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# International Insurance Quarterly

IQ

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## From the Editor

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

When my 2005 traveling schedule made it impossible for me to meet the deadlines necessary to produce this quarterly newsletter, the International Insurance Section Committee offered its assistance to author articles, pursue possible authors, provide ideas, and follow through in order to see that you receive this issue in a timely fashion. And, they have been as good as their word. Gail B. Burns, CPCU, CIC, chairman of the International Insurance Section, co-edited and authored an article in the spring issue. And, three of the authors in this issue are members of the International Insurance Section.

The person who pulled all the articles together for this issue is co-editor Gary L. Grindle, CPCU, ASLI. At the Annual Meeting and Seminars, he volunteered to find the authors and, as well, include an article of his own, previously printed in *Best's Review*. His efforts are most appreciated by me and I'm sure that after you see what he has assembled, you will appreciate them too. ■

## From the Co-Editor

by Gary L. Grindle, CPCU, ASLI

This issue of the *IQ* is chock-full of useful information for those involved in international insurance. It is focused principally on issues facing American citizens and companies expanding, operating, traveling, or working outside the United States. A broad range of topics are addressed including:

- insurance needs for U.S. drivers crossing into Mexico
- personal insurance issues facing Americans working abroad
- gaps and solutions related to general liability coverage for U.S. companies importing and selling products abroad
- the role of agents and brokers in constructing multinational insurance programs
- a discussion of the growing international insurance needs of small- and middle-sized companies
- an overview of global insurance programs and the Controlled Master Program (CMP) concept

Additionally, we're treated to some reflections from a sage of the international insurance industry, Richard M. Murray, with a look back over his distinguished 50-year career, as well as some news from our Japan Chapter concerning its second annual general meeting and conferment ceremony. I hope that you'll learn from and enjoy reading these articles as much as I have. ■

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## Home-Foreign, Expanding Abroad?

### What's In This Issue

# A Reminder Regarding Mexican Auto Insurance

by Juan J. Buendia, CPCU

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Buendia, an electronic engineer and CPCU, has been in the insurance business since 1983 working both in Mexico and in the United States and is a member of the CPCU Society's International Insurance Section Committee. He can be reached at: (213) 629-9777 or by e-mail at juan.buendia@sis-mex.com

With commerce between the United States and Mexico on the rise due to the North American Free Trade Agreement (NAFTA), an increase of U.S. nationals taking advantage of the rewards of living in the border area with respect to affordable housing for vacation homes (especially in the Arizona and California areas) or a new wave of U.S. retirees and their families looking into Mexico to purchase permanent residences, it's always important to remember the legal environment and insurance issues while driving into Mexico.

The Mexican Constitution provides that except with respect to political matters and the right to own real property, non-Mexicans enjoy the same rights as Mexicans. However, the legal system in Mexico is very different than the one in the United States (Common Law). The basic legal text in Mexico is the Civil Code, originally based on the Napoleonic Code. This Civil Code covers a number of subjects including torts and financial responsibilities.

Insurance issues are confusing enough even in a driver's native country and language; they becomes many times more confusing when dealing with foreign insurance contracts and regulations. It is imperative that everyone driving into Mexico be properly insured per that country's guidelines. Many U.S. insurance policies include an endorsement that extends coverage up to specified distances into Mexican territory. These policies may well provide protection for damage to the driver's own automobile and in cases where a lawsuit arising from an accident involving another U.S. resident is filed back in the United States. They do not, however, provide protection for lawsuits in Mexico or under Mexican law/jurisdiction. Mexican law requires that this protection be obtained by an authorized Mexican insurance carrier only.

Protection for U.S. or foreign vehicles entering into Mexico is properly provided by what is termed a Mexican "Tourist Auto" policy. This type of policy may be purchased in several different ways (Internet, surplus lines brokers in the United States, shops located at the border, or with Mexican insurance agents), but no matter how purchased, it is very important to verify the legitimacy of the carrier and/or agent selling this coverage. Unfortunately, fraudulent activities exist for this product, and the consumer must be very careful.

The Tourist Auto Policy may cover both private passenger vehicles and commercial vehicles. There is no distinction. The only requirement is that such vehicle be registered in a foreign country with non-Mexican license plates (even if such vehicle is garaged 365 days in Mexico).

There are different variations of this policy that can suit the particular needs of the customer: full-coverage policies, limited-coverage policies, short-term policies, annual policies, limited-territory policies, fleet policies, blanket policies, etc. Also, some companies offer extra enhancements such as travel services, repatriation services, emergency medical assistance, etc.

In general, most Mexican insurance companies offer the following type of coverage under this product:

a. collision/material damages

b. total theft/comprehensive

c. civil general liability PD/BI (either split limits or combine single limit)

d. medical expenses for occupants (limit per passenger and aggregate per accident)

e. legal assistance (which includes a bail bond)

Coverage under these policies does not tend to be as broad as in the United States, but complies with local regulations and is fully accepted by Mexican authorities. It is very important to purchase the Legal Assistance coverage in Mexico. This is an optional coverage that entitles the insured to a local lawyer in the event that any persons involved in an accident are injured.

While driving into Mexico, it is also important to consider the following:

- Always carry your insurance policy or ID card within the vehicle. It may be required by local authorities.
- Never lend your vehicle to anyone to drive in Mexico. The registered owner or the authorized driver (in case of company or rented vehicles) must be either driving or in the vehicle at all times. Otherwise, the vehicle could be impounded as having been improperly imported or because the authorities believe it to be stolen. If the car is rented, always carry the rental contract inside the vehicle.
- Avoid taking highly priced or exotic vehicles into Mexico. Auto theft is a major exposure and these vehicles only become a target in Mexico.
- Never drink or take illegal substances while driving. This is a standard exclusion under most policies. Firearms are also prohibited in Mexico.

In case of a claim, be aware of the following:

- Always report a claim in Mexico before returning to the United States. Failure to do so may restrict or completely deny coverage on the claim. All policies offer a local telephone or "1-800 number" with 24-hour service, so an adjuster can be notified and immediately go to the scene of the accident to issue a report and deal with local authorities on your behalf (if necessary).

- Never assume or accept responsibility in case of an accident. Do not make any personal agreements or sign papers. Let the adjuster know all the facts and he or she will decide the best course of action.

