

From the Chairman

by Gail B. Burns, CPCU, CIC



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The year 2006 was an exciting year for me as chairman of the International Insurance Section and also as an international consultant.

In September 2006, the International Insurance Section Committee's hard work and dedication were recognized with a Gold Circle of Excellence at the CPCU Society's Annual Meeting and Seminars in Nashville. I want to thank my committee and others who contributed their time and talents during the year to make it a success.

Without doubt the most exciting event of the year for the committee was the joint Europe Chapter and International Insurance Section Committee mid-year meeting in Paris. Everyone is still commenting on what an interesting and fun time they had meeting insurance professionals on the other side of the Atlantic.

Since this is my last year as chairman of the International Insurance Section, I hope **Anthony Fienberg, CPCU**, who is the chairman-elect of the International Insurance Section will begin planning another exciting joint

meeting after our 2007 Annual Meeting and Seminars in Hawaii. He did a great job organizing the Paris joint meeting. Thank you, Anthony!

The second exciting event for me in 2006 was related to my consulting business. After almost 10 years of international

Continued on page 2



The Great Sphinx, Giza Pyramids, located in Cairo, Egypt.

What's In This Issue

From the Chairman	1
Takaful: A New Kid on the Block	3
Starting an Insurance Company Operation in Europe	6
Welcome to Bermuda!	8
Sections Strategic Task Force Report Summary	9
Japan Chapter News	12
Highlights of the Japan Property and Casualty Market	14

From the Chairman

Continued from page 1



Mosque of Sultan Hassan and Al-Rifa'i Mosque, Cairo, Egypt

consulting, I decided to join a project in Cairo, Egypt, on a long-term basis. I was offered an opportunity, which I decided was once in a lifetime for someone who wanted to consult in insurance and also learn more about local culture. I decided to become a resident advisor.

In October 2006, I moved to Cairo and started working in the downtown area on Talaat Harb Street and found an apartment in a neighborhood called Zamalak, which is an island in the middle of the Nile. The views from my apartment are impressive. Cairo doesn't have a New York skyline, but the high-rise buildings (many of which are five-star hotels) along the Nile are beautiful during the day and in the evening. It is also fun to watch the Nile being shared by racing shells, small fishing boats, dinner cruise ships, sail boats, motor boats, and of course the barges. Individuals from every walk of life enjoy the Nile in both summer and winter.

What is it like working with Christians and Moslems in the same office in Egypt? After managing a staff of men and women

of all ages in Cairo, I have found no major differences from managing staff in the United States. Egyptians have the same issues that we do in the United States, such as getting their children to school in the morning, arriving at work on time (especially if they have an American manager), using the crowded metro, fighting traffic jams, and worrying about unemployment. Doesn't that all sound familiar?

Often my friends and family are concerned about my security, but I feel very safe walking around the city both day and night. Dealing with the traffic is another issue. I think the most dangerous activity in Cairo is crossing the street! Residents know that traffic lights as well as one-way streets are usually ignored. When you live in Cairo you soon learn that motor vehicles control the streets, so pedestrians beware!

The Internet and satellite TV have made my situation possible with my family in Maine and members of my section committee located around the world.

The world has become so small now that what we once referred to as foreign lands are now really just foreign neighborhoods. Staying current with international issues is a must since they will eventually have an impact on your business.

I hope you will enjoy reading this *IQ* . . . many people around the globe have contributed their personal time to make it possible. ■



Camels roaming around near the Red Sea in the Sinai.

Takaful: A New Kid on the Block

by Kevin Willis, FCCA

Kevin Willis, FCCA, is a director of Standard & Poor's Insurance Ratings Division, where he started in June 1993. Standard & Poor's is the leading global insurance rating agency, and Willis is sector leader for insurance ratings services to the Middle East and African markets, and for the Lloyd's Insurance Market in London.

Over the past two years or so, the Far East/MENA insurance markets have seen a new risk protection mechanism introduce itself to the population—Takaful. “Takaful” is the word used to describe “Islamic Insurance,” and this new service is showing significant growth, albeit from a very low starting point. In fact, the United States is identified as the largest potential Takaful market globally. Whether it represents a real challenge to the established insurance market is difficult to forecast at this stage of development, but, with leading international (re)insurers setting up Takaful operations, such as AIG, Swiss Re, Munich Re, and Hannover Re, the commitment to this sector cannot be overlooked.

This article explains:

1. Why is an Islamic risk transfer solution (Takaful) necessary?
2. How does Takaful fit into the existing insurance environment?
3. Insurer financial strength perspectives.

The dynamic growth in demand for Takaful solutions is prompted by two key facts:

1. the very significant public profile and growth potential for Islamic finance solutions
2. the sheer scale of the underdevelopment of insurance protection within the global Islamic community

The world average insurance premium spent per capita in 2005 was around U.S. \$500, compared with around U.S.



\$4,000 in the United States. However, for the Middle East and Central Asia, it was estimated at little more than \$50 per head. This obviously reflects in part the lower economic wealth of this large geographic region, but more importantly, there have been significant cultural barriers to the use of insurance for risk management, particularly within the Islamic community, that have acted as major constraints on its development. The very strict appliance of Islamic doctrine appeared to forbid aspects of the traditional insurance risk-transfer mechanism. However, the well-documented social benefits (see Appendix) and business potential from insurance, have prompted Islamic scholars to create a risk-transfer mechanism that is acceptable, both within and without the Islamic community, and appears to offer a genuine alternative to “traditional” insurance companies.

The Takaful (Islamic Insurance) Model

Islamic finance has grown materially in recent years, promoted by a strong demand for financial products that comply with the core Islamic principals, viz:

1. avoiding interest (or al-riba)

2. avoiding uncertainty/deception (or al-gharar)
3. avoiding gambling (or al-maisir)

These concepts relate to the very definition of the components of a business transaction.

