

Workers Compensation Overseas

by Gail B. Burns, CPCU, CIC



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How does a United States workers compensation policy address a U.S. citizen working or temporarily traveling overseas? How is workers compensation applied in countries around the world? Let's first look at the United States.

Foreign Voluntary Workers Compensation

Contrary to the United States' approach to workers compensation, most countries outside the United States embrace workers compensation within the framework of their social security systems. The question, "When should a Foreign Voluntary Workers Compensation Policy (FVWC) be purchased?" seems to cause the most confusion among insureds, producers, and domestic U.S. underwriters.

A common required coverage for foreign employees is "trip coverage." If the exposure is relatively small, it is most easily handled by endorsing the domestic policy. Most U.S. states'

workers compensation laws extend coverage to employees "temporarily" outside the country. What is considered "temporarily"? Most foreign underwriters feel that if an employee is overseas more than 30 consecutive days, an FVWC policy is required. A good benchmark to use for trip coverage is, if four or more employees each travel 100 days or more per year, then an FVWC policy is suggested.

Each state in the United States has a different definition of "temporary travel." Some U.S. states extend workers compensation benefits for up to two years when a worker from their state travels to work outside the state, while other states define temporary much more narrowly, to as little as four weeks. Twenty-seven states do not provide a definition of temporary travel at all. When reading state workers compensation law, one should focus on the "extra-territorial" wording of the law. This will define the

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state's definition of temporary travel, if one exists.

FVWC varies from a domestic U.S. policy in only a couple of ways. First, many international carriers underwrite FVWC as a 24-hour coverage instead of "working hours" only coverage. This may be the explanation for the wide variance in quoted rates or the large increases from the corresponding domestic classification rate. It is a good idea to check this with an underwriter.

A separate excess "repatriation" limit can be requested either per person, aggregate, or split per person/aggregate limits. Repatriation is the act of returning an injured employee to the United States after an accident has occurred. To gauge the amount required for repatriation, estimate the most likely loss scenario and approximate the cost of returning an employee to the United States, and use that as a per-person limit.

It should be noted that most U.S. domestic workers compensation policies come with a repatriation built in to their basic coverage form. Often the repatriation limit is set at \$25,000. When we refer to excess repatriation, we are referring to an amount over and above the standard amount provided for in the domestic policy, thus excess of the domestic limit.

In some cases, when third-country nationals (TCNs) are employed away from their homeland, coverage can be extended to them to provide excess repatriation back home and/or to their country of origin. If injured outside their home country and their health program does not cover or gives limited cover, TCNs may receive medical benefits for covered injuries or illnesses under FVWC based on their indigenous plan.

For most companies it is usually worthwhile to purchase an FVWC to protect the loss experience of a U.S. domestic workers compensation policy.

When requesting a Foreign Voluntary Workers Compensation quotation, you will need to obtain the following information for a complete submission:

FVWC Trip Coverage:

- number of trips per year
- length of each trip
- number of employees per trip
- nature of trip
- countries in which travel is planned
- state of hire benefits required
- domestic classification of employee(s) on trip(s)
- amount of excess repatriation limit required, if any
- employers' liability limit

FVWC for U.S. National Employed Outside the United States:

Payroll, including cost of living, housing, etc., and the number of employees broken down by classification and country of employment.

- State of hire benefits required
- length of overseas assignment, if applicable
- employers' liability limit
- excess repatriation limit
- number of payroll amount for TCNs broken down by appropriate U.S. employment classification and country of employment
- domestic and foreign loss reports

What do other countries provide for workers compensation like plans and benefits? Let's take a quick tour around the world and examine Egypt, Hong Kong, Canada, Mexico, and the United Kingdom.

Touring the world . . .



Egypt

The principal legislation governing social insurance in Egypt is the Social Insurance Law 79/1975. It is compulsory for all employees to have workers compensation cover but, in practice, only 40 percent of the total working population (those in full-time employment) is insured against work-related accidents and only 30 percent have medical insurance cover. It is common practice not to declare temporary and casual labor for social insurance purposes. Although 100 percent of state-sector employees are covered, it is estimated that the various social security schemes in operation still cover only a little more than 50 percent of the total population. Evasion and misuse of the system are rife.

The workers compensation policy does not stipulate whether the cover is in excess of that provided by the state scheme. For that reason, insurers prefer to give the cover only for casual workers who are not insured under the social insurance system.

Employers' liability (EL) insurance is not compulsory and tends to be effected mainly by foreign and large Egyptian companies. The EL policy, which operates only when liability exists on the part of the employer, has no statutory limits established. The cover pays in excess of any award payable under the workers compensation insurance, the total award being determined by the courts.

U.S. expatriates working in Egypt are covered by social insurance if they contribute to the social security system, have a work contract valid for one year or more, and, a reciprocal social security

arrangement between Egypt and their country of citizenship is in place.

The legislation offers them the possibility of contracting out of the state system and making alternative insurance arrangements. As most expatriates are well paid compared with local workers, many opt out of the social insurance scheme.

Egyptian expatriates working abroad are covered by the scheme on an optional basis. The employer may include them on the payroll or exclude them at his or her discretion.

Both workers compensation and employers' liability policies provide automatic cover against accidents at work and occupational diseases.