The above is just a short reminder of this common exposure that tends to be forgotten or misunderstood. In case of additional or expanded information regarding this topic or any other insurance-related issue in Mexico, please feel free to contact me. ■

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# Made in China . . . Imported from Brazil . . . Sold in the USA

by Roseanne Iacobucci, ARe

■ **Roseanne Iacobucci, ARe,** is a director for St. Paul Travelers' Global Underwriting division. Her previous international insurance experience includes underwriting and finance positions with CitiInsurance (Citigroup's International Insurance subsidiary) and Travelers International Business Services division. She is actively pursuing her CPCU designation. Iacobucci may be contacted at (860) 954-4541 or at roseanne.iacobucci@stpaultravelers.com.

**Editor's Note:** The views expressed in this article are those of the author and do not necessarily reflect the views of St. Paul Travelers Companies, Inc. or any of its subsidiary insurance companies ("St. Paul Travelers"). This information is not a representation that coverage does or does not exist for any particular claim or loss under any St. Paul Traveler's policy or bond. Coverage depends on the facts and circumstances involved in the claim or loss, all applicable policy or bond provisions, and any applicable law.

Such is the scenario presented by your client's business activities. What now? Would your client's general liability (GL) policy respond to a products-related loss in the United States? What would happen if the injury occurred outside the United States? Would your client be able to count on his or her policy to provide a foreign defense of a claim? This brief article will seek to explore some of the coverage issues presented by these types of scenarios.

We must start with an understanding of the general liability policy's insuring agreement and definition of coverage territory. Our review will be based on an analysis of ISO's General Liability policy (CG0001 ed.10/01, Coverage A). While a few insurers may opt to use their own proprietary policy wording, the basis of that wording is most often ISO's language.

The insuring agreement sets the parameters for what will be covered. It limits coverage only to bodily injury or property damage that *are caused by an "occurrence" that takes place in the "coverage territory."* The policy subsequently defines the coverage territory to include the United States (including its territories and possessions), Canada, and Puerto Rico (all of the aforementioned referred to as "U.S." for the remainder of this article) as well as other parts of the world, **but only under the following conditions:**

1. The goods or products are made ***or*** sold by the named insured in the U.S.; ***and***
2. The suit is brought in the U.S.

Now that we've briefly explored these key provisions, let's return to the question at hand: Would an ISO GL policy respond to a loss involving a product made in China, imported from Brazil,

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# Made in China . . . Imported from Brazil . . . Sold in the USA

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and ultimately sold in the U.S. by your client? If we assume the accident or injury happened in the U.S., which is clearly part of the coverage territory, then the answer is "yes." In this scenario, the fact that the product was made in China or imported from Brazil really has no bearing on the coverage issue. The important fact is that the injury occurred in the United States.

Now let us change the scenario a bit. Suppose the injury occurred outside the U.S.—Italy for instance—but the claim is brought in the United States. In this scenario, the product's origins become very relevant. If we refer back to the earlier discussion of coverage territory, the definition includes anywhere in the world, but only if the product is **made or sold by the insured in the U.S. and if suit is brought in the U.S.** In order to determine coverage under the ISO GL policy, a claim representative would need to determine where the product was made or sold, where the loss occurred, and where the suit was brought. In the scenario above, since the product was sold in the U.S., even though the loss occurred overseas, a claim would likely be covered because the suit was brought in the U.S.

The ISO GL policy is **not** likely to provide coverage in situations where the manufacture, sale, and loss occur outside the U.S., even if the claim is brought in the U.S. Based on the territorial definition, no coverage would exist.

As we've now explored, a firm that makes or sells products may have significant coverage gaps under the standard GL policy. To address these gaps, insurance professionals must understand the exact nature of their foreign clients' operations. Once the gaps are clear, clients have several options for coverage:

1. The standard GL policy may be sufficient, as is the case in the first scenario.
2. If coverage gaps exist, it may be possible to extend the standard policy by endorsement to expand the territorial definition.
3. Another possible solution is to purchase a separate, non-admitted international policy, which is a policy issued by an insurer not licensed to do business in the foreign country in question.
4. A local insurance policy can be purchased from an admitted insurer in each country where the insured makes or sells its products. This option is particularly popular when the client has actual property or operations in a foreign country and/or when local laws require such admitted coverage.
5. A coordinated combination of the non-admitted and local coverages—known as a Controlled Master Program (CMP)—can be placed. This option combines legal, local coverage with a U.S. master policy that serves to minimize any gaps in coverage between the local foreign policies and the coverage provided under the U.S. policy.

Other articles in this month's newsletter will explore some of these options in greater detail. Several carriers and brokers specialize in putting together international programs tailored to the individual needs of a particular client. Some of the authors of the articles presented in this newsletter may be good resources for additional or more specific information.

In conclusion, today's global economy dictates that many companies must consider expanding outside the boundaries of the U.S. in order to remain competitive. Whether the exposure involves employees traveling to market their business, exports of products or services outside the United States, or the relocation of manufacturing operations to foreign countries to help curb escalating production costs, even the smallest of firms should be comfortable that their insurance will respond when the "made in China, imported from Brazil, sold in the U.S." claim occurs. ■

## International Insurance Section Offers Education Program for CPCU Society Chapters

Do you understand what is happening globally in the insurance market? There are multiple market opportunities out there that your insureds are going after. No longer is the United States the sole consumer market of choice. American firms lead the world in foreign direct investment (FDI) looking for opportunities to expand their markets and operations. China is the leading recipient of FDI. How do you approach international insurance issues? What is foreign voluntary workers compensation and how does it apply to your traveling U.S. expatriates?

Did you know that more than 40 percent of U.S.-registered companies have some form of international business, whether it be simple export sales or a formal investment in plant and equipment in foreign locations? Would you like to learn more about international insurance coverages? The International Insurance Section is offering CPCU Society chapters a one-, two-, three-, or four-hour course to acquaint your members with the international insurance marketplace.

For more information contact **Gail B. Burns, CPCU, CIC,** International Insurance Section Chairman at gbburns@ix.netcom.com.

# Selling Insight: Going Global Brings New Risks

## *Increasingly, Small and Midsize Businesses Have Some Type of Foreign Exposure, with Business Travel and Foreign Sales the Most Common*

by Gary L. Grindle, CPCU, ASLI

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**Editor's Note:** This article originally appeared in *Best's Review* magazine and is reprinted with permission.