Avoiding Interest (Al Riba):

Interest is a charge for the use of money. Within the Islamic culture, money is not a commodity of any intrinsic value, merely a form of exchange, and so the holders of money are not allowed to benefit, or suffer from, its possession. To profit from a transaction, there has to be some definable tangible product or service. This religious doctrine is strictly applied and so Takaful companies select an investment policy that is approved by the Shariah (Islamic) board. Insurance companies seek to supplement their pure insurance income stream by investing surplus funds.

For traditional insurers, those funds may be heavily invested, for example, in interest-producing funds, or equity-type funds generating dividends and investment gains. It is simply a matter of choice by the managers or stakeholders. Interest-yielding funds generate greater

Continued on page 4

Takaful: A New Kid on the Block

Continued from page 3

certainty as to income, cash flow. Such instruments also carry the benefit of usually being of high security and low volatility, offering a stable platform for asset/liability management.

Takaful funds will need to be invested in Shariah-compliant instruments, which will avoid interest-bearing funds. However, though at first it may appear that the investment choices are restricted to more risky asset classes such as equities, there is an increasing range of compliant products available to Takaful insurers. They will be investing in Islamic instruments such as sukuks (many of which may be rated by Standard & Poor's), and constituents of Shariah-compliant indices such as S&P's Shariah Index, or the Dow Jones Islamic Index. Looking ahead, with the significant investments being made in new instruments in the Islamic finance field, we can expect an improvement in investment choices and security for this market.

Avoiding Uncertainty (Al Gharar)

In the traditional insurance environment, an insurance policy seeks to provide certainty to the policyholder with regard to (a) the cost (the premium charged) of transferring an uncertain risk to another party (the insurance company); and (b) in the event of suffering a loss, certainty of reimbursement by the insurance company for losses suffered.

Under Islamic principles, uncertainty is more broadly defined and interpreted. For example by the imprecise definition of contractual terms, lack of transparency, and also through the transfer of the risk for a fee (the premium), which may not result in any tangible service (i.e. an insured loss) being settled. Transfer of the risk itself is not a tangible service, and this uncertainty is only cleared when a claim is made. Since for the vast majority of policies no claim is made, there is always an element of uncertainty. The Islamic solution is to make the insurance risk a cooperative structure under which all contributors

(policyholders) share in any surpluses that are generated by the insurance process. The Takaful fund equates to a loss reserve, and members can expect to receive a profit distribution over time.

Avoiding Gambling (Al Maisir)

The concepts of uncertainty and gambling are clearly linked. Whilst the very notion of gambling may be thought anathema to insurance, it is the tightness of the definition that is relevant from an Islamic perspective. Traditional insurers seek to provide restitution to policyholders in the event of loss. The transfer of risk from insured to insurer is deemed to be of value. The fundamentals of the insurance business model are that the insured will not be better off in the event of an insurance settlement. Any policyholder who benefits unfairly from protection purchased is disadvantaging the other stakeholders to the insurance transaction.

However, the concept of uncertainty (as explained above) also supports the avoidance of gambling—a policyholder is considered to be “gambling away” his or her wealth by payments (of premium) to the shareholder for no return. Hence the cooperative model under which all members share in the success of the pooled transactions.

Takaful (Islamic Insurance) Business Models

The concept of mutual cooperation is fundamental to the provision of an acceptable Islamic insurance, and because to all intents and purposes it is directly comparable to traditional insurance, it can actually offer insurance solutions to the whole risk-aware population/community. As with any mutual insurer, it represents a grouping of individuals with common interests, who pool resources to protect against risk, and share in the outcome. The equivalent to premium is the concept of a donation, or contribution to the Takaful fund.

There are three distinct Takaful operational models.



1. **Al-Wakala**—In the Wakala model, the members' fund is administered separately from shareholders' funds. The members' contributions are pooled into the Takaful fund that is invested and used for settling all valid claims submitted by members. Any resulting surplus when all claims have been settled may be distributed in part to both fund members and/or shareholders. However, the shareholders' reward is restricted to the yield generated by the invested shareholder funds and any surplus generated from charging for the administration of the Takaful fund.

The costs of administering the Takaful fund are borne by the shareholders, who charge a single “Wakala fee” to the fund. Across the Arabian Gulf states, the Wakala model is the norm. A key element of the Wakala model is that in the event of any shortfall in the Takaful fund, shareholders are required to advance moneys free of any charge to the fund, and can only seek recovery out of future surpluses. Effectively this is an interest free loan, reimbursable out of future profits and is a charge against the net equity of the shareholders. So although at first it does not appear so, the shareholders indirectly bear the underwriting risk. From a security perspective, the Wakala model is analogous to a traditional insurance company.

2. **Mudharaba**—The Mudharaba model is perhaps the more traditional structure, in that there

is no legal separation of members and shareholder funds. Thus the underwriting administration costs are borne directly by the takaful members. The concept of profit distribution to members and loans by shareholders to support any underperforming fund remains the same, however. The Mudharaba model is more widely adopted across Asia, and is actually forbidden in many Gulf states. The Mudharaba model may not appear to be as transparent as the Wakala.

3. **Waqf**—The Waqf model is also a “donation”-based approach, but currently used only in Pakistan. The differentiating feature is that the donation is legally defined so that there is no expectation of compensation (i.e. loss settlement). Hence, this model has limited scope and appeal to the wider world.

Corporate Governance

Traditional insurance companies are well used to a rigorous regulatory environment that imposes minimum standards for continuing operation.

For Takaful companies, the necessary religious rigour that they are required to adopt imposes an additional component of corporate governance through the necessary presence of a Shariah board. In addition to adhering to the same insurance regulatory environment as all insurance companies, Takaful companies must have a Shariah board, which comprises Islamic scholars empowered to decide on the acceptability of all underwriting and investment decisions within the company. The role of the Shariah board is to oversee the running of the Takaful fund to ensure Islamic compliance to the benefit of the member.