It is not usual to provide higher EL cover by means of excess layers, but personal accident policies are sometimes purchased to provide higher compensation limits, usually for expatriate employees working in the construction industries.



Hong Kong

Hong Kong has a dual employees' compensation and common law employers' liability program. In other words, employees are entitled to sue their employers for common law damages in addition to any statutory compensation that may have been awarded on a "no-fault" basis. Cover is provided for occupational injury and specified occupational diseases. Employees' compensation and employers' liability are both underwritten in the private insurance sector.

Insurance is compulsory under the terms of the *Employees' Compensation Ordinance* 1953. The current minimum limits are HKD 100mn (USD 12.85mn) per event for companies employing under 200 people and HKD 200mn (USD 25.71mn) per event for companies employing 200 people and over.

Employees' compensation insurers are required to pay levies on their premium income (percent). Levies are payable by insurers but are invoiced to policyholders in addition to their risk premiums.

The Employees' Compensation Assistance Scheme (ECAS) exists to compensate the victims of uninsured employers. The Employees' Compensation Insurers' Insolvency Fund compensates employees with claims against insolvent EC insurers. The government terrorism scheme provides up to HKD 10bn (USD 1.29bn) of reinsurance cover in respect of employees' compensation claims arising from an act of terrorism.

As a result of the SARS outbreak in 2003, the Labor Department added SARS and avian flu to the schedule of occupational diseases which qualify for statutory compensation. SARS only counts as an occupational disease for hospital and medical laboratory workers who have been employed for more than one month and can prove that they contracted the disease as a result of their employment.

U.S. expatriate employees should be included within a local employer's insurance coverage. There is no minimum qualifying period for entitlement to benefit.

EC policies cover awards of statutory compensation on a no-fault basis plus additional awards against the employer based on negligence.

Closer to home:



Canada

Workers compensation is obligatory throughout Canada, with each province having its own rules and regulations much like its North American neighbor to the south. There are exemptions from the legislation that vary from province to province but in general, executives, some civil servants, and other clerical workers may opt out. If there is a perceived exposure to risk, an option out of the coverage will not be allowed.

Employers' liability cover is not obligatory but it is usually bought by companies that opt out of the state scheme as an alternative to the workers compensation insurance. It is not necessary for negligence to be proved on the part of the employer for the cover to operate.

In addition, companies may have contingent employers liability cover that sits alongside the workers compensation cover and operates in the event that the obligatory insurance fails to operate because premiums are outstanding or because there has been an error in enrollment, and so on. Negligence is necessary on the part of the employer for the policy cover to operate. Contingent EL cover is included automatically in the general liability cover afforded by the Insurance Bureau of Canada (IBC) form. General liability and employers liability are always sold together.

U.S. or other foreign expatriates working legally in Canada are treated exactly the same as Canadians as far as workers compensation cover is concerned.

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Legislation provides for six months' cover when workers are employed temporarily out of the province.

The workers compensation policy covers both accident and occupational disease; both the employers' liability and employers' contingent liability would be deemed to cover occupational disease also unless it was expressly excluded.

Very few requests are received for high limits as the exposure is seen as negligible. When these occur, they are handled by means of an umbrella liability policy, which will pick up any excess above the primary policy limit. There is no use of personal accident cover to top up workers compensation and employers' liability insurances.

... and south of the lower 48 ...



Mexico

There is no workers compensation legislation as such. The state social security system provides a wide range of benefits for sickness, disability, or death resulting from a work-related accident or disease. Separate insurance cover is purchased in only very few cases.

U.S. expatriates, if legally employed, are subject to the same social security regulations as Mexican citizens. Furthermore, the pension or benefit may be paid to the expatriate in his or her country of origin.

Benefits may be summarized as follows:

- **Short-term disability:** 100 percent of weekly contributory earnings are paid until return to work or until

permanent disability is declared, up to 25 pay periods at the minimum wage for that class of work. With regard to sickness, the employee is entitled to receive medical attention for up to 52 weeks, and up to 78 weeks if recovery is expected within that time.

- **Total permanent disability benefit:** 70 percent of earnings. If the permanent disability is up to 25 percent, the employee receives a sum equivalent to 5 annual pension benefits (5 annual pension benefits is the annual pension the individual would be entitled to for the class of work, times 5 for a PTD benefit). If the disability is between 26 percent and 99 percent, the worker receives the pension in proportion to the degree of disability.
- **Death:** Spouses receive a pension of 50 percent of the employee's disability benefit and orphans 20 percent (30 percent for children who have lost both parents) with an overall maximum of 100 percent of the disability benefit. The funeral expense benefit when one is killed on the job or dies as a result of an on-the-job accident is one paycheck.

The management and payment of permanent disability benefits are performed by private insurance companies while temporary disability benefits continue to be paid directly by the state.

When employers' liability cover is taken out for a Mexican account, limits are low and are normally the same as those for general third-party cover.

Our final view is from "across the pond" ...



The United Kingdom

Compensation for industrial injury and disease is provided by two independent systems:

- the Industrial Injuries Scheme (IIS), a state-operated no fault system created in 1948 and now governed by the *Social Security Contributions and Benefits Act 1992*
- the employers' liability system, a compensation system based on common law liability or breach of statutory duty

Under the IIS, Industrial Injury Disablement Benefit (IIDB) is payable in respect of occupational accident or any of more than 60 prescribed diseases that result in at least 14 percent disability. The amount of benefit is based on loss of faculty and is **not** earnings related. It may be supplemented by a constant attendance allowance and an exceptionally severe disablement allowance.

