance Market Comes of Age

by Robert J. Gibbons, Ph.D., CPCU, CLU



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Not so long ago, many international insurance transactions served to circumvent currency controls, taxes, or regulations that varied widely from country to country. The participants in these transactions were not necessarily average consumers seeking more efficient ways to manage their loss exposures. More likely they found themselves with a particular problem, and insurance served as a convenient arbitrage. Since in that situation they wanted to unwind transactions quickly, the financial strength of the insurer was not as important as having the right contacts to make the deal work. Small local insurance companies catered to the privileged, and well-connected brokers and international insurers brought everything together.

Also not so long ago, an American traveling to Switzerland often acquired a good watch at a bargain price. Shopping was an integral part of the travel experience. (For some of the other advantages of travel, see page 12.) Essential practical information for the

traveler started with the unique products made in the country visited and the amount of the duty-free exemption from U.S. Customs on return. For travelers returning home to poor countries, the chance to avoid high customs duties loomed even larger, as did the opportunities for corrupt customs officers to enhance their incomes.

As a result of globalization, prices now are more nearly the same everywhere. Watches can be more expensive in Switzerland than in suburban U.S. shopping malls. And the shopping malls have proliferated around the globe, offering the same stores and the same goods everywhere. Travel is less interesting, and pockets of dislocated workers pose serious social problems, but consumers around the globe benefit from the expansion of trade. More alternatives lead to better products at lower prices. (Biotech provides an interesting example, see page 11.)

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Insurance markets have not yet reached the same level of boring uniformity, but a similar leavening trend is well underway, spurred by several major developments over the last two decades. Some of those developments occurred gradually, barely visible except to the participants in protracted bureaucratic processes. Others, like the fall of the Berlin Wall, were momentous events with ramifications far overshadowing their impact on insurance markets. Either way, the trend toward an integrated global insurance market has not received the notice it deserves. This globalization of insurance will benefit consumers in many countries as much as the expansion of trade because it will give them more alternatives for managing their risks.

The potential benefit mirrors the size of the gap in access to reliable insurance. In 1995, 10 countries with less than a quarter of the world's population accounted for 87 percent of the world's insurance. In other words, the remaining three quarters of the world's population had only 13 percent of the world's insurance. By 2005, that share had risen to 19 percent. Another way to measure this gap is to compare a country's insurance premiums to its gross domestic product (GDP). While some countries have insurance premiums of 9 or 10 percent of GDP, insurance premiums in most other countries are from one to three percent. Some are even lower, and relatively few are in the middle. The overall distribution shows two main clusters: countries that have robust insurance markets and countries that do not.

This gap between insurance haves and have-nots is another legacy of the bygone era. Insurance based on relationships tended to have a high expense ratio, and thus it was not an attractive proposition for ordinary people, particularly in smaller or poorer countries where insurers had difficulty capturing economies of scale. Limited competition provided little incentive to keep prices down, provide good service, or even to pay claims. In socialist countries, where insurance was

the preserve of the state, it resembled a tax. Other countries excluded foreign firms from the insurance market. In still other countries, rampant inflation destroyed the incentive to plan for the future. Such factors suppressed the normal development of the insurance market, and the have-not countries lack the supporting institutions that are taken for granted in the countries that have robust insurance markets.

So why is this situation changing? It is changing because of powerful forces unleashed in the last two decades, and the global economy has passed a tipping point. Seemingly unrelated events actually reinforce one another, creating an irreversible momentum for building the institutions needed to integrate the global economy, including its insurance market.

The expansion of trade itself encourages the internationalization of insurance. As commercial enterprises encountered new risks in foreign operations, their insurers had to follow. The international operations of many U.S. insurers sprang from serving existing customers expanding to foreign countries rather than from seeking new customers in those countries. But as international trade grew, so did international insurance.

The growth of trade reflects, in addition to falling transportation and information costs, the progressive reduction of tariffs and other trade barriers that started at the end of World War II. Under the 1947 General Agreement on Tariffs and Trade, 50 countries committed to a set of trade principles, such as treating all their trading partners equally and treating domestic and foreign entities alike. Successive rounds of negotiations added members and brought further tariff reductions. In 1995, the last successful round of multilateral trade negotiations established a permanent body, the World Trade Organization (WTO), to settle disputes and organize further negotiations. Also services and intellectual property, as well as goods, became subject to WTO rules. A 1997 addendum covered financial services

specifically. Every country seeking to join the WTO since has had to promise to open its insurance market.

In addition to multilateral trade agreements, regional and bi-lateral agreements have added further commitments. The 1994 North American Free Trade Agreement broke new ground in giving United States, Canadian, and Mexican insurers specific rights to do business in all three countries. Strong market access commitments appear in virtually all free trade agreements the United States has negotiated since, especially the Korea Free Trade Agreement just concluded. (For more information, see page 6.)

As more insurance crossed national borders, national insurance regulators took increasing notice. Insurance written in jurisdictions with weak regulation could threaten the interests of consumers. The National Association of Insurance Commissioners (NAIC) invited regulators from other countries to attend its meetings. At the same time European regulators found common concerns in implementing directives of the European Community. Seeing the value in regular contact, in 1994 regulators from around the world organized the International Association of Insurance Supervisors (IAIS). The IAIS now has members from 118 countries, a permanent secretariat in Basle, Switzerland, and a host of committees working on common approaches to issues of insurance regulation. Its Core Principles of Insurance Supervision were adopted in 1997, revised in 2000, and extensively revised again in 2003.

Meanwhile the collapse of communism opened the economies of the former Soviet bloc to market forces. During 1989, reformers overthrew the Communist governments of eastern Europe, and in 1991 the Soviet Union split into 16 separate countries. The impact of communism's collapse spread far beyond the Soviet bloc, however, as mixed economies all over the world reduced the role of the state and turned

more to market forces to generate economic growth. The result has been a wholesale privatization of risk. Now more private property needs to be insured, and more people must provide for their own retirement income security.

While the world has been coming closer together, Europe has been coming closer together at an even faster rate. Earlier this year Europe celebrated the 50th anniversary of the Treaty of Rome, the agreement of six western European countries to reduce tariffs that started the European Union. The six became nine, then 10, 12, and 15. On May 1, 2004, the EU took in 10 more countries, including eight former Soviet bloc countries. Romania and Bulgaria joined this year, bringing the total to 27. To gain admission, these new members had to make significant changes in their laws and institutions, including their insurance regulation.

No longer merely a customs union, the EU has become a political union as well, with common rules governing many aspects of its economy. The EU Financial Services Action Plan outlined a deliberate effort to modernize European financial services through a common currency, more competition, and stronger prudential supervision. For European insurers, its most important component is the Solvency II Project, which in July 2007 will recommend to the European Parliament new rules for evaluating the solvency of insurers. Since the Solvency II methodology will represent a European consensus, reached through extensive analysis and dialog among the regulators and industry across the different countries of Europe, it will also be a huge step toward a global consensus.

The weight of the world's two most populous nations adds to the momentum of global integration. For their own distinct reasons, during much of the 20th century the economies of both China and India were isolated from the rest of the world. That isolation denied them opportunities to trade and to gain from their comparative



advantages. When their markets opened to the world, their economies boomed, making up much lost ground. As new converts to globalization, both India and China have fervently espoused global standards for insurance supervision and are implementing them as best they can. (See page 13 to learn how the Institutes are helping India strengthen its insurance market.) China has additional pressure to honor the commitments it made on entering the WTO in 2001.

International institutions are also playing significant roles as they find insurance industry allies in seeking solutions to global problems. (See, for example, the United Nations Environment Program initiative described on page 9.)

A major global problem is the vulnerability of the financial system. As global capital flowed into newly liberalized economies, the Asian financial crisis of 1997 hastened construction of a sturdier international financial architecture. In response to the crisis, the finance ministers of the major industrial countries established the Financial Stability Forum, which mandated the creation of international standards in accounting, auditing, fiscal transparency, data dissemination, corporate governance, and the supervision of financial services. The Financial Stability Forum designated key international groups, including the IAIS, as standard-setting bodies. The IAIS

Core Principles became the benchmark for evaluating the quality of a country's insurance regulation.