International activities are no longer limited to the Fortune 500. It's not surprising to find small and midsize businesses going outside U.S. borders in search of new markets, lower production costs, new suppliers, and new ideas. These activities often create exposures not fully addressed by traditional insurance programs. The producer that recognizes these exposures is presented with excellent account-rounding opportunities.

Even the most incidental foreign exposure—business travel—presents some potential coverage issues. Small and midsize business owners often travel abroad to attend conventions or meet with suppliers. Although the typical general liability policy provides coverage for short-term business travel outside the United States, such coverage is normally limited to suits brought within the United States, its territories and possessions, Puerto Rico, or Canada.

If this same traveler leases a vehicle, the only coverage is likely to be the insurance, if provided, from the local leasing company. In many countries the scope of coverage and available limits are well below the standards that U.S.-based businesses find customary. The traveler cannot rely on his or her domestic policy for any coverage since the coverage territory for U.S. business auto policies typically is limited to the United States, its territories and possessions, Puerto Rico, or Canada.

A business traveler also faces other concerns, including loss of property, threat of kidnap, and potential gaps—depending upon the benefit state—in workers compensation coverage. For example, does the domestic policy adequately address extraterritorial activities, personal sojourns, endemic disease, and repatriation?

Businesses that export products can encounter additional pitfalls. Although the typical general liability program will cover product-related injuries anywhere in the world, such coverage is significantly restricted. The product must be made or sold in the United States, its territories and possessions, Puerto Rico, or Canada, and suit must be brought within that same coverage area. Even when the policy is endorsed to apply to foreign suits, coverage often is provided only on an indemnification basis (that is, the insured is reimbursed versus the insurer paying on behalf of the insured) and the limitations relative to where the product is made or sold often remain.

Most of these issues can be readily addressed, either by a variety of endorsements attached to the domestic automobile, general liability, workers comp, and property policies or by purchase of a separate international package policy.

The advantage of the endorsement approach is that customers are already familiar with the coverage provided by their domestic policies. By simply extending the coverage territory under those policies, they gain essentially identical coverage abroad.

A key advantage of a separate foreign policy is the availability of a separate set of limits. Additionally, foreign policies often provide features and enhancements not necessarily included within the domestic program. Common examples include:

- liability coverage written, where permitted by law, on a "pay on behalf" rather than an indemnification basis

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# Selling Insight: Going Global Brings New Risks

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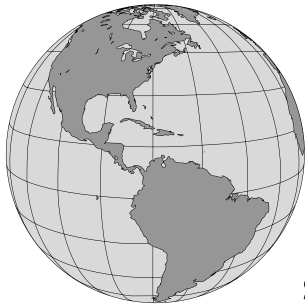
- travel-assistance services (such as medical or legal referral, medical evacuation arrangements, and interpreting)
- tenants legal liability coverage, important in certain foreign countries where lessees can be held strictly liable for damage to leased premises
- specific coverage available for repatriation, medical evacuation, and endemic disease
- specialized property enhancements, such as coverage for deficiencies in collectible loss due to foreign currency devaluation

A variety of specialized coverages—kidnap and ransom, political risk, business interruption, directors and officers and ocean marine—also may be available as part of the package or as stand-alone coverages.

Another advantage of issuing a separate policy is the perceived value that the customer places upon it. Some customers are reassured knowing they have a specialized "international" policy designed to address the unique exposures associated with foreign operations. These customers also are generally more accepting of the additional premium charge required than they would be for coverage provided as an extension to their existing program.

This article has only scratched the surface in addressing the issues midsize businesses may face. It's wise to consult with your underwriter to determine the local requirements and the best approach to meet a client's needs. ■



## International Insurance Section Symposium Scheduled for NAIC Summer Meeting

**Solvency Standards Around the World**
**Boston, MA • June 11, 2005**

How do you judge the solvency of an insurer or reinsurer based in a country with different products, different accounting rules, and different regulations? Because of the recent turmoil in the global financial system, this question now concerns not only insurance professionals, but also the guardians of the system itself. As the strengthening of banking supervision brings new scrutiny of insurer solvency, several countries—Japan, Singapore, Mexico, Brazil, and the United Kingdom among them—have recently joined the United States, Canada, and Australia in making their capital requirements risk sensitive. The European Union's Solvency II Project will overhaul solvency monitoring for all European insurers, and the International Association of Insurance Supervisors has identified the cornerstones of an effective solvency regime. How will these initiatives affect the U.S. market?

The CPCU Society's International Insurance Section and Regulatory & Legislative Section have teamed with the International Insurance Foundation to present the latest developments in the quest for common standards for monitoring insurer solvency. This symposium will take place during the NAIC summer meeting in Boston, Saturday morning, June 11. It is open to all NAIC meeting attendees but it is not necessary to register for the NAIC meeting to attend. There will be no fee for the CPCU Society symposium and no CE credits will be available. Those who attend the CPCU Society symposium will also be able to attend another NAIC session that day without charge.

For more information contact **Gail B. Burns, CPCU, CIC,** International Insurance Section Chairman, at gbburns@ix.netcom.com.

# A Brief Introduction to Global Insurance Programs

by Douglas N. Smith, CPCU, AIC

**Author's Note:** This introduction to controlled master programs does not purport to provide tax or legal advise. Each company's situation is unique, and each company should consult its own advisors and should not rely on this article.

■ **Douglas N. Smith, CPCU, AIC,** west coast regional manager–AIG WorldSource, began his career in the international insurance field in 1973 when he joined AFIA Worldwide Insurance in Los Angeles as a branch assistant. He was transferred to Colombia in 1975 as manager of the Cali office. In 1977, he joined the Los Angeles office of Marsh & McLennan as an international insurance representative.

In 1978, he joined the international department staff of Johnson & Higgins in Los Angeles and later became its manager. In 1989, he became the department manager for Johnson & Higgins New York Branch, rising to the position of senior vice president. He joined AIG in 1992.

Smith is a native of San Francisco and a graduate of New Mexico Military Institute and the University of San Francisco, where he received a B.S. degree in 1965. His graduate work was in Latin American Area Studies at the Monterey Institute of International Studies.

## Introduction

The handling of international insurance coverages has been a process that has evolved over time. Multinationals have a number of choices in the manner in which these coverages are placed. Perhaps the most natural and easiest is to either self-assume smaller risks or, in the case of larger exposures, place the coverage on a non-admitted basis. This can be accomplished by means of a separate foreign insurance policy or even as an endorsement to a domestic policy. However, given the fact that a majority of nations prohibit or restrict the use of non-admitted insurance, this is often impractical. To effectively structure a global insurance program, the legal and regulatory requirements of each country where operations exist must be addressed in an appropriate manner.