Reinsurance Utilization and Exposure

Another factor worthy of comment is the reinsurance protection needed by Takaful companies. In accordance with the primary Islamic doctrine that controls their direct operations,

Takaful companies are expected to seek reinsurance protection from Retakaful companies—Islamic reinsurers. In certain circumstances, a Takaful company can utilize the normal reinsurance company market, subject to certain constraints. Nevertheless, direct Takaful companies are forbidden to accept commissions or profit shares from traditional reinsurers. This, therefore, opens a window of market advantage for Retakaful companies through the profit-sharing mechanism. So, as Takaful market penetration rises, we can expect new Retakaful companies to appear. And indeed as mentioned above, the likes of Swiss Re, Munich Re, Hannover Re, and Arig (Bahrain) have all established specialist Retakaful operations to support the global Takaful growth.

Summary

The business dynamic that Takaful companies employ is actually one that is open to all insurers, and does not merit a unique approach by Standard & Poor’s to determine Insurer Financial Strength ratings. What will be of significance is the Takaful companies’ ability to deliver customer satisfaction at a level on a par with, or better than, “traditional” insurers in developing a sustainable business model.

In conclusion, the lack of development of insurance in the Islamic world gives Takaful a significant opportunity to broaden the markets of the likely stakeholders, which include:

- existing insurers and reinsurers
- new insurers and reinsurers
- the investment community
- the regulatory community
- the population

Takaful companies may attract new clients from the existing “traditional” insurance franchises, but in established mature insurance markets, such as the United States, this may be a real competitive challenge. ■

Appendix

Insurance protection—be it state-sponsored or privately supplied—is a

“sine qua non” in the developed world. The Association of British Insurers published an article entitled “The Social Value of General Insurance,” and the following extract may prove to be helpful:

There is more to general insurance than compensating loss. It is one of the most effective mechanisms ever developed for assessing, managing and reducing risk.

By helping society face up to and manage risk effectively, insurance makes a major contribution to our lives. It drives up standards because it puts continuing pressure on the factors that generate insecurity. It breaks the spell of risk and releases us to take rational choices, to experiment, build and create.

Insurance provides five strategic benefits to society:

- Freedom from what would otherwise be crushing personal and business liabilities;
- Security at home and work against accident, crime, fire and natural dangers;
- Better health from additional investment in medical care and an emphasis on rehabilitation;
- Prosperity through support for entrepreneurial energy, innovation and risk-taking; and
- Flexibility by being better tailored to individual circumstances and so making social and economic life less reliant on government action.

There is also an article on “The Economic Value of General Insurance,” which makes the following comment about insurance and the individual:

Insurance supports millions of individuals and households by allowing them to transfer risk and manage it effectively. Because of insurance, individuals do not need to retain high levels of liquid wealth as a hedge against risk. This wealth can therefore be used more productively.

Starting an Insurance Company Operation in Europe

by Anthony E. Fienberg, CPCU, ARe, RPLU



■ **Anthony E. Fienberg, CPCU, ARe, RPLU**, is the managing director of Nassau Assurances in Paris, France. He is a founding member and president of the CPCU Society's Europe Chapter; he is also a member of the International Insurance Section Committee. Fienberg has lived outside his native U.S. for more than 11 years.

When the co-president of our insurance group's management board suggested I take the helm of its new insurance company operation in France, I figured you just had to flip the light switch, and off we would go.

Although we succeeded in sticking to our business plan throughout the implementation phase, it was interesting to note that of all the problems we ran into, none had anything to do with underwriting or insurance.

France, like most of continental Europe, has taken great strides to facilitate the start-up of a new business over the last 10 years. Moreover, there has been a real technological revolution, like the introduction of e-mail, personal digital assistants, cellular phones, and the Internet. However, despite this progress, it does not quite translate into making things "easy."

In fact, you could say there are many areas where Europe is on the cutting edge, but the simple tasks in life are often

relegated to notions of service that have not always followed the rapid evolution and pace of technology. Moreover, the relations between European Union member states are not as seamless as the United States.

Most of the points highlighted below are anecdotal and may be specific to our operation, but we found it to be both an interesting business and cultural exercise.

Legal Entity—The European Union allows insurance companies based in one member country to open branch operations in other member countries. The resulting branch becomes a new location of the home country. Until the new legal set-up is official, however, the operation cannot: take out a phone number (cellular or fixed), register company cars (license plates, etc.), take out insurance (office, car, health, etc.), register web sites with the local suffix, or open a bank account. We tried to temporarily domicile the company, but were warned that it would potentially cause a further delay when we finally



Paris skyline with the Grande Arche de la Defense in the background.

found real estate, if it were not in the same area, because of the change-of-address declarations that need to be made to the various public entities that manage social benefits.

Real Estate—In Paris, there is a market for small business offices meant for companies with just a few employees and there are larger ones, starting at 9,000 square feet. We needed something in the middle range and couldn't wait the estimated six months before something came to market, let alone manage renovations on available offices where the last renovations were probably completed just after WWII! Even after compromising and demonstrating our financial stability, we were still asked to provide a bank guarantee on the rent! Again, this situation was all down to the fact that the local entity did not yet exist and a foreign, albeit European Union company, was going to take out the lease.

Bank Account—Here was a real adventure. Because of the constraints of being a branch of a foreign domiciled parent company, even though based in the European Union, the opening of a bank account became the newest reality TV program—Survivor: The French Bank. It would seem like a simple operation to open a bank account within the European Union, but most bankers to whom we spoke had a hard time to get their heads around this “foreign” situation. Thanks to a personal recommendation, we did find a local business bank that had recently been purchased by an international bank, finally someone who was willing to talk to us. However, we had to provide not only the latest annual report (showing a solvency ratio five times the legal requirement, Euro 10 million in net profit for 2005, Euro 40 million in net equity . . .), but the identity cards for the members of the parent company management board, the parent company chamber of commerce document, the articles of association, and several personal interviews.



Paris cityscape with the Eiffel Tower in the background.