The benchmark matters because of another significant institutional change. In 1999, the International Monetary Fund and the World Bank started a Financial Sector Assessment Program (FSAP), a kind of peer review for banking and insurance regulators. Under this program a team of international experts visits a country, examines its supervisory system, and issues a report, including recommendations for improvement. In the majority of cases, these reports appear on the IMF web site, to be read by anyone interested, including those deciding whether to invest or do business in the country. Countries that ignore the international standards risk being left behind in the global economy.

International standards continue to evolve. In addition to the Core Principles, the IAIS has adopted 13 standards and 12 guidance papers. But perhaps the biggest news is the IAIS *Common Structure for the Assessment of Insurer Solvency* adopted in February 2007.

Until now, the variation in solvency assessment was a glaring weakness in the global regulatory framework, one that

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particularly troubled the IMF Surveillance Department. Since regulators naturally try to be on the safe side, long established insurance markets tend to have solvency requirements cluttered with additional conservative elements. Emerging insurance markets, on the other hand, tend to mimic a formal solvency margin requirement without instituting the underlying safeguards.

Aside from all the other deficiencies of a particular country's solvency assessments, the variation in the valuation of assets and liabilities from country to country rendered any solvency margin or capital-asset ratio useless for comparing insurers in different countries. Even within the presumed single market in Europe, accounting rules and solvency regimes varied widely from country to country. Prior to Europe's adoption of International Financial Reporting Standards last year, British insurers discounted their loss reserves to present value, but French insurers did not. Thus their reported capital looked very different even when their operations were the same.

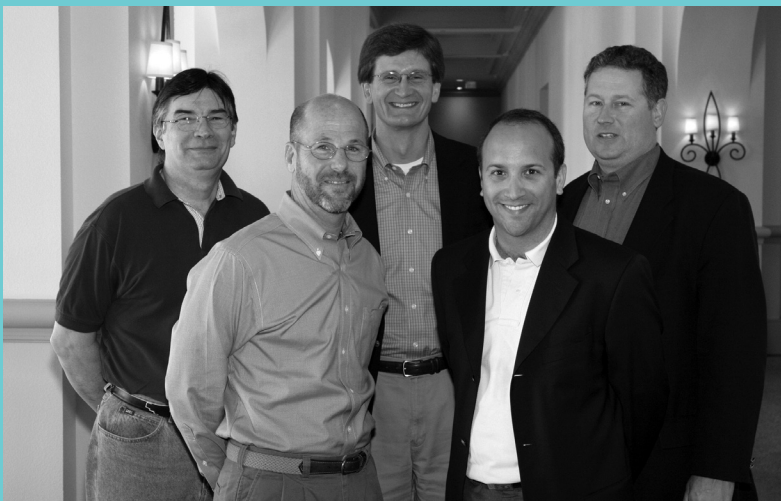
The IAIS Common Structure brings reason and objectivity to the complex task

of assessing the future financial position of an insurance operation and setting appropriate capital requirements. It is a coherent, forward-looking, transparent, and risk-sensitive methodology, founded on strict governance, market conduct, and disclosure requirements. With Solvency II the EU will apply a similar methodology; the Swiss Solvency Test and the UK's Individual Capital Assessment already have. It is only a matter of time until most of the world's insurance regulators move in this direction. (See page 5 for an explanation of Bermuda's implementation.)

This method of assessing solvency corresponds more closely to the way insurers manage their business. It also encourages firms to improve their enterprise risk management. By putting everyone on the same page, it improves the overall allocation of resources. Company management, regulators, rating agencies, intermediaries, and consumers will all look at the same information and worry about the same issues. Better decisions will result, making companies stronger, regulation smoother, and consumers more confident.

With an internationally recognized solvency standard, the global insurance market is coming of age, fully prepared to offer risk solutions that were inconceivable not so long ago. Trade liberalization, regulatory harmonization, competition, and the normal human urge to find better ways of doing things are nurturing the institutions missing in much of the world not so long ago. As a sound regulatory framework takes shape, access to reliable insurance in developing as well as developed countries will enable individuals and businesses to manage their risks better.

Just as goods have become more alike everywhere, so too will services. Federal Reserve Board Governor Frederic Mishkin predicts that the financial sector will lead "the next great globalization" by promoting more efficient allocation of investment in developing countries. Insurance professionals can play their part in identifying and pricing risks, helping victims of accidental losses recover, and over the long run encouraging the reduction of losses. As the global insurance market comes of age, the result will be a safer, more stable, and more prosperous world. ■



The International Insurance Section Committee met at the CPCU Society's Leadership Summit in Orlando, FL on April 21, 2007. In attendance was (from left to right) C. Michael Dower; Anthony L. Cabot, CPCU, ARM; Douglas K. Adams, CPCU; Anthony E. Fienberg, CPCU; and Michael E. Brown Jr., CPCU.

Bermuda Recalibrates Class 4 Regulation to Keep Pace with International Standards

by Bradley L. Kading, CPCU

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Bermuda's insurance carriers have been tested by the worst events that man and Mother Nature have assembled. Actions taken in 2007 will further cement Bermuda's commitment to international solvency regulation standards and will further Bermuda's leadership role as a regulator of major international insurers and reinsurers.

Bermuda's financial services regulator, the Bermuda Monetary Authority (BMA), regulates the island's 1,300 active insurers and categorizes them into four classes. The Class 4 group comprises excess liability and property catastrophe insurers and reinsurers. The category is small in number, but large in capital and global economic importance. This class writes the bulk of the global premium for Bermuda's growing global carriers. According to the BMA, at year end 2005, 38 Class 4 carriers were licensed to do business. *Benfield's Bermuda Quarterly* in March reported the 16 companies covered wrote a combined \$58.4 billion in gross premium in 2006; and they had aggregated shareholder's equity of \$64 billion at year end. When selecting a Bermuda insurance carrier, brokers and customers should inquire about the regulatory class of the insurer. The Class 4's are the companies specifically regulated to meet the international solvency regulation standards that U.S. customers will learn more about in the coming years as global regulation moves to harmonized standards.

The BMA, the Bermuda government generally, and the Class 4 insurers themselves—as represented in the Association of Bermuda Insurers and Reinsurers (ABIR)—are committed to meeting international solvency standards as set by the International Association of Insurance Supervisors (IAIS). Bermuda regulates all of its insurers, but for the Class 4 group separate, more stringent standards apply, and in 2007 additional measures will provide assurance of appropriate solvency regulation for the protection of the customer.

Of note in 2007 are five specific changes:

1. fit and proper and controller statutory change
2. financial examinations
3. risk-based capital
4. public financial statements
5. staffing resources/licensing fees

Bermuda amended its laws last year to tighten definitions of "fit and proper" standards for directors and officers and to provide additional powers for rejection of inappropriate candidates and removal of existing officers or directors. In addition, new powers were enacted giving additional regulatory notice of change in control via ownership stakes in companies. These provisions apply broadly to all insurers domiciled in Bermuda and took effect this year.

The BMA will be completing financial examinations for all Class 4's established prior to 2005. These on site financial examinations are in addition to the risk based financial analysis applied to all licensed insurers. In addition, the newer startup carriers will be given a performance audit measuring their first year against plan.

In 2007, the BMA will be implementing its new risk based capital formula that will apply specifically to the Class 4 group. Although the Class 4's are currently subject to solvency margin requirements and a \$100 million minimum capital requirement, the RBC implementation will raise the bar on actual regulatory capital requirements for these insurers and reinsurers substantially, based on the risk they have actually assumed. The risk based capital system will include specific scenario testing appropriate to the catastrophe exposed lines of business written by this group of companies.

Although the overwhelming majority of Class 4 companies are publicly traded, the BMA will extend to all Class 4 licensed entities a public GAAP financial statement requirement for the 2007 calendar year. Each carrier will be required to make available a public financial statement for the legal entity, which consolidates other legal entities reporting up to the company on a GAAP basis. Publicly traded carrier GAAP statements may not contain the detail that these legal entity financial statements will provide. Bermuda statutory financial statements will remain confidential, but they are made available for cause to regulators.