Another placing method is to allow the foreign operation or subsidiaries to "go it alone" and place insurance locally without coordination with the home office. This covers the legal bases because each of the policies are admitted in the countries in which they are issued. A desirable outcome from that standpoint but without coordination on pricing, terms, and conditions, it still misses the mark. Most of our major customers with global operations prefer to coordinate and control the placement and management of their insurance programs at the home office level.

## The Controlled Master Program

As a multinational company's exposures grow, the need for a comprehensive—and coordinated—international program usually becomes apparent. The need for a more thorough understanding of exposures, pricing, service needs, and legality brought about the Controlled Master Program (CMP). (There are other names as well, but all are the same idea.) The concept behind the CMP has been around a long time and works as follows: A master insurance policy is developed between the insured—usually in conjunction with a broker—and an insurance carrier and includes agreements on pricing and conditions. From those agreements the insurer issues the master policy and orders or arranges locally admitted policies, or underlyers, as these documents are widely known, from its foreign offices or correspondent carriers. The CMP, then, consists of the master contract and the underlyers, and the relationship between the two at its core is a reinsurance arrangement in which the master reinsures the underlyers. In cases of conflict between the underlyers and the master in a loss situation, the underlyer will respond first on behalf of the local entity while the master will provide excess and difference in conditions for the parent. Quite often the scope of coverage and limits afforded by the master are broader and more substantial than individual underlyers.

When the CMP is established, a price is agreed upon on an overall basis and a premium is assigned to the master policy and each of its underlyers. The allocation of premium is dependent on the exposures in each country, unless these are small enough to create a minimum premium situation (usually a flat charge for policy insurance). The premiums are also dependent on the individual countries involved. While most countries now allow for open rating, there are a few that maintain a tariff. A notable example is Brazil, where tariffs govern rates and the Instituto Reaseguros do Brasil, or IRB, remains the reinsurer of record. As a result, most carriers do not include Brazil in the CMP because reinsurance premiums cannot be exported except through the IRB, so the coverage remains local.

## Brokers

The role of the broker is determined by the customer commensurate with the broker's international presence and capabilities. CMPs are usually set up with the assistance of a broker and may or may not involve its local offices or affiliates.

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# A Brief Introduction to Global Insurance Programs

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In the latter case, the insurer can provide services ranging from policy insurance and delivery, loss control, etc., but it should be noted that an insurer cannot be expected to replace the services that should be provided by the local broker. The large global brokers, such as Marsh, Aon, and Willis, have extensive networks and, without exception, have a great deal of experience in the establishment and coordination of CMPs. Other networks, such as Assurex, Globex, the World Broker Network, and others by separate arrangement, can also be counted on to implement CMPs per their partner brokers instructions.

## Carriers

The number of insurance carriers that can truly handle CMPs is limited by their international reach and their global accounting capabilities. The most notable are: AIG, ACE, Zurich, XL, Allianz, Chubb, and St. Paul Travelers. AIG, ACE, and Zurich all have large networks of offices around the globe, with AIG having the most extensive in terms of number of offices and employees overseas. In Europe, AXA and Generali are also able to write CMPs.

## Adaptability

The CMP is extremely adaptable in terms of its uses; it is used most commonly on guaranteed cost property and casualty programs. It can also work with captive programs, self-insurance, risk management fronting programs, global programs, programs with regional "carve-outs" or coverage "carve-outs," and retrospective rating programs. It can also be adapted to reverse flow business in that a foreign multinational can implement CMPs from its home country.

## Advantages

Control is the first and most obvious advantage of the CMP, hence its name Controlled Master Program. By control we mean over pricing, coverages, standards, and program implementation at the company headquarters. The CMP allows pricing to be negotiated at the parent level while maintaining the appropriate integrity of pricing for each of the underlying policies. Each country involved is expected to provide the coverages required to the extent that their laws permit, which is sometimes limited by their filed forms or licensees. Any difference in coverage is normally picked up by the master contract. Usually, insurance carriers also send separate instructions as to the program overall, its expected implementation schedule, and claims procedures. Complementing the carriers' notifications are those of the broker and the client so that there should be no mistakes—although they seem to happen with some regularity!

Accountability, which closely follows control, is another plus. By assuming responsibility for program implementation, the home office personnel responsible for risk management, along with the originating broker and insurer, establishes a single point of accountability. This eliminates multiplicity of responsibility.

Legality is another obvious benefit of Controlled Master Programs because the underlyers are admitted and, therefore, are in compliance with local laws. Following the letter and spirit of these laws is one of the main reasons the CMP was developed in the first place. In a real sense, the insured can have the best of both worlds: The terms and conditions originally agreed upon and the local policies required to comply with the laws.

It should be noted that even in countries in which there are no prohibitions on non-admitted insurance, the purchase of insurance is most often a good idea—especially if the insured has a relatively high profile in the global community.

Flexibility, meaning the ability to allocate coverages according to home office and local needs, is another key advantage.

## Claims Settlements

Perhaps the most important benefit of CMPs is when a loss or claim occurs and the policy's promise to pay is triggered. With admitted policies, claims can be adjusted and paid locally. Although many carriers can arrange for an adjustment process and payment of claims from a non-admitted contract, the consequences of such a treatment can sometimes be rather unexpected: The potential of fines or non-monetary penalties, problems with the repatriation of funds, and the tax treatment of non-admitted proceeds, are among these.

## Tax Treatment

Each insured's tax position is different, of course, and the insured should speak with his or her tax advisor regarding the tax effects of CMPs.

## Concerns/Disadvantages

Although I am an advocate of CMPs, there are certain disadvantages to them. For starters, successful programs almost always require the services of a global insurance carrier, and certainly not every insurer has global operations. In addition, CMPs usually require the services of a global brokerage network if these services are required locally. Without such organizations (the insurers and brokers), the CMP can be more difficult to implement and service.

**Cooperation** can be an issue for all these parties. In some cases, the local subsidiary or operation may resent home office direction. The broker may not agree with its originating office and it goes without saying that a broker/agent being replaced because of a CMP will not want to cooperate at all. Likewise, without clear direction and guidance from the insurer to its offices overseas, there may be a sense of unease as well.