Finance—Audit and compliance were organized by the parent company, but one nagging question remained: What should we do with the social charges? What does that matter? It is big money. In France, to give an employee \$100 on his or her paycheck costs the firm \$160, and they only receive \$80 in their bank account, after deducting *their* share of contributions to social charges.

ITC—Although the office building was renovated with fiberoptic cables, choosing and connecting a DSL line to the parent company servers was even harder than purchasing compatible computer equipment (for instance, Dutch keyboards are not the same configuration as French, German, or UK ones!). A phone is a phone, but if the phone company's equipment division, phone line division, Internet division, and engineering division (installing the actual phone lines) don't talk to each other, we actually cracked open a bottle of champagne when the phones started working!

Authorities—Although European law allows an insurance company to write business in one country from another country (“Freedom of Services”), once you apply to open a branch office, any line of business not already approved for the former cannot be written by the latter, until the branch is opened. The “home-land control” requires the originating company's financial authorities to approve the request to open a branch office, while the welcoming country's financial authorities must simply confirm receipt of a complete file, according to the European directives. However, excuses like “but the documents are in English,” “French is also a European language,” “the file is a bit skimpy,” “it would be nice to have another document,” “I'm on vacation next week,” “only the division head can sign the letter,” “we can only talk to our foreign counterparts, not the requesting company directly,” “I don't speak any other language than French anyway,” prove that the administrative process, in theory about five months according to the European Union rules, is far from objective. For instance, it took the French administrative authorities more than three months to confirm receipt of the file!

Recruiting/HR—Start-ups are now an integral part of even European business culture, but are much less prevalent in the insurance industry. Using an entity domiciled outside the target European Union member state does create problems when recruiting. Employees will question: “Do we get employment protection under French law?” We also had to manage potential liabilities emanating from the reduced work week, now down to 35 hours.

As a conclusion, although many of these stories could exist even in the United States, the inherent nature of Europe (and France/the French), made this experience one that I will not forget for a very long time. It just goes to show you: never assume anything nor underestimate cultural differences. ■

Welcome to Bermuda!

by Laurie Orchard, CPCU, ARe

Bermuda is a 21-square mile island of rare beauty and economic prosperity, and is home to 62,000 people. Tourism has historically been the cornerstone of the Bermuda economy, but in recent years has been surpassed by the success of the financial services industry. Based on 2004 statistics compiled by the regulatory authorities at the Bermuda Monetary Authority, Bermuda is host to some 1,300 companies, with gross premiums in 2004 of \$95 billion, and capital and surplus of \$107 billion. In the wake of the devastating hurricane season of 2005, Bermuda has experienced a further influx of companies and capital. Bermuda is now a leading provider of world-wide insurance and reinsurance services. With such a small population supporting a growing business environment, it is essential that we continue to nurture the education and professional development of those working in and entering our market.

The insurance community in Bermuda has long been committed to the training and development of people within our industry and those Bermudians wishing to join our industry. Our immigration policies have been carefully set in order to protect Bermudians in the workforce while ensuring that a sufficient number of both local and expatriate workers are available to support our growing economy. A close watch is maintained by our regulatory authorities, as this balance is not easy to maintain. It is imperative that we do not tip the scales of sustainable development, and risk damaging both our economic and our physical environment.

In order for expatriate workers to gain employment in the Bermuda market, it is required that they bring a level of experience and professional qualifications that the local market cannot provide. To be competitive in this market, Bermudians must therefore complete professional designations and expand on their work experience wherever possible. Many expatriate workers continue to study toward achieving additional professional

designations while working in Bermuda, in order to ensure their work permits will be renewed at expiry. However, with new legislation mandating a seven-year maximum term on work permits for expatriates, with the exception of those designated as “key” personnel, it is becoming even more important that the Bermudian population that feeds the workforce is encouraged to enter our market, study toward professional designations, and help to fulfill the needs of our constantly evolving marketplace.

Bermuda established a subchapter of the New York branch of the CPCU Society in 1992, and in 2000 became the first international chapter in its own right with a handful of members. Today there are more than 100 CPCUs that are current or past members of the CPCU Society’s Bermuda Chapter. There is a vast number of CPCU candidates and those pursuing other professional designations through the AICPCU. Students in Bermuda are able to attend CPCU classes, offered by the Bermuda Insurance Institute and taught by members of our industry who hold the CPCU designation. Examinations for all AICPCU courses are offered by the Bermuda Insurance Institute, which is the locally approved testing facility for these examinations. In 2005, 61 students successfully completed a total of 68 professional designations. Additionally, we had 11 new CPCU designees conferred in 2006, and are aware of 10 more that will be conferred in 2007. We are pleased that our membership is expanding, with the help of some of our members who have volunteered to act as their company Champions to encourage new designees to join our chapter, and to encourage members to attend our chapter functions.

We held our Annual General Meeting in October 2006, at which a new Executive Committee was elected. We are very pleased to have some enthusiastic new members on the Executive Committee to help bring our membership some new opportunities throughout 2007.



The CPCU Society’s Bermuda Chapter Executive Committee. From left: Henry Sutton, CPCU, ARe, (Past President); Erica Symonds, CPCU, (Community Relations Officer); Laurie Orchard, CPCU, ARe, (President); Natalie Simmons, CPCU, (Secretary); and Gavin Bishop, CPCU (Vice President and Treasurer).

At the October meeting, it was agreed that the main focus for the Bermuda Chapter for 2007 will be networking, education, and ethics. We hosted a networking event in January, at which we recognized all of the new 2006 designees. We will also be presenting two National Leadership Institute courses for our members: “Leadership and Ethics—The Power To Succeed” on Thursday, February 15, 2007, and “Career Management—Turbo Charge Your Career,” on Thursday, May 10, 2007. We also hope to present a roundtable discussion later in the year that highlights some different perspectives and opinions related to professional designations and their benefits in the Bermuda market.