Substantial increases in licensing fees for the Class 4 group will provide funding for an increase in insurance regulatory staff support for the BMA. Its 2007 staff level is expected to double the 2005 level.

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Bermuda Recalibrates Class 4 Regulation to Keep Pace with International Standards

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Bermuda's major international carriers now make up 15 of the top 35 reinsurers in the world, according to A.M. Best. They supply 40 percent of the U.S. property catastrophe reinsurance supply, and they include three of the top 10 U.S. providers of professional liability claims-made products, including directors and officers and errors and omissions coverage. According to Benfield, they include seven of 20 top property and casualty reinsurers. For cedents concerned about the concentration of business in the hands of the top five global reinsurers, this growing Bermuda class represents hope for market diversification and increased competition in the future.

In the six-year period 2001 to 2006, these carriers have contributed \$25 billion in catastrophe claims payments for the benefit of U.S. ceding insurers and policyholders. For 2005's ugly sister trio of Katrina, Rita, and Wilma, these carriers alone paid an estimated 24 percent of the total U.S. losses. They also hold more than \$17 billion in reserves for unaffiliated liability business assumed from U.S. ceding insurers. For more information on Bermuda's Class 4 insurers see www.BMA.bm or www.ABIR.bm or www.Class4Bermuda.com. ■

U.S.-Korea Free Trade Agreement: Financial Services Negotiations

by Louisa A. Marinaccio

■ **Louisa A. Marinaccio** is an international trade specialist with the U.S. Department of Commerce's International Trade Administration (ITA). She is the commerce lead for financial services negotiations and compliance activities and the insurance services team lead. Marinaccio provides expert guidance to ITA management and units and her interagency colleagues on a wide range of financial services and insurance-specific issues that support the U.S. insurance sector. She serves as the U.S. government lead to the Universal Postal Union, Postal Financial Services Group, and the U.S. government lead for insurance to the NAFTA Financial Services Committee and the Security and Prosperity Partnership of North America's Financial Services Working Group. In addition to her participation in high profile negotiations, Marinaccio also provides support to the insurance sector through advocacy activities and technical assistance program development.

On April 2, 2007, U.S. Trade Representative Susan C. Schwab announced the conclusion of the U.S.-Korea Free Trade Agreement negotiations. These talks, which were launched on February 2, 2006, included eight formal negotiating rounds between June 2006 and March 2007. The result is the largest FTA in terms of foreign market size for the United States since NAFTA.

Korea is the world's seventh largest goods exporter and importer, the fourth largest in Asia. Korea is also the world's tenth largest services exporter and sixth largest services importer. The U.S. insurance industry was particularly engaged during the negotiating process, since it believes that

Korea's insurance market holds significant potential. Currently, Korea is the world's seventh largest life insurance market, 11th largest non-life market, and the eighth largest insurance market overall.

The trade agreement consists of various chapters, which collectively form the agreement. The commitments with respect to financial services are contained in two chapters: the financial services chapter and the investment chapter. The financial services chapter covers all investment-regulated financial institutions (banking, securities, insurance) and financial services provided on a cross-border basis from both regulated financial institutions and unregulated providers (that may not be financial institutions at all). The investment chapter covers the investment in businesses that provide financial services but are not regulated as financial institutions. Therefore, investors of an insurance company would be covered by the financial services chapter, while an automobile manufacturer offering loans would be covered by the investment chapter.

The commitments on financial services are a combination of the text of the chapter and the reservations. The text of the chapter can be thought of as the rules governing investment in financial institutions and cross-border providers of financial services. The reservations are the negotiated derogations to these rules (often called non-conforming measures). These reservations are areas in which a country reserves exceptions to the specific rules the chapter sets out in areas such as national treatment and market access. For example, if the number of foreign bank licenses in a country is limited to a specific number, or if the foreign equity in a financial institution is limited, these exceptions would have to be reserved for in the non-conforming measures.

The agreement locks in access for U.S. financial institutions by leveling the playing field with domestic and regional counterparts, including the sales of insurance products by Korea Post. The transparency provisions will ensure that new license applications from U.S. institutions will be granted in 120 days. Importantly, they also will guarantee that all regulations issued by the Korean Financial Supervisory Service and Financial Supervisory Commission (FSC) will have a 40-day prior notice and comment period prior to the regulation going into effect.

The commitments achieved in financial services were most dramatic in the insurance sector. Foreign insurance firms have long complained of discriminatory practices that have hampered their ability to penetrate the Korean market. Specific and additional commitments achieved in the FTA include:

- Special Annual Insurance Committee established to address ongoing market access issues.
- Special Annex on Korea Post, which brings Korea Post into the Financial Services Chapter. (Normally it would be excluded since it is not a regulated financial institution.) The Annex includes provisions, which will give the FSC additional oversight with respect to Korea Post and obligates Korea Post to conform to FSC's opinions. Korea committed that Korea Post will not issue new products.
- Special Commitment to make Sectoral Cooperatives (such as the National Agricultural Cooperative Foundation, the National Federation of Fisheries Cooperatives, the Korea Federation of Community Credit Cooperatives and the National Credit Union Federation of Korea Cooperatives) subject to regulation by the FSC three years after entry into force of the agreement.
- U.S.-based insurance companies will be able to process customer data abroad within two years of entry into force of the agreement.

- U.S.-based insurance companies will be able to provide cross-border portfolio investment advice from abroad.
- The Korea Insurance Development Institute, Korea's rate setting organization will be subject to the National Treatment, Most-Favored Nation, and Transparency provisions of the agreement. This means that their actions will be subject to the state-to-state dispute settlement mechanism.
- Similarly the Korean Life Insurance Association (KLIA) and the Korean Non-Life Insurance Association (KNIA) will be subject to the National Treatment, Most-favored Nation, and Transparency provisions of the agreement when exercising delegated regulatory authority, also subjecting their actions to the state-to-state dispute settlement mechanism.
- Cross-border sales of reinsurance, marine, aviation, and transport insurance, insurance of goods in international transit, and the brokerage thereof, will be allowed upon entry into force of the agreement.
- Individuals providing actuarial, risk assessment, claims settlement, and consultancy services will be allowed on a cross-border basis upon entry into force of the agreement.
- Specific Commitment on Insurance Complaint Measures and Procedures.

Korea's Financial Supervisory Service (FSS) was created in 1999 by merging the Banking Supervisory Authority, Securities Supervisory Board, Insurance Supervisory Board, and Non-bank Supervisory Authority into a single, consolidated organization. Its major functions include the supervision, examination, investigation of, and enforcement on financial institutions as well as other matters delegated by the Financial Supervisory Commission (FSC) and the Securities and Futures Commission (SFC).



To develop the country as a regional financial hub, the FSS has been actively upgrading the regulatory framework. Although Korea announced the intention to establish a Northeast Asian Financial Hub project in 2003, foreign financial firms argue that discriminatory regulatory and tax barriers have hindered the formation. The removal of discriminatory barriers as a result of the U.S.-Korea FTA should assist in the realization of this purpose.

Subject to ratification by the U.S. Congress and the Korean Parliament, the financial services commitments will provide U.S.-based suppliers (both individuals and companies) of insurance and reinsurance services, as well as agents and brokers, with significant business opportunities to expand their business operations in Korea. ■

Universal Postal Union (UPU) Postal Financial Services Group (PFSG)

by Louisa A. Marinaccio

The UPU, with its 191 member countries, is the primary forum for cooperation between designated postal operators and helps to ensure a universal network of up-to-date products and services. The UPU sets the international rules for the reimbursement amongst countries for delivering one another's international mail. If you've ever received a package or letter mailed overseas, then you've benefited from the UPU's work.

Nearly two-thirds of the world's posts provide financial services through a network of more than 660,000 post offices. Each year post offices perform more than 10 billion transactions involving money orders, savings accounts, and consumer loans. Many posts offer retail banking and insurance services as well. The UPU PFSG sets policy and rules for Postal Financial Services Operators, who in turn affect the competitive environment of financial services markets overseas.