**Scale**—CMPs work best for larger insureds with multiple locations. These same programs can be "overkill" for small insureds who can be better served by foreign package policies and/or individual placements.

**Administration—**Perhaps the most important concern about CMPs is the fact that most of them are work intensive. The administrative effort required of the programs is constant and it seems, at times, that it never "goes away." There is always something going on in a large program that requires weekly or even daily communication. And because of time zones, immediate resolution of issues is only possible with the most modern communication tools. The term "24/7" is not new to international insurance people.

## Keys to Success

The keys to successful Controlled Master Program implementation are five-fold. First of all, patience. These programs take time to establish. This does not refer to the inception of coverage as outlined in the binder, but rather, the time it takes to bring all parties on board and the time required to work out proper intent and any misunderstandings caused by language, insurance customs, practices, and law. Different inception dates in various countries also delay full implementation.

Developing a team approach among the insurer, broker, and insured is critical to successful CMPs. All parties must recognize that they are creating the program for the good of all and must work together in this endeavor.

Constant communications between the parties of the country of origin and their local operations is also key. The realization that there are bound to be challenges and that the only way to meet those challenges is through communicating freely. The goal should be no breakdowns.

Senior management "buy in" is also important to the process. Without this, no program can be successful. It should be obvious to all that if the client is not completely sold on the concept, it simply will not work.

Finally, periodic visits to overseas facilities by the insured and the broker almost always work to solidify support for the CMP. The objective of these visits is to develop an understanding of local conditions and to bring the local management into process. Their "buy in" is also critical.

## Conclusion

I have attempted to outline the background and development of the CMP along with its features, advantages, drawbacks or points of concern, and critical elements for a successful program. In the future, I can see only greater efficiencies; the insurance carriers and brokers have been working for years to upgrade policy insurance, standardize wordings, payment/collection of premium, and claims reporting. But the basic concepts behind the program will remain valid because the world we live in requires flexible insurance solutions and that is why the Controlled Master Program has become and will remain a standard fixture in the international insurance arena. ■

### Visit the International Insurance Section web site at http://international.cpcusociety.org.

The International Insurance Section's web site is amazing. Our distinctive new additions are comprehensive, useful, and user-friendly.

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- Country-Specific Information
- International Business News and Insurance Information
- International Insurance Educational and Service Organizations
- International Insurance and Risk Management Associations
- Europe and Japan Chapter links (coming mid-year)

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# Multinational Customer Needs— Are They Really Being Met?

## *What You as a Multinational Company Should Demand of Your Insurance Broker; What You as Insurance Broker Should Offer Your Multinational Customers*

by Douglas B. Fay

**Douglas B. Fay** is president of Globex International Group, an international risk management firm. He graduated Bucknell University and Universitat Heidelberg in 1979 and began his international insurance career with Chubb and Sons in New Jersey as an international trainee. He held many executive positions with Chubb, AIU, A&A, and Arkwright/Hobbs Group both in Europe and the United States before leaving Hobbs in 1994 to form Globex International.

Today Globex International via its Partner Brokers collectively is the third largest risk management organization in the world. Please visit the Globex web site at www.globexintl.com.

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### Stats and Facts

In the mid 1980s, the average U.S.-based multinational (having operations in more than one country outside the United States) generated on average 15 percent of its annual revenue from sales/operations outside the United States. Today the average U.S. based multinational generates approximately 45 percent of its annual revenue from outside the United States.

In the early '80s, the majority of companies operating overseas were Fortune 1,000. These large companies took a very methodical and time-consuming approach toward expanding overseas. Initially they exported their products into overseas markets. This activity was followed by the establishment of distribution centers in key growth areas outside the United States and eventually these companies established factories, production facilities, offices, and hired local employees. For most Fortune 1,000 companies, this process took many, many years.

Today there are some 65,000+ multinational companies worldwide. Here in the United States it is estimated that there are some 20,000+ multinational companies—far more than those companies making up the Fortune 1,000 or even Fortune 5,000. The "middle market"—defined by many in many ways—is the fastest growing segment of business that is growing overseas. Percentage growth wise, the "middle market" far exceeds the international growth of the Fortune 5,000. This is primarily due to a truly global economy, communications technology, and the ability to acquire versus grow an international capability! No longer do companies need to follow in the footsteps of the previous Fortune 1,000. Now companies of all sizes, from the INC 500 to the Fortune 50, can gain immediate access to international markets via an acquisition.

International growth and expansion are also occurring at a rapid pace among emerging multinationals or those with limited physical assets overseas. Statistics show that emerging multinationals are made up primarily of companies that export and import.

In the '80s there were several thousand companies that imported and exported goods. Today the majority of those companies have physical assets overseas and can be considered small to "middle-market" multinationals. As of last year, there were some 900,000 importers and exporters here in the United States!

The world is truly becoming smaller; more and more companies are operating outside the United Sates ***and*** this growth overseas is virtually across any and all industries or businesses.

A key statistic that is propelling this growth and that will ensure that this trend continues for a long, long time is the fact that 95 percent of the world's population exists ***outside*** the United States.

What do all these statistics mean?

- When a U.S.-based company dips its toes into international waters, it is soon up to its knees and torsos in international commerce.
- The majority of the growth in the number of new multinational companies is in the "middle market" and these companies are expanding internationally at a rate that far exceeds larger multinational companies.

- The ongoing growth in "middle-market" business is being fueled by an ever-growing increase in the number of companies importing and exporting or "emerging multinationals"
- This expansion overseas is happening in all industries and in all segments of the economy.

### The Issue at Hand

If we accept the fact that companies of all sizes and in most industries either are operating overseas or will be operating overseas, one can assume that from a risk management standpoint the existing as well as future needs of these customers are being met.

Unfortunately this is not the case. Over the past 20 years, the insurance industry has seen a growth in the number of insurance companies either operating internationally or professing to have an international capability. Many years ago there were really only three insurance companies capable of providing a product to cover a multinational company's international insurance exposures. These were AIU (AIG), Continental, and AFIA. Today there are some 24 companies that advertise an international capability, some delivering more than others. While each of these companies have strengths and weakness, one can conclude that the insurance industry from an insurance company standpoint has finally begun to recognize the opportunity and the need to provide customers with international products.