For all of the efforts being put forward by our chapter membership this year, we are seeking gold-level status in the CPCU Society’s Circle of Excellence Recognition Program. We believe that achieving this goal will be evidence that we have successfully raised the profile of our chapter and of the CPCU designation, and reached a broader audience in the Bermuda community to educate people about the benefits of achieving this professional designation. This will make our chapter an important part of the industry-wide initiative to build a sustainable workforce that will hold Bermuda in good stead for many years to come. ■

Sections Strategic 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.

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, and presented it to the board at the CPCU Society's 2006 Annual Meeting and Seminars in Nashville in September. 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. This article summarizes the report and recommendations.

David Medvidofsky, CPCU, CIC, chaired the task force. Members of the task force were Tony L. Cabot, CPCU; Matthew J. Chrupcala, CPCU; John

L. Crandall, CPCU; Clint Gillespie, CPCU; Michael J. Highum, CPCU; Kelli M. Kukulka, CPCU; W. Thomas Mellor, CPCU, CLU, ChFC; Kathleen J. Robison, CPCU, CPIW; Eli E. Shupe Jr., CPCU; Nancy S. Vavra, CPCU; and Barry R. Midwood, CPCU, as CPCU Society liaison.

The task force began its assessment by focusing on issues of strategy and purpose. It developed a series of strategic questions designed to answer "who, what, and why," before addressing the question of "how?"

After task force consensus on the questions, feedback was shared with designated section liaisons. The task force also met with key stakeholders at the mid-year meeting to share findings, to test attributions, and to obtain additional input.

The task force took a qualitative approach relying on member input and interviews to develop findings. Prior survey data were reviewed.

Prior to creating the strategy, the sections' current mission and vision statement were reviewed. The task force recommended the following changes.

Special Note: *One of the recommendations is to re-brand the sections into interest groups. Therefore, the reader will note the reference to interest groups rather than sections.*

Proposed Mission

The CPCU Society aligns its members within interest groups consistent with the major disciplines of the property and casualty insurance industry. Serving the industry and other stakeholders in an ethical and professional manner, interest groups add value by increasing interest in attaining the CPCU designation and by helping make CPCU the most recognized, valued, and highly respected designation in the property and casualty industry through consistent and valuable technical content.

Proposed Vision

Interest groups offer targeted educational content that make CPCU the most widely recognized, valued, and highly respected professional designation/brand in the property and casualty industry. Instead of being focused toward a value-add for a narrow target, interest groups are at the forefront for name recognition and desirability of the CPCU designation by reaching a broad audience. Although segmented by discipline, interest groups target their consistent and high-quality technical content to anyone in the industry seeking focused information.

Interest group affiliation is provided automatically to CPCU Society members. This enables consistent and ongoing technical content to reach CPCUs affording continuing education and reminding them of the value of CPCU Society membership.

Ultimately, the reach of interest groups extends beyond just CPCU Society members. All industry professionals are, therefore, exposed to CPCU through the work of its interest groups. Exposure to the high-quality, technical content of the volunteer interest groups:

1. draws industry professionals to interest groups through exposure to their work; which
2. increases interest in CPCU and other Institute programs as a course of study; which
3. increases Institute participants and program designees; which
4. increases CPCU Society and chapter membership

Special Note: *The above is a recommended long-range vision for sections. Included in the recommendations are specific steps to position sections for the proposed mission. The task force believed strongly that attaining the mission would be a staged process. The sections' offerings must first be of consistently high value on par with other*

Continued on page 10

Sections Strategic Task Force Report Summary

Continued from page 9

offerings before extending sections' reach beyond Society members.

Proposed Strategy

The strategy is to position sections as a provider of readily available, high-quality, technical content to stakeholders. The level of content and delivery will vary based on the audience:

- **For prospective CPCU candidates**, sections offer technical information such as symposia and expertise within the disciplines of the industry.
- **For current CPCUs** the newsletter and web site are of high value and encourage CPCUs not presently part of the CPCU Society to see the benefits of joining. Retention of current CPCU Society members increases by providing consistent, high-quality, technical content within member disciplines. CPCU Society members are connected to others within a functional discipline offering networking and resource advantages not available through other industry designations or associations.

As the technical content is consistently on par with competitor offerings, “associate memberships” are offered to non-CPCUs working in the industry and to industry providers (e.g., vendors). This provides a new revenue stream for the CPCU Society and further increases name recognition of CPCU. Candidate interest in the Institute’s programs increases as well as through the exposure sections create.

Accomplishing this vision requires strategic actions that are presented as a series of strategic initiatives that align with four key perspectives:

- organizational structure
- leadership development
- membership
- value-added services

These strategic initiatives are summarized with a proposed template for reporting on results.

Organizational Structure (OS)

OS1—Re-Brand Sections as Society Interest Groups

Rationale: The term “sections” does not concisely describe their purpose. Other associations with similar structures such as PMI, ABA, etc. use “interest group” terminology. As the vision for sections evolves, re-branding them as interest groups signals something “new and improved.” Further, the phrase “sections” carries connotations of silos where “interests” applies whether one works in a discipline or just has “interest” in learning more.

OS2—Create Interest Group Resource and Governance Committee

Rationale: As the interest groups are exposed to a wider audience, the demand for consistent, high-quality content will increase. CPCU Society staff provides excellent support. Interest groups can enhance CPCU Society capacity by forming a rotating four-member committee overseeing standards of content (see Recommendation VA1) and providing a resource for backup, training, and consultative advice. This committee would consist of:

- a former section chairman
- a former section web liaison
- a former section newsletter editor
- an additional member with experience in one of the above tasks

OS3—Assess Current Interest Groups and Align Them with Major Industry Functions

Rationale: The industry has evolved since the creation of sections. For example, many companies no longer have “underwriting” departments—they have moved staff functions to product teams and field functions to production positions. Project management is integrated into most positions but has no discrete focus. As membership is opened, there needs to be a clear alignment between technical interests and the content focus of interest groups.