In overseas markets where post offices engage in the sale of financial services products, they generally enjoy a competitive advantage over private-sector market participants such as preferential tax treatment, different regulatory environment, no payments into the industry safety net, and profit from cross-subsidization. Proponents argue that postal financial services mobilize savings and serve the economically and socially disadvantaged who might not otherwise have access to banking and insurance services.

The most notable example of how the disparity in treatment can create a competitive advantage is Japan Post, which is the largest financial institution in the world with \$3 trillion in deposits and 25,000 branches. (Note: Japan Post will begin its 10-year privatization on October 1, 2007). The 10-year privatization will divide Japan Post into four businesses: Kampo, the postal life



insurance company; Yucho, the postal deposit banking institution; and mail and package delivery. The U.S. industry has expressed concerns over transparency, cross-subsidization, and risk transfer from one entity to another, fearing that Japan Post will continue to use its government advantages to dominate the market.

The U.S. insurance industry generally believes that designated postal operators should not engage in the underwriting of postal insurance products; and that if designated postal operators choose to distribute private-sector insurance products, they should be selected through an open and transparent bidding process. (Note: Some U.S. insurance companies do not believe that designated postal operators should engage in the sales of insurance products under any circumstance).

While the U.S. government and industry engage countries on a bilateral basis to discuss issues surrounding the sales of postal financial services products, the UPU PFSG is an opportunity to influence a large number of postal operators and affect their policies with respect to postal financial services. Many postal operators not currently providing financial services are considering whether or not to enter the postal financial services market. The UPU PFSG's rules and initiatives will affect their decision-making.

There is a role for the private sector as well. In 1999, the UPU created the Consultative Committee to give postal stakeholders other than postal operators and regulators a voice in the UPU. This committee is the dialogue mechanism between non-governmental organizations (NGO) and the UPU organization. Consultative Committee members are active in the UPU Committees and have their own committee and agenda. The Consultative Committee is actively seeking private sector NGO membership. For more information, please contact: Louisa_Marinaccio@ita.doc.gov. ■

The Insurance Industry and the United Nations

by Anthony L. Cabot, CPCU, ARM



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Cabot is a member of CPCU Society's Board of Governors, a long-time member of the International Insurance Section Committee, and a founding member of the CPCU Society's Europe Chapter. He is a representative to the United Nations Environmental Program Financial Initiative and the Insurance Working Group, which promotes the Principles of Sustainable Insurance (people, planet and profit).

Cabot is also an active member of the Italian Academic and Risk Management Association, and a guest lecturer at the University of Verona for its masters in risk management program.

We do not usually associate the insurance industry and the United Nations as a partnership to build a sustainable insurance business model, but since 2006 a series of UN initiatives have put them together.

The United Nations Environment Programme Finance Initiative (UNEP FI), a public-private partnership between UNEP and the global financial sector, started almost 10 years ago to identify, promote, and realize the adoption of best environmental and sustainability practices at all levels of financial institutions.

Now the time has come to involve the insurance industry directly in the UNEP FI initiatives through the formation of the "Insurance Working Group" (IWG). This unique alliance of thought leaders includes such insurance organizations as:

- Achmea
- Allianz
- American International Group
- AXA (Co-Chairman)
- Folksam
- HSBC
- Insurance Australia Group (Co-Chairman)
- Interamerican Hellenic Life
- MAPFRE
- Munich Re
- Norwich Union (Aviva)
- Storebrand
- Tokio Marine & Nichid
- XL Insurance

This founding group is:

- **Committed**—Signatories to UNEP FI Statements commit to integration of environmental considerations into all aspects of their operations.
- **Collaborative**—Signatories work together to identify risks and opportunities across a range of business lines: from asset management and credit risk to insurance.

- **Relevant**—Particular attention given to the most challenging issues today: climate change, water scarcity, biodiversity, and other emerging risks.
- **Innovative**—Ground-breaking research produced, setting industry trends, and offering solutions for the future.

The IWG Strategic Objectives are to:

- Raise awareness on current and emerging sustainability issues and trends.
- Promote best practices in sustainability.
- Improve methods to define environmental, social, and corporate governance (ESG) risks.
- Integrate ESG criteria into products, services, investment, and operational ecology.
- Support the development of new sustainable products and services.
- Underscore the vital role of the insurance industry in a sustainable future.

The contribution to sustainability that the insurance industry can make through the United Nations Environmental Program Financial Initiative begins by providing examples of best practice, identifying major challenges, and offering potential sustainable solutions. By promoting sustainability on a wide range of issues and by demonstrating that it is consistent with good commercial practices, the UNEP FI IWG is seeking to embed these important objectives within the insurance industry's strategies and processes.

IWG intends to produce a series of briefings on sustainability issues in the insurance sector; and to promote research, education, product development, and methodologies that are relevant. An important part of this program will be to identify specific examples of best practice in insurance products and processes.

Together with the UNEP FI IWG, many insurers want their organizations to have a positive effect on the environment, to

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The Insurance Industry and the United Nations

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create healthy communities, and to be managed properly. (These environmental, social, and governance objectives are often called simply ESG). They also need to fulfill their financial obligations to stakeholders such as shareholders, policyholders, beneficiaries, employees, and suppliers. This combination of objectives is known as the “Triple Bottom Line”—aiming to do well for people, planet, and profit.

The insurance sector is potentially a strong lever for implementing sustainability, because of its size and the role it plays in the economy. In 2005, the worldwide volume of premiums in the insurance industry exceeded U.S. \$3.4 trillion, split roughly 60/40 between life and non-life business, making it the largest sector in the global economy.

The function of insurance is strongly related to sustainability. The main thrust of the life and pensions field is covering serious risks to human well-being and providing post-retirement income far into the future for savers who have entrusted their funds into its keeping. An example on the non-life side is the coverage insurers provide for businesses and individuals for risks that could damage their assets, income, or health.

It is clearly in insurers’ interests to reduce risks and improve sustainability. First, from a defensive standpoint, sustainability improves the chance that the funds collected will be adequate to meet all the claims. Secondly, in a sustainable society, risks are more likely to be insurable; and economic growth will be more stable, which means that the markets for insurance will thrive.

However, the private sector cannot act alone. It requires a firm regulatory framework to ensure that competitors must also abide by reasonable standards of governance.

Sustainability affects all of an insurer’s activities, as the following simple framework shows. (See Table 1.)

The *raison d’être* of the insurer is to manage and often carry the risks of its clients. This involves several core processes, all of which can be designed on a sustainable basis. (See Table 2).

Sustainability should be an integral part of everything we do. Among IWG members, the consensus is that nine issues are particularly important for this generation of insurers: climate change, insurance for the poor (micro-insurance), lifelong income, health, emerging man-made risks, environmental liability, natural resources, recycling, and internal efficiency. Naturally there is some interaction among them, which will emerge as the work of the IWG moves forward.

Where does your company stand on the principles of sustainability in insurance? What can you do to learn more and support the efforts of the United Nations and UNEP FI IWG?

Watch for next quarter’s issue of the *IQ* to find the answers to these questions and to read about the progress of the IWG.

In the meantime you can contact Butch Bacani, the project manager for the IWG initiative within UNEP FI, at butch.bacani@unep.ch or Anthony L. Cabot, CPCU, ARM, at tony.cabot@xlgroup.com. ■

Table 1
Connecting Roles with Strategies for Sustainability
(Source: Achmea)

Insurer	Sustainable Core Processes
Investor	Responsible Investing and Financing
Actor in Society	Community Involvement, Employee Relations
Consumer	Environmental Care

Table 2
Core Insurance Processes and Sustainability

Core Process	Sustainability Issues
Risk Assessment	Fairness in data collection, development of risk models, pricing
Risk Reduction	Advice about alternatives to insurance. Enforcement of risk-reducing measures.
Exposure Control	Management of the aggregate risk to avoid insolvency.
Product Design	Covering risks that are relevant from an ESG perspective.
Distribution	Partnering with networks for efficient access to at-risk customers.
Marketing	Consumer product education. Fair incentives to take out insurance. Opt-outs.
Loss Handling	Speedy and considerate indemnity. Fair dispute resolution.
Procurement	Partnering with sustainability-minded suppliers for positive ESG impact.
Administration	Accurate record keeping. Accessibility for complaints.