The *Employers' Liability (Compulsory Insurance) Act 1969* made it compulsory for private sector companies to insure their legal liability to employees for occupational accident or disease for a minimum indemnity of GBP 2mn each and every claim, which increased to GBP 5mn (USD 9.65mn) effective January 1, 1999.

The Compensation Recovery Unit (CRU) of the Department of Social Security is entitled to recover welfare benefits paid to injured workers from the relevant EL insurer. Traditionally the CRU did not pursue small claims but as a result of the *Social Security (Recovery*

of Benefits) Act 1997 it now makes recoveries for all claims no matter how small. State Health Service (NHS) charges too are being recovered, and the government has now introduced legislation to increase hospital accident charges for outpatients and in-patients, subject to a cap of GBP 37,100 (USD 71,603) in all (figures in January 2007) but this figure will be increased from April 1, 2007 (the *Health and Social Care (Community Health and Standards Act 2003* refers). The amount collected from these charges is increasing and totals around GBP 300mn (USD 579mn) annually.

EL insurers are obliged to compensate injured employees regardless of any non-disclosure or breach of warranty on the part of the employer, although any payments thus made may be recovered from the employer.

Claims arising in connection with employment-related motor accidents are payable under the EL policy but only with respect of the driver. Passengers are covered by the relevant motor third-party liability policy rather than the EL cover. This is more by market agreement than any statutory regulation.

To comply with legislation, EL policies must be written on a loss occurring basis. Claims for gradually developing conditions such as industrial deafness are shared between the insurers involved pro rata to their respective periods on the risk.

U.S. expatriate workers have the same legal rights against their employers as local employees and are therefore included under EL policies.

Cover for a U.K. employee working abroad can be given for up to nine months under a U.K. EL policy but the period varies from insurer to insurer. There are no regulatory considerations on this aspect of EL cover.

Liability risks of a certain size are normally insured under a combined liability policy covering employers' liability, public liability, and product liability.

The EL primary cover limitation outlined above has stimulated the creation of an excess EL market offering limits of excess of the GBP 10mn (USD 19.3mn) primary layer.

The attack on the World Trade Center (WTC) has focused insurers' minds on terrorism and as far as EL is concerned there is a potential exposure from a number of areas. One, for example, could be the failure of an employer to evacuate a building subsequently destroyed. Insurers have therefore limited their terrorism exposure under EL to GBP 5mn (USD 9.65mn) per event but some offer a further GBP 5mn of terrorism cover in an excess layer.¹

The world of international insurance is a fascinating subject. The United States in many respects is more sophisticated with its product offerings and legislation, but as you can see from these few examples, countries around the world are quickly establishing their own dynamic markets. When one is contemplating the placement of an international insurance program that may include a "local" work force in a foreign location, it is imperative that you do your homework and understand what the local exposures may be. ■

Endnote

1. Source Axco Insurance Information Services, Ltd.; Forum House 15-18 Lime Street; London, EC3M 7AP; www.axcoinfo.com.

A New View of the World

by Frank Fullmer, CPCU



■ **Frank Fullmer, CPCU**, graduated from the University of Utah in 1991. He started his insurance career in 1991 with State Farm Insurance. He worked in auto claims for six years handling personal injury protection, property damage, and bodily injury claims. He currently holds the position of senior claim automation and procedures specialist supporting the auto and fire claims departments in the Salt Lake Operations Center. Fullmer is currently the president of the CPCU Society's Utah Chapter. He is also webmaster for the CPCU Society's International Insurance Interest Group.

While working toward his CPCU designation, Fullmer was also successful in earning his A+ certification.

His interests include travel, road biking, mountain biking, hiking, swimming, and camping in the mountains of northern Utah and the red rock deserts in southern Utah.

Wouldn't it be nice to work in a vacuum where we could operate, make decisions, and earn a profit based on fact and no variables, with full control of our environment? The fact is, we do work in a global community, and our global environment is growing every day. This has been illustrated to me by becoming a member of the CPCU Society's International Insurance Interest Group.

I come from a conservative world. I live in the heart of the American west in Salt Lake City, Utah. It is known for its geographic beauty as well as being a low-key place to live. I also work for a conservative insurance company that has become somewhat of an American icon, State Farm Insurance. In my professional career, my view of the insurance world was somewhat limited, handling personal lines claims and being an automation and procedure specialist in the state of Utah. Then, one day, I was approached by my former supervisor and friend **Lynn M. Davenport, CPCU**. She suggested I volunteer to be the webmaster for the CPCU Society's International Insurance Interest Group. Such an opportunity was too much to pass up.

My activity and experience on the International Insurance Interest Group Committee has given me great exposure to many things. I have had the opportunity to visit the CPCU Society campus in Malvern, PA, and learn how to use the web software. I have met key people who make the CPCU Society a great insurance organization. I have also had the opportunity to interact side by side with great insurance professionals working across the globe. This alone is invaluable experience to be found nowhere else.