What about from a broker or insurance agent standpoint? Twenty years ago there were five "international" brokers and that number quickly grew to seven. One would have predicted that based upon the statistics above that this number would have grown to 12 and perhaps 20 today. Unfortunately, today, the "market" recognizes two global brokers, namely Marsh and AON. In my experience, both of these brokers focus their attention on the Fortune 1,000 to the Fortune 5,000, leaving thousands of companies still in need of true global risk management services. Additionally, the international expertise within these firms, more often than not, is sold and delivered through an international network of owned brokers across the globe. This "network" approach has led many brokers/agents to feel as if this is indeed the solution for these clients and as such there has been an emergence of some "network" alternatives to the AON/Marsh international networks.

While worldwide representation is very important, what customers today often are not getting is the centralized global/multinational knowledge, experience, and expertise required to properly manage and control a risk management program outside the United States. Today, other than the Globex International Partner Broker model, which mirrors the old J&H international model by providing a customer with a dedicated international department working hand in glove with overseas affiliates, many multinational customers' needs are still not being met.

Contributing to the dilemma as to why the ideal solution is not being met is the fact that there are very few seasoned multinational AEs or experts in the marketplace today. Years ago the large global brokers housed international departments or global business units. Today, these AEs tend to handle both domestic and international accounts, are spread thin, and are not housed as a distinct international team. Other brokers who practice a "dots on the map" approach often have very limited in-house multinational expertise. We strongly suggest that the brokerage community recognize this gap and begin the process to train and develop future multinational insurance experts.

## What Is the Ultimate Goal?

Multinational customers today, regardless of size, should be enjoying the same level of risk management expertise internationally as they do domestically. This expertise needs to go ***well*** beyond having worldwide representation or dots in countries across the globe. It means having knowledgeable, experienced, easy-to-access international insurance professionals who can deliver the same products and services internationally as they do domestically.

For the most part, the current solution practiced by most brokers/agents is essentially to offer access to a network of foreign brokers and agents across the globe. The ideal solution, however, is for domestic agents and brokers to have vision and look to the future to see what their existing and prospective customers will need in order to compete, survive, ***and*** grow. What this means is that these companies will require their vendors or service providers to have an in-house international or global capability and eventually this capability will have to match or exceed that capability that the customer is enjoying domestically.

## How Does One Get There?

We suggest that there are two key questions a company should ask itself when evaluating the level of risk management services it has or needs outside the United States, namely:

1. Do we know what our total cost of risk outside the United States is including premium, fees, taxes, claims, and commissions?
2. Do we have the same degree of control over our international exposures as we do our domestic?

In today's day and age, given the lack of focus the brokerage community has placed on delivering required risk management services by promoting a dots-on-the-map solution, the answer in most cases will be no to both questions. Only for those customers who have large global captive programs insuring worldwide risks will the answer more often be yes to both questions.

The mission for companies and brokers/agents alike is to work with one another so that the answer to both questions for all global customers is "yes." This, however, takes a longer term focus than is currently being practiced.

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# Multinational Customer Needs—Are They Really Being Met?

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## The Process

The majority of brokers competing on multinational business will ask for current values and exposures, current policy terms, and claims. They will then do their best to duplicate the program while striving to achieve a cost less than the client is currently paying. They will also either require or strongly suggest that the current international broker relationships be dismissed so that the successful broker can install his or her network of brokers or dots on the map. The large global brokers will require that their network of brokers service the local business needs while those alternative brokers who offer a network will strongly sell their dots on the map.

We believe that this is an approach that is fraught with problems and never allows the client to truly manage its international risk. Our suggestion to clients and brokers alike is to step back and begin "the process" by evaluating all the exposures the client has in any given country. Typically, these exposures have changed over time as the company has grown and the current risk management program in place may not reflect these exposures. A local insurance expert should do this evaluation. At the same time as this local survey is being done, an interview with local management can take place to understand its view of the current program and arrangements. They can also share local developments and future plans that might impact the risk management program. Finally, it makes sense to review the current insurance program for that entity for all lines in order to evaluate how appropriate current covers are. The result of this survey is a report to the customer detailing exposures, current service providers, likes and dislikes, strength and weaknesses, and total cost of risk for that country to the client.

With this report in hand the client and the broker can begin to build, from the ground up, a risk management program that reflects the needs of the client (both locally and globally) versus the needs of the market or the international broker network. As this program is built conceptually, the risk finance piece can be designed (capacity, coverage, premium) the program administration can be addressed (claims reporting, engineering, policy issuance, reinsurance, fronting etc.), and the program servicing can be addressed (third-party services, retail broker services—retain existing broker or interview/install a new broker).

If a customer follows these preliminary steps in the process, he or she becomes educated as to the various risks at hand, has information on ways to improve current arrangements, and can identify current and future costs of the program. The logical next step is to take this information and design/develop a conceptual program including suggested markets and local service providers who are best able to deliver the ideal solution.

A marketing exercise is then performed using the risk assessments as tools to educate the market. Local broker roles and services are outlined and bid. The program pricing then comes together. (Unfortunately in today's day and age it is at this stage in the process where a typical broker or agent begins, and the result is a program based upon incomplete information and an international risk management program that is disconnected from the domestic risk management program.)

If the customer is satisfied, and he or she should be because he or she has been part of the entire process, the program is implemented ***and managed*** from the central source so that the local client, local market, and broker are all acting in concert for the good of the program worldwide. Central management and control ensures that the client will always know what is going on and will be able to make changes centrally and locally efficiently.

As the international risk management program matures, it can eventually be dovetailed into the domestic risk management program offering the customer a truly seamless global risk management program. At that stage the client will then be able to answer "yes" to the two very important questions discussed earlier.

## Conclusion

From a customer standpoint, we suggest you begin the process today to take control of your international exposures and risk management program. From a broker/agent perspective, we suggest you begin today to understand what your customers are doing or thinking of doing overseas and in turn begin the process to provide these customers internationally that which you are able to offer them domestically. Developing an internal international resource or temporarily outsourcing this resource is also suggested. ■

# Expatriate Insurance—Have the Issues Changed?

by Patrick W. Kenny, CPA

**Patrick W. Kenny, CPA,** is president and chief executive officer of the International Insurance Society, Inc., responsible for the overall management of the IIS, a nonprofit organization of insurance executives and academics, whose mission is to facilitate the worldwide transfer of ideas and innovations and to foster the development of personal networks across national and international insurance markets

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To discuss one's experience and issues, purchasing insurance as an expatriate recalls so many of the issues and concerns of being an expatriate. While an experience I would not trade, the challenges of working and living in another culture are part of the everyday routine.