Risk Management for the Life Sciences Industry

by Robert Mackay

■ **Robert Mackay** is a business development officer at Nassau Verzekeringen, a Dutch property and casualty insurance company based in Rotterdam. Nassau is a wholly-owned subsidiary of Bloemers Nassau Groep, created in 1953. Nassau underwrites specialized lines of business through its offices in Rotterdam, Amsterdam, Copenhagen, Cologne, and Paris. Mackay joined Nassau in November 2005, and is responsible for the development of the biotechnology industry in Europe. Prior to Nassau, Mackay worked for Marsh and the Dutch Association of Insurance Companies.

Biotechnology has been around since people started manipulating crop and species (cross contamination) to improve their standards of living. Think of yeast used to produce wine and bread (use of living organism) or bacteria and fungi to ripen the cheese. Modern biotechnology is the innovative study of living organisms to develop processes or products in order to improve our environment. There are three main sub-groups: red (healthcare), green (agro-food), and white (industrial) biotechnology.

Companies in the red biotech sector are developing products such as anti-cancer drugs and vaccines for ebola and malaria. One company is developing a technique making current anti-cancer drugs 20,000 times better by using a virus and the enzyme of a fruit fly. Another vaccine in development will help a woman's immune system to detect and destroy ovarian cancer in the first stages. Green biotech is providing solutions for world hunger, such as bug-resistant crops and crops able to grow on arid or salty soil. White biotech produces laundry detergent enzymes that enable washing at lower temperatures, resulting in cleaner clothes and less strain on the environment. Because the possibilities are limitless, many consider biotech as the new knowledge-based economy. Predictions are that in 2010,

more than half of the world's medicine production will have a biotech origin.

Biotech companies tend to regard their exposures to risk in general as quite low. Most of them perceive insurance as too expensive, which makes biotech an interesting opportunity for risk management. Approximately 80 percent of the European biotech market consists of start-ups and small- to medium-sized companies who cannot insure their risks at acceptable rates. The smaller biotech companies often decide they cannot afford to purchase insurance, or decide to buy only catastrophic coverage. In the end, the decision comes down to their balance sheet and how lucky they feel. And for small biotechs, an unidentified risk can put a company out of business.

Any company should ask itself: "Have you identified your risks?" Once you know what your exposures are, you can start mitigating them and protecting the continuity of your company. Biotechs in particular must be educated regarding their risk exposures and how to deal with them. Simple, unexpected, and unidentified risks can ruin a company, leaving a shattered dream and disappointed shareholders. Investors and venture capitalists tend to underestimate the role of insurance. When they invest in a company, they may do a check-the-box exercise, not considering whether limits or coverage are adequate.

Even simple slip and fall accidents can easily bankrupt a small company. The known operational risk exposures include human-related accidents, small fires, loss of air conditioning, heart attack of key scientists, trespassing, stealing patents or other confidential data, animal activism, and many more.

All these risks can cause interruption in operations, leading to loss of future investments or financial rewards in an industry very much focused on time. On average it takes 12 to 15 years for a medicine to hit the market, costing on average €800 million (more than

U.S. \$1 billion) with a success rate of 1 percent. These figures show not only the volatility of the market, but also the importance of time. Smoke damage from a small fire could set a biotech firm back months before it can restore its approved environment. In the meantime no testing can be done.

With growing litigation in Europe, liability exposures add to the risks. Biotech firms usually have significant directors and officers (D&O) risk exposure. Some D&O policies have a "failure to insure" exclusion, leaving the investors open for claims in case the company goes bankrupt or the stock plummets due to an insurable event which was not adequately covered.

Especially for publicly-owned biotech firms, another D&O issue is corporate governance and financial reporting. A biotech company faces increasing D&O risks as a product gets further in the development phase. After pre-clinical testing, clinical tests on humans (healthy and patients) consist of phases I, II, and III. In phase IV the product is approved and ready to hit the market.

When the product gets to phase III the stock soars, but if it fails in phase III (not unlikely, remember success rate of 1 percent) the stock plummets. Two types of claims can arise: (1) insider trading (Who knew what when?), and (2) what went wrong (How did the product fail so close to hitting the market?). Both types of claims are likely, and whether just or not, the costs of defending them are huge. Such a stress on the balance sheet can be devastating and jeopardize the continuity of the company and development of other products (if any) in the pipeline. And in a jurisdiction such as France that prohibits company reimbursement of D&O liabilities, such claims can ruin the personal finances of directors and top management.

Professional indemnity (PI) or errors and omissions exposures can be a serious

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Risk Management for the Life Sciences Industry

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threat to biotech companies as well. Service- and hybrid-driven companies in one way or another perform assignments for third parties. Most of the biotech companies in Europe either just provide services or provide services and develop a product. The key exposure identification questions are how is everything (administration, supply contracts, etc.) organized, what kind of contracts are in place, and what are the agreed conditions with the so-called third parties.

Although start-ups and smaller biotech companies face difficulties insuring their

risk exposures, multi-line liability, and multi-line property damage coverages are available for small- and medium-sized companies. In the Netherlands, for example, one multi-line liability policy covers D&O, PI, general third-party liability (GTPL), and legal expenses for uninsured events under the GTPL coverage with options of property damage and business interruption.

Insurance professionals can help development of the biotech industry in two ways. One is by arranging adequate coverage for reasonable rates. The second

is to help them assess their risk exposures. The latter is partly a service, but it also helps us to understand better the risks in the biotech sector, resulting in better underwriting. The biotech industry shows again that insurance is "what makes the world go round." Without insurance, it would be extremely difficult to develop new products and transport goods around the world. We think that financial service providers to the biotech industry can take the industry's development to the next level, thanks to proper insurance and risk management. ■

CPCU Travel Program

by Richard A. Vanderbosch, CPCU, CLU, AIS



■ **Richard A. Vanderbosch, CPCU, CLU, AIS**, graduated from Western Michigan University before embarking on a 36-year career with State Farm Insurance. When he retired in January 1999, he was director of data management services at corporate headquarters. Vanderbosch lists among his greatest personal achievements being named a CPCU Society Standard Setter in October 1998. Following a stint as a leader of the CPCU Society's Central Illinois Chapter, and prior to joining the Senior Resource Section Committee, he served as chairman of the national Intra-Industry and Continuing Education Committees.

What in the world is the CPCU Travel Program? Have you ever heard about it? Are you familiar with how it works and what types of trips are offered? Many CPCUs, who are busy establishing their careers, are not really aware of the program or have not taken the time to find out more about it. If you happen to be one of these people, read on for a brief synopsis of what it's all about.

The CPCU Travel Program, sponsored by the Senior Resource Section, was first established in 2004 to provide an opportunity for CPCUs like you to travel and to associate with each other in a relaxed, casual setting. It was designed to bring CPCU professionals of all levels, ages, and disciplines together for exciting travel adventures around the world. Family members and friends are also welcome to participate. Grand Circle Travel is the sponsoring travel company.

Each year, the most popular destinations are identified and evaluated, and one is selected for the subsequent year's trip. The selection is based on the location, the length of the trip (1–2 weeks max) and the cost. The announcement is then made to all CPCU Society members

in the fall and flyers are prepared for distribution at the CPCU Society's Annual Meeting and Seminars.

In 2005, we traveled to the Great Rivers of Europe; in 2006 we did a Canadian Rail Adventure; and we recently completed the "Storybook Landscapes Along the Rhine," a nine-day river cruise from Amsterdam to Frankfurt. The cost for the trip included all meals, accommodations, airfare from seven major U.S. cities, and land tours. The trip was a sellout, and included 40 CPCUs, family members, and friends.