OS4—Open Interest Group Membership to all Society Members

Rationale: Open membership will expose all CPCU Society members to the work performed by interest groups. Providing newsletter and web site access will consistently remind CPCU Society members of the value they receive by belonging to the Society. This recommendation also supports the CPCU Society’s goal of visibility. Continuing education is provided while leveraging one of CPCU’s key differentiators: the ability to connect its members at both the interdisciplinary level (chapters) and the intradisciplinary level (interest groups).

Leadership Development (LD)

LD1—Formalize Standard Interest Group Leader Training and Orientation for the Chairman, Newsletter Editor, and Web Liaison. This training will include an operations manual and continuously updated list of best practices.

Rationale: As membership is opened, interest group offerings will have wider exposure. Content value will become more important. Formalized training and reference materials need to be provided as tools to support the key interest group roles.

LD2—Create a Developmental Scorecard for Interest Group Volunteers and CPCU Society Members

Rationale: As budget and time demands increase, employers and employees will need to understand and demonstrate the value of their commitment. A development scorecard will show employers what their investment provides. It will also enable employees to easily articulate the value they receive. The present CPD qualifier may be promoted or modified to meet this need.

Membership (M)

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

Rationale: As the sections are re-branded and membership is opened up to all CPCU Society members, value statements and a communications strategy must be created. These efforts must crisply articulate the value of interest group membership, and describe how the value of CPCU Society membership has increased. This highlights the differentiation that interest groups provide CPCU Society members through focused technical content that CPCU Society members will continuously receive.

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

Rationale: To promote the technical expertise of CPCU Society interest groups and to support the goal of making CPCU the most widely recognized and highly respected designation, affiliations should be formed with other associations and/or designation programs. By presenting at their conferences and contributing to their newsletters, the CPCU Society increases their reach to potential designees committed to continuous learning.

M3—Refresh the Interest Group Newsletters

Rationale: As the reach of newsletters increases (first to all CPCU Society members and longer term as a revenue-generating product) they must be refreshed. This will support the re-branding efforts. A task force should be formed to finalize recommendations—potential areas of review include electronic versus hard copy delivery (or option for both), the colors, logo, and layout, and the possibility of providing one comprehensive quarterly interest group newsletter with space for each interest group’s contribution (versus publishing 14 separate newsletters).

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

Rationale: The value of interest groups may be promoted by expanding the Connections concept. A discussion of the value of the interest groups must be added to the present agenda. Designating special liaisons will expand capacity to extend outreach to chapters and industry service providers.

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

Rationale: Students pursuing degree programs in risk management and insurance are future prospects for the Institutes’ programs. Increasing awareness helps capture interested students. Recommendations to strengthen this connection include offering interest group membership to any approved university, offering a pool of guest lecturers, and providing a student forum for web site and newsletter submissions.

Value-Added Services (VA)

VA1—Develop Consistent Format and Content Standards for Core Interest Group Offerings

Rationale: As membership increases to all CPCU Society members, interest groups have an opportunity to promote their value to a wider audience. Longer term the strategy is to broaden interest group reach outside of the CPCU Society. This strategy requires content that compares favorably with alternative offerings. Specific content targets and standards assure the CPCU Society member regularly receive high-quality content. Support and governance for this recommendation is contemplated under recommendation OS3 above.

VA2—Expand Delivery Methods of Technical Content

Rationale: Time and expense dictate member participation. Present delivery methods of the newsletter and the CPCU Society’s Annual Meeting and Seminars for technical content should be expanded by the interest groups to include webinars, more symposia, and chapter-ready presentations through a pool of local speakers. The possibility of on-demand or ability to purchase video of the CPCU Society’s Annual Meeting and Seminars must be considered to meet the needs of our growing international presence and those who cannot attend CPCU Society’s Annual Meeting and Seminars.

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

Rationale: A great deal of work goes in to producing quality technical sessions that are presented at the CPCU Society’s Annual Meeting and Seminars. In their efforts to re-brand themselves and increase awareness of their offerings, interest groups have an opportunity to convert these programs into tested and finalized symposia. Not only does this effort support the strategic goal of industry outreach, but it offers an additional revenue source to the CPCU Society.

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

Rationale: As the interest group expectations change and the prospective members increase to all CPCU Society members, each interest group needs to assure that their offerings align with member needs. Action plans should be developed based on the findings and reported back through the interest group governors. ■

Japan Chapter News— Local 2006 Conferment Ceremony

by Keiji Fukasawa, CPCU, CLU, ChFC



■ **Keiji Fukasawa, CPCU, CLU, ChFC,** graduated from Waseda University in Tokyo with a B.A. degree in 1966. He joined CIGNA's reinsurance division and then later moved to ERC/GE Re. In 2001 he established a consulting firm, Finrex Japan, and has been involved in translating CPCU textbooks into Japanese. Fukasawa obtained the CPCU designation in 1979 as the first Japanese, the CLU designation in 1985, and ChFC in 1992. He served as the first president of the CPCU Society's Japan Chapter when it was established in October 2003.