My volunteer experiences have taken me near and far. I have participated in group discussions as close to home as Phoenix, Arizona; and as far away as Paris, France. I am addicted to the adventure of travel, and hope to visit **Gail B. Burns, CPCU, CIC**, (immediate past chairman of

International Insurance Interest Group) in Egypt, and fellow-CPCU Society members in Japan. I am quickly gaining perspective on the global insurance industry.

Currently, I am reading Lee Iacocca's book, *Where Have All The Leaders Gone?* In his book, Iacocca illustrates globalization clearly with a conversation he had with former astronaut Buzz Aldrin. Iacocca asks Aldrin about the true definition of globalization. Aldrin refers to the loss of Princess Diana. He goes on to explain, "An English princess with an Egyptian boyfriend crashes in a French tunnel, driving a German car with a Dutch engine, driven by a Belgian who was drunk on Scotch whiskey, followed closely by Italian paparazzi, on Japanese motorcycles, treated by an American doctor, using Brazilian medicines . . ." Well, you get the idea.

Suddenly my view of the insurance industry has taken on a whole new perspective. We are all part of an evolving global industry. It is easy to get caught up in the day-to-day tasks that make up your job. Getting lost in the momentum can sweep you away. Remember to come up for air. Sometimes all you need is a tap on the shoulder to look up and focus on the world around you. Becoming a member of the International Insurance Interest Group allows you to learn more about your career and create synergy with your fellow insurance professionals. ■

Doing Business in China

by Mickey Brown, CPCU, ARM

■ **Mickey Brown, CPCU, ARM**, is a senior vice president at Marsh USA Inc. in Atlanta, GA. He is a graduate of Loyola College (Baltimore) with more than 20 years experience in international finance, mergers and acquisitions, risk management, and commercial insurance brokerage. He is a new member of the CPCU Society's International Insurance Interest Group Committee, and can be contacted at mickey.brown@marsh.com.

In May 2007, Marsh/Mercer hosted a seminar on "Doing Business in China" attended by insurance and finance executives in Atlanta, Georgia.

China recently completed its fifth year as a member of the World Trade Organization. With its thriving economy, manufacturing foundation, supply of natural resources, and growing consumerism trends, China is a top priority for many businesses. According to a recent survey from Mercer Consulting, more than 90 percent of multinational companies state that China is important to their global strategies, with 52 percent calling it critical. See Figure 1 regarding foreign direct investment in China.

Of course, along with the opportunities come the risks. In exploring critical risk issues in China, our seminar focused on the topics of:

- deploying human capital
- compliance with China's laws, including the local insurance marketplace

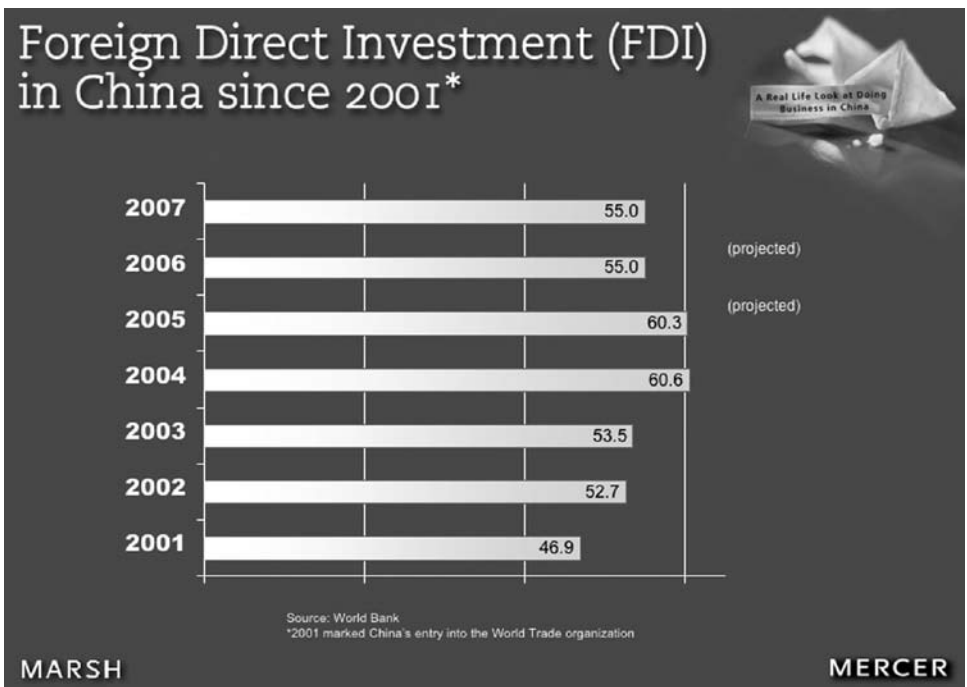
- business continuity, supply-chain, and business interruption
- protection of intellectual property

A successful investment in China requires extensive research and good team continuity, as any flaws within your operations will likely be amplified in China. It is recommended to hire seasoned local China managers or joint venture partners to navigate the political, logistical, and human resource risk issues. See Figure 2 regarding the EU Chamber of Commerce top obstacles when doing business in China.

A newer growth strategy is to use China's low cost manufacturing base for both export markets and China's domestic marketplace, as stimulated by increased consumer spending trends. As a result, development of infrastructure projects has drawn large amounts of foreign investment. However, logistics bottlenecks are common, and fragmented local markets remain a major obstacle.