One big advantage to this program is that it is an opportunity to travel with fellow CPCUs to prime destinations at reasonable prices. Watch for the announcement of the 2008 travel destination this fall. It just might be something you, your family, or friends have been looking for. For more information, feel free to call me at (970) 663-3357 or e-mail me at rbosch@aol.com.

If it fits your schedule and your pocketbook, why not join us—you'll be glad you did! ■

A Key Education Partnership in India

by Peter L. Miller, CPCU



Peter L. Miller, CPCU, is president and chief executive officer of the American Institute for CPCU and Insurance Institute of America (the Institutes). He serves as a member of the board of the Insurance Institute of Switzerland, the CPCU Institute for Greater China, and the Institute for Global Insurance Education. Miller also serves ex-officio as a member of the Institutes' Board of Trustees and the CPCU Society's Board of Governors. He has direct oversight of the Institutes' international education partnerships and activities.

In July 2006, the Institutes announced a new partnership with the International Academy of Insurance & Financial Management (IAIFM) in New Delhi, India. The IAIFM is an established leader in insurance education and professional development in India. In addition to providing property/casualty insurance education in conjunction with the Institutes, the IAIFM also provides life insurance and financial services education through another organizational alliance.

As the Institutes' partner in India, the IAIFM will adapt and deliver Institute programs and, where necessary, customize specific courses to reflect regulatory and procedural differences unique to the local insurance market. The mission of the IAIFM is to support the insurance industry in India while advancing the professional standards of its practitioners. The Institutes are committed to meeting the evolving educational needs of the risk management and insurance global community and helping prepare its specialists to fulfill their professional and ethical responsibilities.

It has been a little more than seven years since India's Parliament enacted the Insurance Regulatory and Development Authority (IRDA) Act, which opened India's insurance market to private companies and foreign investment. This act also established the IRDA as an independent governing body that protects the interests of policyholders and regulates, promotes, and ensures orderly growth of the insurance industry and reinsurance business.

Some of the IRDA's specific responsibilities include establishing guidelines for the qualifications, code of conduct, and practical training for insurance intermediaries and agents; promoting and regulating professional organizations connected with the insurance and reinsurance business; overseeing registration and licensing; ensuring that insurers write the requisite

percentage of business in rural areas; and mediating disputes between insurers and agents/brokers.

Using the Institutes' materials, the IAIFM develops training programs that teach risk managers and insurance professionals in India the practical skills and insurance principles and coverages they need to gain a strong foundation in property/casualty insurance, to fulfill the IRDA's statutory requirements, and to meet the high standards of the industry.

Our partnership with the IAIFM is an opportunity to integrate sales training techniques and methodology with technical education to provide a continuum of professional development from the initial entrance into the general insurance industry to the highest available level of education.

The IAIFM currently offers the Institutes' introductory courses in property and liability insurance, claims, underwriting, and risk management; the Program in General Insurance; and six designation programs—Accredited Adviser in Insurance (AAI®), Associate in Claims (AIC), Associate in Commercial Underwriting (AU), Associate in Marine Insurance Management (AMIM®), Associate in Risk Management (ARM), and Associate in Personal Insurance (API).

The main objective of both organizations is to enhance the level of professionalism in India's general insurance industry through state-of-the-art training programs specifically tailored to the Indian context. The importance of professional development cannot be overstated, especially with the recent liberalization of India's insurance marketplace resulting from detariffication.

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A Key Education Partnership in India

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The IRDA Act of 1999 did not change the role played by India's Tariff Advisory Committee (TAC) in the regulation and control of general insurance premium rates, policy coverages, and classes of insurance for fire, motor, engineering, and workers compensation. All insurers were required to offer the same products at premiums established by the TAC at the same rates.

In an effort to open the door wider to competition in India, the TAC withdrew, as of January 2007, this restrictive tariff structure, and premium rates and product lines are now determined in a competitive and open marketplace. A tariff-free insurance environment increases the need for a highly knowledgeable and

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skilled workforce that can develop new products, offer excellent policyholder services, satisfy statutory requirements, and analyze emerging market trends.

Now more than ever, agents and brokers, whose roles were limited under the compulsory tariff regime, must have a thorough understanding of the products they sell in order to uphold their commitment to provide customer-focused support and services, especially in rural areas.

Today, there are new opportunities, as well as new challenges, in India's vital and emergent property/casualty insurance marketplace. But only through education and skill development can the industry sustain growth, attract investors, and continue to meet the needs of its customers.

The Institutes' partnership with the IAIFM is lending important support to India's risk management and insurance industry through high-quality programs that provide a strong technical knowledge base and a focus on ethics and professionalism. ■

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Sections Strategic Implementation Task Force Report Summary

by Kathleen J. Robison, CPCU, CPIW, ARM, AU



■ **Kathleen J. Robison, CPCU, CPIW, ARM, AU**, has more than 30 years of experience with leading claims organizations, and possesses a wide range of commercial and personal insurance coverage knowledge and applicability. K. Robi & Associates, LLC, which she founded in 2004, provides customized consultant services in the property and casualty insurance fields, including expert witness testimony, litigation management, claims and underwriting best practices reviews/audits, coverage analysis, and interim claims management. She can be reached at (423) 884-3226 or (423) 404-3538; or at info@krobiconsult.com.

A Brief History

At the CPCU Society's 2005 Annual Meeting and Seminars, the Board of Governors created a Sections Strategic Task Force. The task force developed a strategic vision for sections. It was presented to the Board at the 2006 Annual Meeting and Seminars in Nashville, in September.

The Sections Strategic Task Force proposed the sections' strategy should be, "to position sections as a provider of readily available, high-quality, technical content to stakeholders." The level of content and delivery would vary based on the audience. To successfully accomplish the strategy, the task force recommended a series of strategic initiatives aligned with four key perspectives: Organizational Structure (OS), Leadership Development (LD), Membership (M), and Value-Added Services (VA).

The Board of Governors accepted the report and referred it to the Executive Committee to develop detailed recommendations for consideration by the Board at the April 2007 Leadership Summit meeting. The Executive Committee created the Sections Strategic Implementation Task Force to develop the detailed recommendations.

Board Approved

The Sections Strategic Implementation Task Force outlined implementation steps for each of the Sections Strategic Task Force's categories of recommendations. On April 20, 2007, the CPCU Society's Board of Governors approved and accepted the Sections Strategic Implementation Task Force report.

The Board approved the formation of the Interest Group Resource and Governance (IGRC) Task Force to manage the implementation of the various tasks recommended except for OS4—Open Interest Groups to all Society members. The Board requested that the Sections

Strategic Implementation Task Force remain in existence to undertake the necessary research on OS4 and present to the Board at the 2008 Leadership Summit meeting.

The Board decided it will announce at the 2007 Annual Meeting and Seminars in Hawaii the timetable for moving from the name sections to interests groups. Until that time the title will remain "sections."

This article summarizes the Sections Strategic Implementation Task Force report and recommendations.

Task Force Members and Structure

W. Thomas Mellor, CPCU, CLU, ChFC, chaired the task force. Members of the task force were: Karl M. Brondell, CPCU; Nancy S. Cahill, CPCU; Robert Michael Cass, J.D., CPCU; Donald William Cook, CPCU; Todd G. Popham, CPCU, CLU; Kathleen J. Robison, CPCU, CPIW, ARM, AU; Brian P. Savko, CPCU, CLU, ChFC; and John J. Kelly, CPCU, as CPCU Society liaison. Tom Mellor, CPCU; Nancy Cahill, CPCU; and Kathleen Robison, CPCU, served on or consulted to the previous Sections Strategic Task Force.

The original Strategic Sections Task Force distributed its recommendations into four categories: Organization Structure, Leadership Development, Membership, and Value-Added Services. The current task force agreed on a division of work and organization structured around these four categories, and divided themselves into four teams. Each team identified steps to be undertaken in order to implement the recommendations.

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Sections Strategic Implementation Task Force Report Summary

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Special Note: The task force understands that the actualization of its recommended implementation process will not be accomplished quickly. It will require the contributions, deliberations, and efforts of a large number of Society volunteers. It will also take time. The task force believes a two- to three-year timetable is realistic.