My experiences are 20 or more years old and may not be applicable today, (I hope not!!) but based on my conversations with expatriates today some of the same issues exist. Also, the number of seminars with global insurance programs for employees is growing. We went to Paris as a married couple with no children and came home from the Netherlands nine years later with two daughters born in two different countries.

Our first experience in purchasing insurance was to extend our U.S. healthcare coverage. This was particularly relevant as my wife became pregnant in the first two months we were in Paris. The insurance was significant as we decided to have the baby at the American Hospital in Paris, which accepted our U.S. coverage. Interestingly, the choice of hospital was driven more by the expectation the language would be less of an issue than at a French clinic. Once we went off the U.S. coverage, we took the local coverage. Fortunately we never had to test the portability of that coverage on home-leave trips to the United States. Our second daughter, who works in London for the U.K. government, purchases travel insurance to overcome such eventualities on trips to the United States.

Dental insurance was not common in France at that time so visits to the American-trained dentist we selected was not covered by our French health insurance. The same held true when we used an American dentist who was practicing in The Hague.

No additional trips to any hospitals in France meant we never had to test the quality of the healthcare or the related health insurances. Visits to physicians and pediatricians usually resulted in small "co-pays" (although that term wasn't used).

Auto insurance was pretty straightforward and similar to my experience here although liability limits were for lesser sums since France was not as litigious an environment as the United States. The same holds true for contents/renters insurance. At the time there were insurance agents who specialized in dealing with the expatriate community. Typically all these issues (health insurance, automobile, and homeowner insurance) presented the same issues for expatriates (of all nationalities) and local nationals.

The experience in The Netherlands was similar relating to auto and homeowners with the exception that we owned a home so the coverage was obviously more extensive. The situation regarding health insurance was similar in that we opted for coverage under the firm's local health plan. The benefits under the plan were integrated with the national health insurance. The coverage was extensive including home nursing when our second daughter was born and some complications arose. On another occasion, our older daughter sustained a head injury when kicked by a horse, and the medical care was excellent and fully covered by the insurance including covering a neurologist driving 30 kilometers on a Saturday evening to examine her. I am not sure we would have found better care or coverage anywhere.

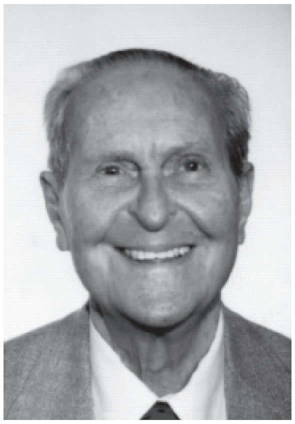
The bigger issue I found with expatriates in the area of healthcare insurance is the selection of providers versus insurance scheme. New language and different approaches to medicine cause more concern than the cost of coverage (assuming it is reasonable and affordable). A young couple I talked to at that time who were considering a transfer to Brussels were amazed to find out that infant mortality was lower in most of western Europe compared to the United States, and having a baby in Brussels was not a difficult undertaking for an expatriate.

The one issue I did find challenging was the multi-national integration of the pension plan. The firm's policy was to pay a pension in local currency to the partner based on a years-of-service-defined benefit plan. The pension was to be computed in U.S. dollars and integrated with the local national pension schemes. The plan was insured through major international insurance. The amount of integration or local plan offset varied with a higher level of local participation in southern Europe and Scandinavia, and less so in Benelux and Germany.

I started this article by saying the challenges of a new culture were there everyday. What remains though beyond that time abroad are the memories. As to memories there is no co-pay, no local plan integration, just lingering thoughts of good times.

# A Look Back in Time—My Personal 50-Year Journey

by Richard M. Murray



**Richard M. Murray,** vice chairman of La Prov Corporation (NYC), has been involved in the international P&C insurance industry for more than 50 years. He has held a variety of positions both in the United States and abroad with companies including Sterling Office, Ltd., Guy Carpenter, Inc., and Travelers Insurance.

He was born in Vienna in 1922 and graduated in World Commerce studies from the University of Vienna with post-graduate studies at Columbia University. Murray was decorated by the president of Peru for promotion of private insurance in Peru and was elected Knight of the Order of St. John (Knights of Malta-Ambassador at Large).

He currently serves on the board of electors for the International Insurance Society Hall of Fame as well as on several company board of directors.

Having been involved in the international property and casualty insurance industry for the better part of 50 years, I was delighted when Gary Grindle, CPCU, ASLI, and the CPCU Society's International Insurance Section offered me the opportunity to share some personal observations.

In my New York office I have a framed contract dated from 1347 "insuring" a ship owner against the loss of his vessel on a specific sailing. In reality, this early insurance policy was more akin to gambling than insurance. There was little spread of risk or actuarial basis for rate setting. The Genoa, Italy-based businessman who was "underwriting" the risk was really doing little more than placing a wager against an unknown probability of loss. A few hundred years later, in 1688, Edward Lloyd opened his famous coffee house in London signaling the birth of what most consider the era of modern insurance. A few hundred years still later, in 1846, the world's first modern reinsurer, Kölnische Rückversicherungs-Gesellschaft AG (Cologne Re), was established in Germany. These examples illustrate the very long tradition of insurance, including insurance covering international exposures, in Europe.

In contrast, the growth of international insurance in the United States is a relatively new phenomenon. There are many reasons for the slow growth of broad international insurance capabilities in the United States. Ironically, a key reason is linked to the great success of the U.S. indigenous insurance business. The financial strength, geographical spread, and enormous market potential of the North American market has served as a disincentive for U.S. insurers to expand into international markets. With such great opportunity available at home, why pursue markets that are so much smaller and where spread of risk is much harder to achieve?

Despite their reluctance, U.S. insurers came under increasing pressure to follow their major commercial clients overseas (e.g. IBM, Honeywell, GM, Ford, ARAMCO, etc). The first truly globally focused U.S. insurance companies were American International Group (AIG) and the former Insurance Company of North America (INA).

My personal journey in the international insurance market began in 1951 when I accepted a position in Toronto, and later in New York, with the British re-insurance broker Sterling Office, Ltd. It was a dynamic time, particularly in Latin America—Castro's revolution in Cuba, rapid petroleum-based growth in Venezuela, and the beginning of larger-scale foreign expansion by Canadian and U.S.-based companies.