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Figure 1



Doing Business in China

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Figure 2



Despite a recently completed national superhighway system (see Figure 3), transportation of goods to China's interior remains most challenging. In China, logistics costs represent 10 percent of a product's retail value, in comparison to the United States where such costs average 3 percent. Moving forward, foreign logistics companies are increasing their own investments, and major upgrades are under development to integrate domestic rail, air, and port facilities that are already at capacity.

In an act to add some balance to their trade surplus, the Chinese government is urging its companies to become international competitors in order to achieve truly global quality standards in manufacturing. Of course, outward investment provides further opportunity for China to acquire engineering and management skills to expand upon revenue growth. We therefore expect to see the Chinese companies invest significant amounts of capital to acquire natural resources, expand distribution channels, and develop global brands.

Risk transfer via insurance can be a valuable tool in hedging risks, but the insurance marketplace in China is still in its developmental stage and may not offer the best risk mitigation strategy. For a complete copy of all presentation materials, please contact mickey.brown@marsh.com.

Figure 3



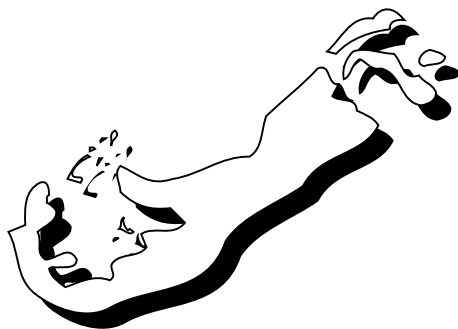
International Insurance Interest Group to Hold Mid-Year Meeting for Second Time Outside the United States

Get your calendars out—for the second time, the International Insurance Interest Group Committee has decided to hold its 2008 mid-year meeting, not in Orlando like the rest of the interest groups, but in Hamilton, Bermuda, to show its international focus.

Much like in 2006, when the International Insurance Interest Group held its mid-year meeting in Paris, in conjunction with the Europe Chapter's mid-year meeting, this time around the organization will be done in conjunction with the Bermuda Chapter—the CPCU Society's first non-U.S. chapter. The tentative dates are May 2–4, 2008.

Why Bermuda? Not only is the chapter flourishing after many years less active than the average chapter, but Bermuda is physically closer to the United States. And most interest group members have more business reasons to be there than many other international locations, because Bermuda is becoming the international hub for the insurance business.

Why attend? Not only will this meeting offer exclusive networking opportunities and educational events, but some of the executives of the top insurance companies and the management from the CPCU Society and the AICPCU will be in attendance.



Although it is a bit early for specific program information, the general structure tends to look as follows:

Friday, May 2, 2008

Afternoon

- market event with a local, keynote speaker

Evening

- dinner (TBA)

Saturday, May 3, 2008

Morning

- opening speech by the general management of the company hosting the meeting
- introductory speech by the chapter vice president
- split business meetings (Bermuda Chapter and International Insurance Interest Group Committee)

Afternoon

- lunch
- educational event
- joint break-out groups
- break-out group presentations
- conclusion—speech by International Insurance Interest Group

Evening

- dinner (TBA)

Sunday, May 4, 2008

- Individually arranged sight-seeing tours

We will try to arrange affordable hotel accommodations, and just for your information, a generalist web site posts a round-trip ticket from New York City to Hamilton at \$347 (less in Euros). So, this is doable—and significant others are welcome! They just may want to sight-see or sit by the pool while we talk about the CPCU Society and insurance.

For those with task force or other committee duties, you will still be expected to attend the CPCU Society's Leadership Summit meeting in Orlando.

We will keep you abreast of the developments, and look forward to welcoming you abroad to a neighboring country in beautiful weather, next year. Don't forget to renew your passport! ■

Emerging Risk Management Perspectives in Marine Cargo

by Lucette Gardeur



■ **Lucette Gardeur** is a marine underwriter for Chubb in France. She holds bachelor's and master's degrees in management from La Sorbonne. After 10 years as a consultant for a mergers and acquisitions boutique, Gardeur acquired her marine expertise as an account executive for Gras Savoye, the largest retail broker in France.

The recent launch of the iPhone created a lot of buzz including one news report that the initial shipment left Hong Kong for the United States under heavy security with armed personnel contracted to safeguard the goods from origin to final destination. The consumers eagerly awaiting the introduction of the next-best gadget were not disappointed. (Incidentally, even timelier is the news of the added security measures surrounding the imminent release of the last in the series of Harry Potter books, complete with satellite tracking, geo-fencing, and some sort of "sealed" pallets with an integral alarm capability if any tampering takes place.)

However, every day billions of dollars worth of cargo transits the world's trade routes with little or no security and, unfortunately, an unknown portion of these goods never make it to the intended marketplace because they are stolen. While no one has an exact figure on the amount of cargo theft, just law enforcement and industry group estimates, there is no doubt that it is a staggering drain on the world economy.

Cargo theft is a pervasive problem and is as widespread as today's global supply chain. Importers and exporters need to be aware of trends, known "hot spots" as well as emerging areas of concern. Manufacturers, looking to take advantage of inexpensive labor, tax advantages, or other incentives, continue to set up "offshore" production facilities or outsource this function to companies located in lesser developed areas; ones that may pose logistical issues or crime problems.