Organizational Structure

OS1—Re-brand Sections as Society Interest Groups

1. Authorize and implement new interest group names specifically using the words *Interest Group* in the title (e.g. *Claims Interest Group*) and formally identify interest groups collectively as *CPCU Society Interest Groups*.
2. Determine appropriate interest groups that should exist by aligning the groups with current industry functions or by roles (such as leadership or project management).

3. Institute changes in verbiage from *Section* to *Interest Group* in all formal Society communications and materials (current sections publications, Society web site, stationery, etc.) to be effective on a specified date.
4. Communicate the changes to Society members, including impacts and rationale, via print and electronic media. This should be done in advance of the change date and also after the change date.

Special Note: The re-branding of sections as *Society Interest Groups* will be announced at the 2007 Annual Meeting and Seminars in Hawaii. A timetable will then be established for items 3 and 4.

OS2—Create CPCU Society Interest Group Resource and Governance (IGRG) Task Force

To manage and direct all of the changes recommended, the task force proposes the formation of the Interest Group Resources and Governance Task Force (IGRG). The IGRG's leadership and direction will provide continuity, consistency, and quality to this crucial transformational project.

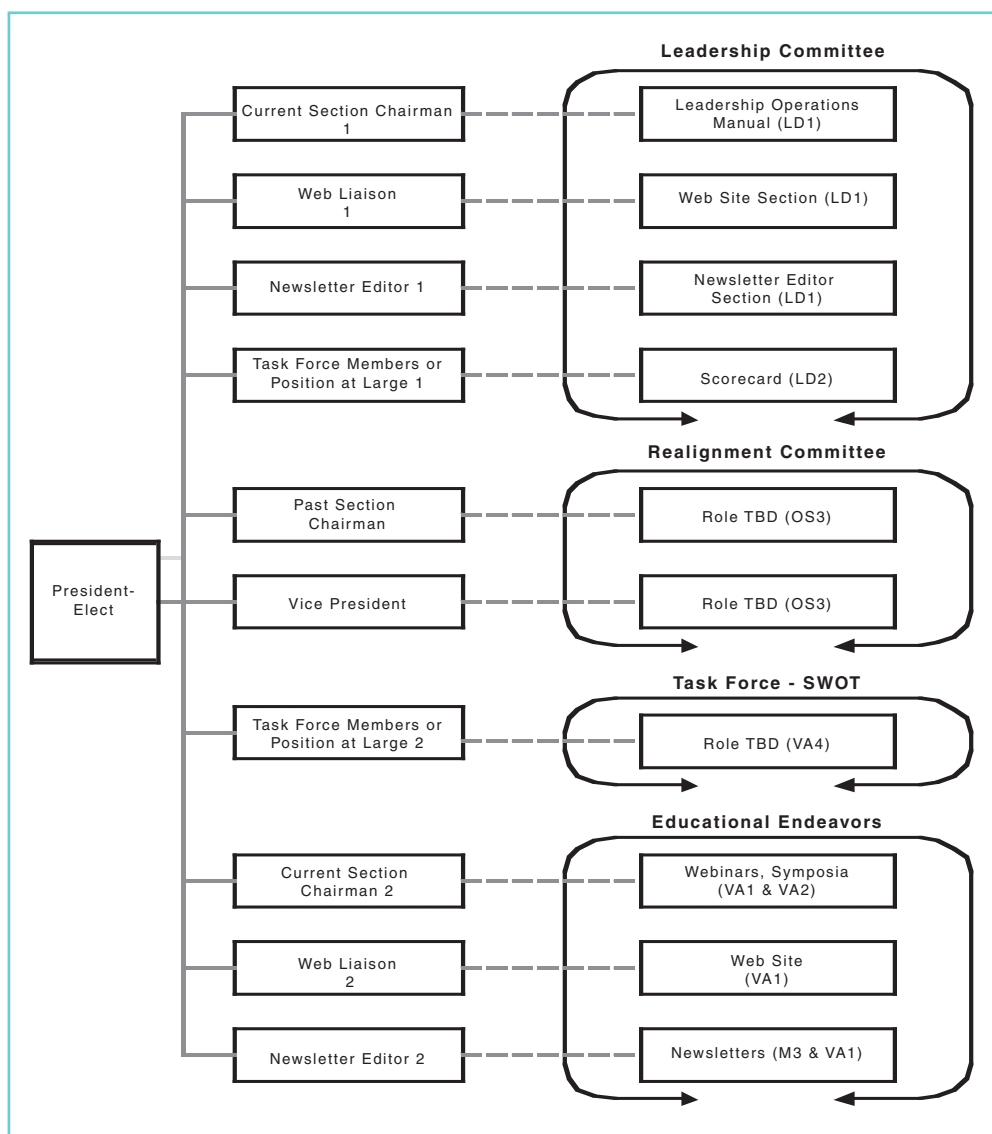
The CPCU Society's president-elect will chair the IGRG. Each of the other members will be responsible for chairing a specific subcommittee dedicated to the implementation of a recommended group of tasks. (See Table 1.)

The recommended composition and responsibilities of the IGRG members are as follows:

- Society president-elect—chairman.
- Society vice president—assistant to the committee chairman/realignment.
- Two current section chairmen—leadership operations manual/educational webinar and symposia.
- One past section chairman—realignment.
- Two current or past web liaisons—leadership operations manual and web liaison section/educational endeavors (web site).

Table 1

Proposed Interest Group Resource and Governance (IGRG) Task Force and Sub-Task Forces



- Two current or past newsletter editors—leadership operations manual and newsletter edition section/educational endeavors (newsletter).
- Two task force members from the 2006–2007 task force or from the 2005–2006 task force. Immediate responsibilities to include Scorecards/SWOT Analysis.

Special Note: *These recommendations encompass both the breadth and depth of sections' organization, products, services, and membership. The Sections Strategic Implementation Task Force quickly realized the enormity and complexity of the undertaking. It requires a large number of section and Society volunteers. If the reader is interested in servicing on this task force please let the Society know by e-mailing your name and e-mail address to Mary Drager at mdrager@cpcusociety.org.*

OS3—Assess Current Sections and Align them with Major Industry Functions

1. Form a representative group of section members to determine the best alignment, including the possibility of combining, broadening, or eliminating current sections, and/or fostering the creation of new groups based upon industry findings. This group should undertake a research effort that focuses on aligning groups with current industry functions.
(See Table 1).

OS4—Open Interest Groups to All Society Members

1. Determine the reaction and position of companies and members to this proposed change—especially if section membership dues are incorporated into general membership dues.
2. Determine a dues policy for members who wish to belong to more than one interest group (i.e. should they be surcharged for this?).
3. Determine a dues policy for lifetime retired members who wish to belong

to one or more interest groups.

4. Determine the expense impact to the Society that would probably result from a significant increase in the interest groups' collective population.
5. Determine the impact to Society administration from an organizational, staffing need, and technological perspectives that could result from a significant increase in the interest groups' collective population.
6. Examine any potential negative consequences (e.g. possible dilution of perceived value in belonging to an interest group) that might result from including interest group membership within general membership.

Special Note: *The Board requested that the Sections Strategic Implementation Task Force remain in existence to undertake the necessary research on OS4 and present to the Board at the 2008 Leadership Summit meeting. The IGRG will not be responsible for OS4.*

Leadership Development

LD1—Formalize Standard Section Leader Training and Orientation for the Chairman, Newsletter Editor, and Web Liaison. This Training Will Include an Operations Manual and an Updated List of Best Practices.

1. Form a task force to develop an operations manual on leadership requirements for interest group chairmen, web liaisons, and newsletter editors. The task force should establish a formal process for continuously updating the best practices. This should be a how-to manual on how to lead a section. The operations manual should include an overall section on the section leadership responsibilities. Within the operations manual there should be specific sections devoted to the responsibilities, tasks, checklists,

timelines, etc. for the chairman, web liaison, and the newsletter editor.