It was also during this era that Guy Carpenter & Co. became involved in assisting local Latin American insurers in placing reinsurance in the London and U.S. markets. After seven years with Sterling Office, Ltd., I was enlisted in 1958 by Guy Carpenter to assist specifically in finding reinsurance markets for the growing credit insurance needs of local Venezuelan insurers. Venezuela's tremendous economic growth had been largely funded by the indiscriminate lending practices of local banks, which in turn created potentially enormous credit losses. It was my challenge and responsibility to manage and control this impending credit-related financial crisis. Through use of London retro-cessions we were successful and were able to protect our clients and spread the exposure nearly around the globe.

The relentless movement toward globalization by major U.S. companies continued to create pressure for domestic direct U.S. carriers to develop international capabilities to service these clients. In 1968, I joined the Travelers of Hartford, as founder of a new international business unit. The company's motivation was simply to service its domestic customers that were expanding abroad. Travelers did not wish to enter foreign markets to pursue indigenous customers. It considered most foreign markets as offering limited profit opportunity, being too small, and presenting many complications such as foreign languages, regulatory barriers, and cultural differences that made doing business difficult. Nevertheless, Travelers had to find a way to assist its clients. The most practical solution was to create a network of exclusive, reciprocal cooperation agreements with leading insurers in every major country of the world (later supplemented by licensed subsidiaries in various countries including Bermuda, Luxembourg, and Hong Kong). As the business evolved, we also went on to develop more and more sophisticated coverages, so-called "controlled master programs," and non-admitted "global packages." Subjects I understand will be explored further in other articles in this quarter's newsletter.

Over the years the entire industry has continued to develop more international capabilities through various techniques including:

- establishing foreign subsidiaries
- building global insurance networks
- opening foreign branch offices
- participating in Lloyd's syndicates
- forming "captives" and using other alternative risk techniques
- developing non-admitted global package policies
- introducing and refining controlled master programs

Looking back over the years, it is clear that with a few notable exceptions, the U.S. insurance industry has been slow and reluctant to develop robust international capabilities. Only in recent years has the industry come to truly understand the great opportunities offered by the globalization while still recognizing the pitfalls (e.g. heavy investment requirements, regulatory and cultural barriers, etc.). It is well worth the effort to study this development and to learn from it.

In closing, I'd like to pass along some advice that was given to me many years ago by the legendary then-boss of Guy Carpenter, George Nichols. His advice is ageless and applies wherever in the world you are doing business:

> Never tell a lie; business is too complex to remember what you have told to whom, and never do anything unethical or immoral, however tempting.

I have tried to live up to these principles and I hope that those that follow in this business will always strive to do the same. ■

# News from the Japan Chapter

The CPCU Society's Japan Chapter held its second annual meeting and the local new designee conferment ceremony on November 17, 2004, in Tokyo. **Hugh B. McGowan, CPCU,** 2003-2004 president of the CPCU Society, visited Japan to attend the meeting and to act as a conferring officer for the new CPCU designees. The Japan Chapter has 26 members including one candidate member with the addition of two new members in 2004. Of particular note is that in its first year of activity as the 154th chapter, it achieved the Gold level Circle of Excellence recognition.

During the meeting, **Keiji Fukasawa, CPCU, CLU,** president of the Japan Chapter, thanked the members for their active participation, and reported on the chapter's successful progress in achieving its three key first-year goals: (1) to promote awareness of the CPCU designation in Japan; (2) to help increase the number of members in Japan and develop members' leadership capabilities through local chapter activities; and (3) to contribute to the promotion of insurance professionalism and ethics awareness in the Japanese insurance industry.

McGowan presented the CPCU diploma to **Tsuyoshi Hishinuma, CPCU, ARe,** as a 2004 year designee and **Yuji Maeda, CPCU, ARM,** (2003 designee who could not attend the ceremony last year). McGowan also recognized and personally congratulated several graduates of the IIA associate programs and CPD qualifiers. During his remarks, McGowan stressed that earning a CPCU designation is not an end, but rather a beginning and a new stage in a CPCU designee's career. He stressed that all CPCUs should be committed to ongoing continuing professional development.

McGowan emphasized to the attending CPCUs and guests that CPCUs are a highly respected, professional elite group with only 2 percent of insurance professionals around the world having met the requirements for achieving the distinguished designation. He

■ *From left to right: Tsuyoshi Hishinuma, CPCU, ARe, 2004 New Designee, Hugh B. McGowan, CPCU, 2003-2004 CPCU Society President, and Yuji Maeda, CPCU, ARM, 2003 New Designee who could not attend last year's ceremony.*

discussed how CPCUs are committed to: (1) continuing education; (2) placing clients' interest above their own; and (3) behaving ethically and that the CPCU Society exists to help members achieve these ideals.

Celebrating the 60th anniversary of the CPCU Society, McGowan stressed that the CPCU Society is increasingly strong

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# News from the Japan Chapter

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and relevant, and that he is proud to be a CPCU. He emphasized the importance of each local chapter and how it plays an integral role in the larger organization. He encouraged Japanese members to continue their successful local activities. He also noted that the CPCU Society puts great emphasis on the promotion of leadership capabilities of its members and that the Society arranges leadership/management programs in addition to regular insurance topics at its Annual Meeting and Seminars. He strongly suggested active participation in these meeting and seminars.

Earlier, McGowan held a press meeting with four insurance-related papers in Japan. McGowan and Fukasawa also paid visits to the General Insurance Association of Japan, the Non-Life Insurance Institute of Japan, and three major Japanese property and casualty insurers and one foreign insurer. McGowan's focus during the press meeting and visits was to spread awareness of the CPCU professional designation in Japan and to promote the Japanese insurance industry's financial support for CPCU exams and chapter activities. Most companies and agencies in the insurance industry in Japan do not subsidize the costs of the CPCU textbooks, examinations, and attending annual meetings and seminars for CPCU students. McGowan suggested to the attendees at his meetings that Japanese insurance companies provide financial support to CPCU candidates in Japan similar to that provided by most U.S. insurance companies. McGowan stressed that the CPCU designation is a global insurance designation and that the designation recognizes the CPCU holders' commitment to insurance education and professionalism, which ultimately translates to a stronger insurance professional and more effective employee. ■

■ *Taken at the party after the CPCU Society's Japan Chapter conferment ceremony on November 17, 2004.*

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