While there appears to be cargo theft in all major trading countries and in every continent, we will focus on the target-rich environments of: Mexico, Guatemala, Brazil, United Kingdom, Russia, India, Malaysia, and South Africa.

- Although there are no published Mexican cargo crime statistics, Procuraduria General de Justicia (PGJ) reports that 44.55 percent of cargo theft occurs in the Federal District/Mexico City with another 20.42 percent of the incidents taking place in the State of Mexico (areas around but not including Mexico City such as Queretaro and Guanajuato as well as the east-west highway connecting the Port of Veracruz with Mexico City, the major thoroughfare for European imported goods. The other notable target-rich environment is in Jalisco, with Guadalajara and its "Silicon Valley" as well as its major tequila distillers accounting for 5.81 percent.

- Guatemala is yet another location where data is not available; however, anecdotal information points to pervasive theft often accompanied by violence. Inland transit to/from the major regional ports can be quite harrowing with organized and well-armed gangs preying on inadequately secured ocean containers.
- Cargo theft is the number-one property crime in Brazil. The states of Rio de Janeiro and Sao Paulo, the country's hubs for finance, manufacturing, and import/export activities, which include the two major cities as well as the nation's largest seaport, Santos, are facing the highest frequency with truck hijacking the primary culprit. Both states account for over 80 percent of all losses; according to the most recent (2005) statistics, there were roughly 5,500 cases involving cargo theft and robbery in these areas alone with the total estimated value of goods lost in the neighborhood of U.S. \$250 million.
- In the United Kingdom, large part to the work of TruckPol, the private/public sector partnership organized by the Metropolitan Police, there is a viable database of cargo theft. In 2006 there were more than 3,400 events representing a 10 percent increase over the prior year with an estimated total loss, both vehicles and cargo, in excess of GBP 154,000,000. Foreign drivers are often targeted with the thieves using deception ("around the corner"), force (armed hijacking) or guile ("slash and grab" cutting the curtain sided trailers and making away with part of the load).
- Russia remains problematic. Last year there were 18,700 armed cargo crimes reported with about 10 percent in Moscow and its environs followed by St. Petersburg and the Sverdlovsk Region.
- A country relatively new on the cargo theft radar screen is India although



as more and more companies turn to it for “offshore” manufacturing, it should not come as a major surprise. In the last few months alone, at least 65 trucks, trailers, and ocean containers have been hijacked on motorways, especially near the border with Bangladesh, and another 500 incidents reported in 2006.

- A high-tech production center and transportation hub, Malaysia has been the site of truck hijacks and three significant cargo thefts at air cargo facilities within the last year. The State of Selangor experienced the largest number of incidents based on the last full year statistics available.
- Johannesburg Airport has long been one of the trouble spots for cargo theft. Recently, there have been reports of large scale road robbery with armed men attacking (and in one case killing a security escort) trucks.

Based on every statistic that we have seen, the most targeted commodities are:

- food and beverages
- apparel (clothing and shoes)
- consumer electronics
- computers and related equipment
- wine, spirits, and beer
- pharmaceuticals (both prescription and over the counter)

- cosmetics (perfumes and fragrances)
- mobile phones
- tires
- appliances

This list has been fairly constant for a number of years although there may be some change from country to country. What make these countries theft-attractive are their inherent value and the ease with which they can be converted into cash on the black market.

While the aforementioned makes securing cargo in transit seem daunting, your top priority should be to keep your cargo moving. Cargo at rest is cargo at risk! Two other cargo security requisites are careful selection and vetting of your logistics/transportation partners and thorough screening of your employees.

The tactical techniques (such as security escorts, truck convoys, and counter-surveillance at manufacturing locations, warehouses, and distribution centers) chosen for a particular shipment should consider the value and nature of the goods, the mode(s) of transportation, the transport routes, and known modus operandi of the criminal elements you are likely to be up against.

Unfortunately, there is no silver bullet, a single solution that will guarantee a safe journey and loss-free delivery of cargo. On the other hand, there are some things to avoid:

- Leaving loads unattended. In many instances shipments must travel a distance that will require a single driver to stop en route for requisite rest breaks, or shipments are arranged so that truck drivers have care, custody, and control of the cargo over part of a weekend. In either case, the goods invariably stop at inadequately secured facilities for varying lengths of time.
- Loading a vehicle Friday night or Saturday and leaving it in a “secure” yard over the weekend to facilitate a quick start on a Monday morning. Often the load will be targeted and stolen long before Monday dawns.

The European Commission has taken an encouraging step with its pilot project to develop secure parking sites for trucks using the trans-European network. A total of five pilot parking sites will be built or equipped in France, Germany, Belgium, and the United Kingdom to serve as a model and encourage investors to develop such facilities.

The first secure truck parking site, at exit 20 on the A2 motorway near Valenciennes between Brussels and Paris, is scheduled to open in January 2008. Hopefully, additional facilities will be forthcoming there and other parts of the world will follow the Commission’s lead.

- Allowing information about a shipment to go beyond those with a need to know. Most law enforcement authorities and industry professionals realize that “information flight” (the transmission of data about a shipment contents, value, destination, routing, or other details from an insider to someone outside their organization) is a major threat to the safety of goods in transit.