2. Provide leadership training for incoming section chairmen, web liaisons, and newsletter editors. This training should occur before the person assumes his or her section leadership position. This training should occur at Leadership Summit, mid-year meetings, or chapter sponsored Society/NLI courses. Variations in leadership experience among interest group leaders should be taken into consideration when developing the leadership training. Outgoing interest group chairmen should continue to be a resource to the incoming leaders.

Leadership training for incoming section leadership should consider that those who have no leadership experience will require both basic management training (organizing, planning, controlling, decision making, motivations, and leadership), as well as training in “virtual leading” and/or leading volunteers. Those who have prior on-the-job leadership experience may require leadership techniques for motivating volunteers and/or leading “virtual teams.”

3. In addition to leadership training, specific training for incoming web liaison and newsletter editors should be established. Two task forces should be formed, one for the web liaison position and one for newsletter editors. The task forces should develop the training curriculums for both positions. Training could be done by Society staff in Malvern or as an online course. The outgoing web

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Sections Strategic Implementation Task Force Report Summary

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liaisons and newsletter editors should continue to be a resource to the person coming into the positions.

LD2—Create a Developmental Scorecard for Section Volunteers and Society Members. (This is something that section members and volunteers can present to their employer evidencing the technical and developmental value of membership.)

1. A task force should be formed to develop a “tactical scorecard,” that can be used by section leadership to measure the section’s progress toward strategic goals and related tasks. The scorecard criteria should be developed based on the results of the section SWOT analysis, as proposed under section VA4—Conduct SWOT analysis for each section. Each criterion should have a set of tasks, which are required to achieve the goal.
2. A task force should be formed to develop a “value scorecard,” which can be used by section members to evidence the technical and developmental value of membership. Consideration can be given to expanding this scorecard to the value of membership in the Society, not just interest group membership. Development of the “value scorecard” should consider:
 - a. The value to the member and the member’s employer of involvement in particular activities.
 - b. The role of the individual during the particular activities, i.e. leader, committee member, etc.
 - c. The skills and experience obtained as a result of involvement and role in particular activities.

Membership

M1—Create Value Statements and other Communications Tools to Promote Interest Groups

1. Collect the value statements and other communications currently used by the existing sections. Assess the current state of the value statements and communications against the new interest group branding strategy.
2. Assess and incorporate branding strategy for interest groups.
3. Solicit feedback from interest groups on gaps between current state and future state (focus groups, surveys, etc.).
4. Draft language for new value statements and communications, targeting the increased value (technical content, reduced cost, etc.) to existing members and incorporate new value statement and communications messages into society publications.

M2—Establish Affiliations between Interest Groups and other Industry Organizations (e.g., PLRB, The “Big I,” and RIMS)

1. Identify key organizations to focus our research by soliciting feedback from sections and the CPCU Society.
2. Assess the current collaboration between interest groups and key industry organizations (focus groups, surveys, etc.).
3. Assess the current collaboration activity against new opportunities with joint sessions with interest groups and key industry organizations.
4. Draft and validate an action plan to build collaboration.
5. Confirm plan with interest groups and industry organizations.
6. Publicize new direction in CPCU Society publications.

M3—Refresh the Interest Group Newsletters

1. Examine alternative publication options to current newsletters,

including the potential use of a magazine-styled compilation of comprehensive interest section information and articles in a journal-style publication.

M4—Designate Liaison(s) to Promote Interest Group Benefits to Chapters, Major Employers, and the Insurance Services Community

1. Identify the key major employers and insurance services community organizations.
2. Assess the current outreach underway between interest groups and local chapters, major employers, and the insurance services community (focus groups, surveys, etc.) and identify gaps.
3. Identify responsibilities of a liaison and prepare training conducted for liaisons by the Society.
4. Identify liaison volunteers, establish a process for selecting them, and introduce and promote them through various industry publications.

M5—Strengthen Connection between CPCU Society and Accredited Risk Management and Insurance Degree Programs

1. Identify the key major insurance degree programs to focus our research by soliciting feedback from sections and CPCU Society.
2. Assess current outreach underway between sections and key insurance programs (focus groups, surveys, etc.).
3. Identify new collaboration opportunities with joint sessions between interest groups and industry

organizations and develop and implement an action plan to institute collaboration between interest groups and insurance degree providers.

4. Publicize new direction in CPCU Society publications.

Value-Added Services

VA1—Develop Consistent Format and Content Standards for Core Interest Group Offerings (Newsletter, Web, Symposia)

1. Create a committee for each—newsletter (this dovetails with M3 and might best be accomplished there), web, symposia. Each committee should be composed of section members responsible for the format. Each committee chairman would be a member of the Interest Group Resource and Governance Committee.
2. The committee establishes guidelines and templates for each: newsletter, web, symposia.
3. The committee is responsible for coaching and mentoring the sections on the guidelines and templates.

VA2—Expand Delivery Methods of Technical Content

1. Establish a vehicle, guidelines, and templates for webinars. The webinars would focus on pertinent and timely topics that are delivered in one hour or less. The structure should be such that it will easily facilitate the rapid development and presentation of a topic.
2. Establish guidelines, templates, and vehicles for teleconferences and videoconferences.
3. Expand delivery of technical content by partnering with other insurance

organizations and presenting at their meetings.

4. Each committee outlined in VA1 would also be charged with the responsibility of identifying avenues to expand the delivery methods of technical content.

VA3—Encourage Interest Groups to Convert Highest Rated Annual Meeting Technical Seminars into Symposia

1. Within 30 days of the Annual Meeting and Seminars, the Interest Group Resource and Governance Committee selects three to five technical seminars. The selection is based upon the rating feedback sheets, number of persons attending the seminars, and the pertinence of the information content.
2. The Society and the section seminar liaisons will format and package the seminars making them available to the chapters and as regional meetings as in VA3.
3. The top three to five seminars would be packaged into a day of training, knowledge transfer, and held four to six months after the Annual Meeting and Seminars at three different strategic sites around the country.

VA4—Conduct SWOT Analysis for Each Interest Group; Implement Findings

1. Introduce the SWOT concept to the section chairmen during the sections leadership meeting with reference material at the Leadership Summit in Orlando.

2. At the 2007 Leadership Summit, the section chairmen would identify a committee member responsible for the SWOT analysis as a “point person” for contact.
3. Designate a SWOT coordinator to liaison and assist the section SWOT “point persons” in conducting the SWOT within each section. The SWOT coordinator would be a member of the section task force, and ideally would transition to serve on the initial Interest Group Resource and Governance Committee. This group would develop a SWOT template to be used by all sections. In addition, they would develop and conduct a SWOT training program.
4. Before the 2007 Annual Meeting and Seminars, a SWOT training program for section chairmen and all other interested section committee members would be conducted through an appropriate medium.
5. At the 2007 Annual Meeting and Seminars, the section chairmen will conduct the SWOT analysis with his or her committee and complete the SWOT templates.
6. Society Interest Group Resource and Governance Committee would review, coordinate, encourage, and challenge each interest group to then create interest group goals based upon the SWOT. ■

Don't Miss the International Insurance Section Seminar at the CPCU Society's Annual Meeting and Seminars in Hawaii

Monday, September 10, 2007 • 10:45 a.m. – 12:45 p.m.

International Insurance Regulation: A Regulator's Point of View

Learn from insurance regulators, insurance company executives, and brokerage executives the latest in insurance regulation in Europe, Latin America, and Asia. The attendee will gain an understanding of regulation in general and the need for it; problem areas peculiar to the areas or countries involved; and techniques that might differ from those commonly applied in the USA.

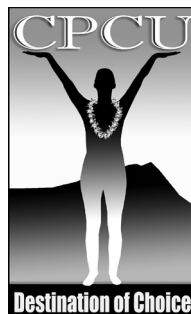
Moderator

Douglas Niven Smith, CPCU
AIG World Source

Speaker

Onno Paymans
Bloemers Nassau Groep

Additional speakers to be announced.



International Insurance Quarterly

is published four times a year by and for the members of the International Insurance Section of the CPCU Society.
<http://international.cpcusociety.org>

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Printed on Recycled Paper

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U.S. POSTAGE
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June 2007

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International Insurance Quarterly

Number 2

Volume 21

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