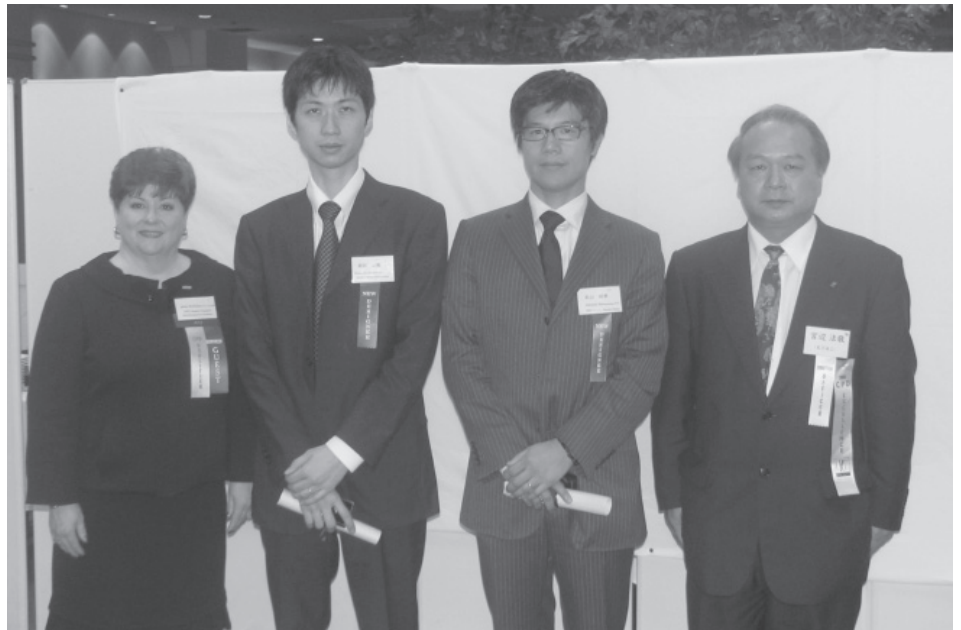
The Japan Chapter's local 2006 Conferment Ceremony was held on October 20 in Tokyo, receiving Ms. Millicent W. Workman, CPCU, CPIW, AU, immediate past president of the CPCU Society, as the conferring officer.

The Japan Chapter had two new CPCUs for 2006. They were Mr. Hiroki Maeda, CPCU, ARe, (Tokio Marine & Nichido Fire Insurance Company Ltd.), and Mr. Yoshitaka Matsuyama, CPCU, (Sampo Japan Insurance Inc.).

In her congratulatory speech, the 2005–2006 CPCU Society President Millie Workman said, "Congratulations! On behalf of the 26,000 members of the CPCU Society, I want to welcome you to the CPCU Society and personally congratulate you on obtaining the CPCU designation! I hope you are 'supremely satisfied' today and very happy knowing that you've achieved an important goal—you're a CPCU! You should feel confident—you now hold credentials that demonstrate your commitment to

ethics, education, and excellence!" She continued, "You should also be very satisfied knowing that you've obtained a designation that will help you improve the lives of countless people who rely on the insurance industry. Your designation truly sets you apart from others in the property and casualty industry because you have a designation that says you are properly qualified and that you are committed to continuous learning and also that you are an influential leader with the highest level of ethical behavior." She also cited many benefits of being a CPCU and becoming a Society member such as continuing education opportunities, professional development programs, local and global networking, news, and ongoing communications.

One of the new designees (Mr. Matsuyama) mentioned that he began to study the CPCU program when he was assigned to an overseas office, Singapore, and that it took him four years to complete the CPCU exams. He attended



From left: Millicent W. Workman, CPCU, CPIW, AU, Immediate Past President, 2006 New Designees Hiroki Maeda, CPCU, ARe, and Yoshitaka Matsuyama, CPCU, and Japan Chapter President Noriyuki Miyabe, CPCU.

the national conferment ceremony in Nashville in September, and he found it very impressive and was glad to have attended it. As a CPCU designation holder, he has determined to do enough good jobs on his duty to meet the high standard of the designation.

The other new designee (Mr. Maeda) recalls the difficulty in securing the study time in his busy daily life when he was studying CPCU programs, but he confirmed that what he learned through the CPCU programs was very worthwhile, and he likes to utilize this knowledge and skills on the job, especially in the underwriting area.

After the Conferment Ceremony, a buffet party was held with invited guests and IIA completers.

Before the conferment ceremony, the meeting began with a one-hour research presentation “On Modeling U.S. Product Liability Risk, an Empirical Analysis” by Yuji Maeda, Ph.D., CPCU, ARM. The presentation was based on his dissertation for his Ph.D. degree from Shiga University Graduate School of Economics and Management.

According to Dr. Maeda, the U.S. product liability risk is the real threat to Japanese multinational companies that sell their products to the United States market since the liability risks might cost a tremendous amount of money to them not only for the liability claims but also for punitive damages, legal costs, reputation costs, business opportunity costs, and risk control costs. Thus it is important for the corporations to manage the U.S. product liability risk effectively and efficiently. Based on the actual product liability loss data of a particular manufacturer, five different compound Poisson process models were analyzed for their goodness-of-fit to the risk. Among the models, the Lognormal-type compound Poisson process is the best

to describe the risk. Further, a captive feasibility study has been conducted using the model. The study has indicated how much the capital and surplus of the captive will develop over one year after the formation. Maeda concluded that this feasibility study is a practical application for risk modeling.



Yuji Maeda, Ph.D., CPCU, ARM, presented his research study on modeling U.S. product liability risk.

During her stay in Japan, Ms. Workman made several Connections visits, accompanied by myself. The visited companies included the top three Japanese non-life insurers such as Tokio Marine & Nichido Fire Insurance Co., Ltd., Mitsui Sumitomo Insurance Co., Ltd., and Sompo Japan Insurance, Inc. These leading property and casualty insurers in Japan have their subsidiaries in the United States, and their employees of U.S. subsidiaries enjoy the benefits of educational reimbursement programs for CPCU exams and text materials and society/chapter annual dues, while their home office employees in Japan have none of such benefits. Emphasizing

the values and benefits of the CPCU designation and CPCU Society activities, Workman urged Japanese employers to consider the tuition subsidization plans of CPCU programs and Society activities in Japan for their Japanese employees. She explained how major U.S. insurers and brokers recognize the values of CPCU and subsidize the tuition fees. The increasing globalization of the insurance market in the world would also help recognize the value of the CPCU professional designation. The Japanese property and casualty insurance market does not have an equivalent professional designation like CPCU, and it is believed the market needs to improve professionalism and ethical behaviors in insurance.