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- Using descriptive (serving to identify the nature of the cargo to even a casual observer) marks on documentation, packaging and/or security seals.

Unfortunately, cargo theft is not going away and in some geographies the problem is endemic. Moreover, the risk-reward equation is out of balance in favor of the criminal element.

Here are some recommended steps that we believe are best practices:

- **Thoroughly screen prospective employees.** Some informed sources claim that as many as 90 percent of cargo thefts involve inside information or complicity, exactly why we propose adding a financial/credit check to the pre-hiring platform. This certainly becomes challenging for some parts of the world, for example, Europe, with its chronic shortage of trained truck drivers and the hours of service restrictions limiting the time existing driver can have behind the wheel.
- **Carefully select transportation partners and intermediaries.** This may be the most critical decision a shipper may make vis-à-vis cargo security. Remember that these companies have care, custody, and control of your goods from the time they leave you until they reach their destination. You should expect the same level of security awareness as you do your own employees.
- **Establish a security culture within your company.** This means training employees and trying to achieve a multiplier effect when they become ad-hoc members of your corporate security staff. Truck drivers should receive hijack awareness and prevention training.
- **Factor in security when determining shipment routing.** It has become common knowledge that cargo thieves are “casing” known shipment points (plants, warehouses, and distribution centers) and following trucks as they depart, waiting for the drivers to stop so that they can pounce on the loads. Drivers should not be allowed to stop in the “red zone” (the first 200 miles/four hours from their starting point) as well as known hot spots.
- **Incorporate counter surveillance into the duties of your security guards.** As previously mentioned, thieves are parking outside cargo facilities to tail trailers once they leave but also so they can understand the way you do business. Warehouse robberies are also taking place. Have your guards patrol away from your perimeter and look for people looking at you.
- **Take advantage of technology.** Vehicle and shipment tracking, vehicle immobilization, advanced, high-security seals are now available at less cost. However, be sure to add a human touch. Tracking devices are becoming far more sophisticated (some can now be placed inside a shipment that is loaded within a truck) but they quickly lose their effectiveness when no one is monitoring them and/or there is no effective response mechanism should a remote alarm be raised.
- **Conduct periodic security audits.** Things never stay the same; your operations and personnel change and the criminal mind is always harvesting fresh ideas or modifying previous techniques.

There are many ways increased vigilance can prevent goods leaving your supply chain and entering the black market.

For Apple and for J.K. Rowling, the financial loss associated with stolen iPhones or the latest Harry Potter book becoming available on the black market far outstrips the mere retail price of the lost goods.

As the value-added brands become an increasing part of global trade and thieves become ever more inventive, it is not just Apple who will bring dazzling new products to market; risk mitigation and control, of which cargo insurance is just part, must also get much smarter to stay ahead. ■



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to mention
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ITINERARY

MARCH 25, 2008

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DAY	ARRIVE	DEPART
1	Fly U.S./Budapest, Hungary	
Cruise schedule		
2	Embark pm	Meals: D
3	Budapest	9pm
4	Bratislava, Slovakia	noon 11:30pm
5	Vienna, Austria	7:30am
6	Vienna, Austria	overnight
7	Cruise the Wachau Valley Melk, Austria	1:30pm 6pm
8	Linz	overnight

Land tour: Prague

- 9-11 Linz/Prague, Czech Republic
Disembark am
Transfer to Prague (Day 9)
Hotel: Hotel Don Giovanni ★★★
or similar
Meals: Daily B, 1L, 1D
- 12 Fly Prague/U.S.
Meals: B

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Itinerary subject to change.

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MARCH 25, 2008

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	Sonata Deck	\$2495
	Serenade Deck	\$2595
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	Sonata Deck	\$2595
	Serenade Deck	\$2695
Atlanta, Chicago, Detroit	Cantata Deck	\$2645
	Sonata Deck	\$2745
	Serenade Deck	\$2845
Denver	Cantata Deck	\$2795
	Sonata Deck	\$2895
	Serenade Deck	\$2995

►EDR2008

Serenade Deck cabins have sliding doors and balcony. **Cantata Deck** and **Sonata Deck** cabins have large windows (windows do not open).

Deposit: \$500 per person.

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Every effort has been made to produce this information accurately. We reserve the right to correct errors.

Please note: After you reserve your trip, toll-free customer service is available Monday-Friday 8 am to 5 pm and Saturday 9 am to 3 pm (Eastern time) at 1-800-597-2452 Option #1.

- Throughout the River Cruise season, weather conditions affect European river depths, and water levels may require adjustments to your itinerary.
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- **Exclusive services** of an experienced Grand Circle Program Director
- All transfers
- **Plus, consider these optional tours**—Hungarian Jewish Heritage (\$70 per person), *Hungary: Then & Now* (\$70 per person)

Price per person: \$525. ►EDP2008

PRAGUE, Czech Republic 3 nights from only \$445

Your optional extension includes:

- **Accommodations**—for 3 nights at the First-Class Hotel Don Giovanni or similar
- **3 meals**—daily breakfast
- **Sightseeing**—Antonin Dvorak's country home; Mala Strana with Charles Bridge
- **Exclusive services** of an experienced Grand Circle Program Director
- All transfers
- **Plus, consider this optional tour**—Terezin (\$60 per person)

Price per person: \$445.