Three insurance newspapers in Japan wrote about our local conferment ceremony as well as the interviews with Millicent Workman, which helped to “Spread the Word!” in Japan. ■

Highlights of the Japan Property and Casualty Market

Fiscal 2005, ending March 31, 2006



Shinjuku West, Tokyo, Japan

Editor's note: Data obtained from General Insurance Association of Japan: www.sonpo.or.jp/e/index.html

General Information

- **Population:** 127,700,000
- **Gross Domestic Expenditures (real):** ¥533.9 trillion
- **Number of automobiles owned:** 78,278,000

The Number of Licensed Insurers

- **Domestic insurers:** 26 companies (including four foreign capital domestic incorporations)
- **Foreign insurers:** (branch or agent status): 22 companies (including four reinsurers, three P&Is)

(In addition to the insurers listed above, there are others, such as a few large regulated cooperatives, many small non-regulated cooperatives.)

Market Share by Types of Insurers and Written Premiums

- **Domestic insurers:** 74.4 percent, ¥8,689 billion
- **Foreign Insurers:** 3.1 percent, ¥362 billion
- **Cooperatives:** 22.5 percent, ¥2627 billion
- **Total:** 100.0 percent, ¥11,678 billion

Market Share by Distribution Channels (Percent by Premium Volume)

- **Agents:** 92.8 percent
- **Brokers:** 0.2 percent
- **Direct sales by insurers' employees:** 7.0 percent

Premium Share by Line of Business (for Domestic Insurers)

- **Fire and Extended lines:** 17.3 percent
- **Auto:** Compulsory Third-Party Liability Auto: 13.3 percent
- **Voluntary Auto:** (physical, liability): 40.8 percent
- **Total Auto:** 54.1 percent
- **Personal Accident:** 16.0 percent
- **Miscellaneous Casualty, Liability:** 9.3 percent
- **Marine, Inland Marine, Transit:** 3.3 percent

Number of Employees in Insurance Companies

Number of employees and directors in insurance companies: 83,800 (as of April 2005) (domestic insurers and foreign insurers).

Number of Agents and Sales Forces Employed by Them

- **Number of agencies:** 286,000 (showing a decreasing trend due to integration)
- **Number of hired sales staff in agencies:** 1,873,000 (showing an increasing trend due to bankers' participation in insurance sales)

Earthquake Insurance on Dwelling Houses and Contents

Dwelling fire policy automatically includes earthquake coverage, but can be excluded by option of the insureds. About 60 percent of fire insureds select to exclude earthquake coverage because of high premium.

Earthquake insured amount is limited to up to 50 percent of fire insured amount or ¥50 million for buildings and ¥10 million for contents.



Otani Garden, Tokyo, Japan

Earthquake coverage includes fire following earthquake, shock destruction loss, volcanic eruption, and tsunami or tidal waves following an earthquake.

Government reinsurance is provided for a catastrophic amount of losses.

Earthquake Insurance on Commercial, Industrial Risks

Fire and extended coverage policy excludes fire following earthquake and earthquake shock losses. Earthquake risks can be added to fire and extended policy by an endorsement with an additional premium. The insured amount is limited to 30 percent of fire amount. No government reinsurance is available for commercial risks, and substantial amount of overseas reinsurance is bought in the various forms of surplus, excess loss, and catastrophe covers.

Insurance Supervision

The Financial Services Agency (FSA) has been supervising insurance business and other financial institutions since July 1, 2000. The Insurance Business Division of the Supervisory Bureau, one of four bureaus in FSA, is responsible to life and property and casualty insurance operations.

The Ministry of Finance was supervising insurance business until June 1998, when the Financial Supervisory Agency was created to take over supervision and inspection functions of the MOF. By further reorganization of the MOF and Financial Supervisory Agency, the Financial Services Agency was established on July 1, 2000.



Tokyo, Japan

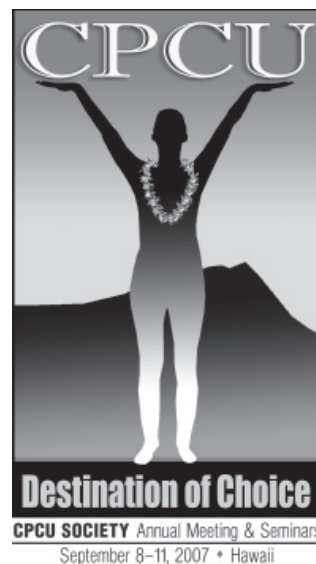
Top Three Property and Casualty Insurers in Japan

- Tokio Marine & Nichido Fire Insurance Co., Ltd.
- Sompo Japan Insurance, Incorporated
- Mitsui Sumitomo Marine and Fire Insurance Co., Ltd. ■

IQ Breaking News

The International Insurance Section seminar entitled, "International Insurance Regulation," will be conducted on Monday, September 10, 2007, at the CPCU Society's Annual Meeting and Seminars.

Stay tuned for additional information!



Learn to Do the Impossible from Author James Bradley

Attend the CPCU Society's **2007 Annual Meeting and Seminars** to hear **James Bradley**, a bestselling author and exceptional motivational speaker, deliver a compelling Keynote Address, brimming with valuable lessons for today's leaders.



Author James Bradley will deliver the Keynote Address at the Society's 2007 Annual Meeting and Seminars in Hawaii.

Bradley is the author of *The New York Times*' bestseller book *Flags of Our Fathers*, which chronicles the lives of six men, including his father, who fought through a hail of mortar and machine-gun fire to raise the American flag at Iwo Jima in 1945. The book was made into a 2006 feature film, produced by Steven Spielberg and directed by Clint Eastwood.

In his Keynote Address, also entitled "Flags of Our Fathers," Bradley will use key moments in America's history to dramatically illustrate how ordinary people did the impossible by thinking "outside the box." Be there in person for this thrilling presentation that will challenge you to move beyond the "impossibilities" in your own life.

Register Today!

Visit **www.cpcusociety.org** to register online and for the latest information on the 2007 Annual Meeting and Seminars, being held September 8-11 in Honolulu.



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