Trip extensions subject to availability.

KNOW BEFORE YOU GO

- This program features a fair amount of walking over cobbled streets and older wooden piers. For full enjoyment of this trip, you should be in relatively good health. If you have difficulty walking or are wheelchair-bound, please consult our Travel Counselors for guidance.

Reservations & Information: Call 1-800-597-2452 Option #2

Please be ready to give the reservations agent the following information

Service code: GG83319

Trip name/code: Old World Prague & the Blue Danube/EDR

Departure date: March 25, 2008

Harleysville Insurance Shares Industry Expertise with Visiting Russian Graduate Students

Editor's note: The following press release was produced by Randy Buckwalter, corporate communications director, who can be contacted at rbuckwalter@harleysvillegroup.com.

The world of insurance became a little smaller at Harleysville Insurance (in Harleysville, PA) recently when two graduate students from the University of St. Petersburg in Russia visited the company to get a first-hand look at how a U.S. regional insurer operates.

During their stopover in Montgomery County, Pennsylvania, Karina Borodulina and Irina Vereshchak visited with the management and staff of Harleysville Life Insurance Company in Lansdale, PA, and the Harleysville Insurance branch office in Harleysville. The meetings were part of a four-week learning experience initiated by Harleysville agent **Cinda Hartman, CPCU, CLU**, president of Hartman & Lally Insurers Inc. & Professional Resource Services in Berwick, PA.



During their visit to Harleysville Life Insurance Company, Russian graduate students Irina Vereshchak (left) and Karina Borodulina (second from left) discussed the life insurance underwriting process with Harleysville Life underwriters. The students came to the United States through an exchange effort coordinated by Cinda Hartman, CPCU, CLU, (right), president of Hartman & Lally Insurers Inc. & Professional Resource Services, a Harleysville Insurance agent in Berwick, PA.

For the past 14 years, Hartman has maintained a dialogue with the Economic Institute of the University of St. Petersburg, and continues to serve as a guest lecturer there. During that time, she has seen what she calls a “miraculous transformation” of the Russian insurance industry. “There is a new generation in Russia and the world is smaller for them,” Hartman observes. “They simply want to learn how to function, prosper, and accomplish things their parents were denied. The relationship I’ve developed with the Russian insurance community has been one of the most exciting experiences of my career.”

During their four weeks in the United States, Hartman says the two students were impressed by the extent of automation being used in the insurance industry, and amazed by the degree of litigation taking place. “Russian judges have a much different view toward liability than we do and the concept of workers compensation insurance has not yet taken hold there,” she explains.

Bill Shelow, president of Harleysville Life, was impressed by his guests. “They were well-educated, very knowledgeable about the business, and most appreciative of the time we spent with them,” he notes. “They were particularly interested in the impact our regulatory system has on the development and marketing of our products.”

Although the concept of life insurance remains undeveloped in Russia, Bill says the students believe that will change in the coming years. “They expect life insurance to evolve more when Russia becomes totally

deregulated in 2015,” he says. “At that time, any insurance company will be allowed into their country to market insurance.”

Steve Duncan, resident vice president of the Harleysville branch office, agrees. “Once the trade barriers are broken down and U.S.-based companies are allowed to fully compete in Russia, the way in which insurance is marketed there will change,” he predicts. “The students were very interested in how we underwrite risk and settle claims, the relationships we have with our clients, and agency management.”

As part of their graduate studies, Borodulina and Vereshchak have each authored numerous research papers on insurance topics, and they both hold management-level jobs in St. Petersburg-area insurance firms.

When asked what has impressed her most about the students and business people from the Russian insurance community she has hosted over the years, Hartman responds with a single word: education. “One thing that has not changed in Russia is the premium placed on education,” she observes. “Education and teachers always have been held in very high esteem there.”

Harleysville Insurance is a leading regional provider of insurance products and services for small- and mid-sized businesses, as well as for individuals, and ranks among the top 60 U.S. property/casualty insurance groups based on net written premiums. Harleysville Mutual Insurance Company owns 54 percent of Harleysville Group Inc. (NASDAQ: HGIC), a publicly traded holding company for nine regional property/casualty insurance companies collectively rated A- (Excellent) by A.M. Best Company. Harleysville Group is a member of the NASDAQ Global Select

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Harleysville Insurance Shares Industry Expertise with Visiting Russian Graduate Students

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Market, which represents the top third of all NASDAQ-listed companies and has the highest initial listing standards of any exchange in the world based on financial and liquidity requirements. Harleysville Insurance—which distributes its products exclusively through independent insurance agencies and reflects that commitment to its agency force by being a Trusted Choice® company partner—currently operates in 32 eastern and midwestern states. Further information can be found on the company's web site at www.harleysvillegroup.com. ■



Steve Duncan, resident vice president of Harleysville Insurance's local branch office, explained to Russian graduate students Irina Vereshchak (left) and Karina Borodulina how a regional insurance company operates in America. The students came to the United States through an exchange effort coordinated by Cinda Hartman, CPCU, CLU, president of Hartman & Lally Insurers Inc. & Professional Resource Services, a Harleysville Insurance agent in Berwick, PA.

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