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International Perspectives

The Latin American Insurance Market — What You Need to Know

by Donald M. George, CPCU, MBA, ARM, AU, and David S. Macari, CPCU, ARe, CRM

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The Latin American casualty insurance market is dominated by six large countries: Brazil, Argentina, Chile, Mexico, Colombia and Venezuela. Together they account for 90 percent of the Latin America liability insurance market, with Brazil and Mexico alone accounting for 45 percent of the market. (See Exhibit 1 on page 2.)

Similar concentrations apply when taking into account both property and casualty insurance lines of business. If including property to liability, Brazil alone will account for approximately 50 percent of the total volume of Latin American countries.

A similar trend applies to country concentrations of overall business productivity (GDP). (See Exhibit 2 on page 3.)

In the majority of countries, non-life insurance premiums represent more than half of the total insurance market premiums. (See Exhibit 3 on page 4.)

Although the Latin American market premiums for property-casualty insurance are only 2 percent of global insurance markets, many of the markets have experienced double-digit growth in recent years, and this momentum is expected to continue. There is currently a low level of insurance penetration across the region and significant opportunities for insurers.

To aid the growth and development of their home markets, many Latin American countries have relaxed regulations to create an inviting environment for foreign insurers. In countries such as Chile, 78 percent of the market is now written by foreign-owned insurers. Foreign insurers provide much needed extra capacity and additional expertise.

Policy/Coverage

Some important differing features of liability policies in the Latin American market as compared to the U.S. market are as follows:

- For the most, coverage is written on a "Named Peril" basis rather than the "All Risk" approach that the U.S. uses in its general liability policies.
- Many other policy extensions from the Named Peril base coverage — for example, Sudden & Accidental Pollution, Excess Motor TPL, Employers Liability, Contractors/ Subcontractors, Moral Damages, Damages (caused by the cargo, etc.) — are typically covered with a sublimit much lower than the full limit of the policy.
- Products Liability also in many cases carries a different sum insured limit

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The Latin American Insurance Market — What You Need to Know

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Exhibit 1
Latin America Liability Insurance Market Data
(Selected Latin American Countries)

Country	Geographic Region	Written Premiums (US $ Millions)					Loss Ratio %				
		2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Argentina	South America	114.15	119.17	135.95	149.58	122.15	30.02	70.06	46.27	37.97	TBD
Bolivia	South America	7.28	8.82	7.36	7.73	7.87	7.84	23.61	7.38	12.37	17.12
Brazil	South America	137.65	157.15	200.55	247.1	229.12	40.87	49.35	48.71	49.31	34.66
Chile	South America	55.99	61.74	65.87	96.17	88.84	48.78	41.74	92.82	31.02	43.56
Colombia	South America	104.17	116.98	147.66	166.62	175.37	25.48	23.12	26.4	41.4	39.65
Costa Rica	Central America	7.1	7.7	8.95	N/A	N/A	15.95	13.67	13.83	N/A	N/A
Ecuador	South America	31.18	36.39	30.8	41.76	33.82	12.43	11.35	13.26	9.53	14.31
El Salvador	Central America	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Guatemala	Central America	6.37	6.23	6.93	8.4	9.74	23.25	30.17	40.41	37.17	25.91
Mexico	Mexico	282.62	252.00	270.40	264.08	249.65	36.15	23.93	35.68	26.64	30.47
Panama	Central America	13.62	17.24	21.33	31.45	N/A	26.34	26.16	11.65	13.98	N/A
Paraguay	South America	N/A	3.04	3.64	4.38	4.77	N/A	N/A	N/A	30.3	27.54
Peru	South America	20.98	23.02	31.55	36.51	43.37	41.94	40.11	15.94	29.36	10.32
Uruguay	South America	8.45	9.07	8.01	10.87	11.43	8.2	13.54	15.47	3.8	15.05
Venezuela	South America	50.05	59.32	90.42	94.72	88.68	16.15	12.65	6.78	9.77	9.39
TOTAL		**839.61**	**877.87**	**1,029.42**	**1,159.37**	**1,064.81**					

Largest Liability Concentrations	2005	2006	2007	2008	2009
Argentina, Brazil, Chile, Colombia, Mexico, Venezuela	744.63	766.36	910.85	1,018.27	953.81
% of TOTAL	88.7%	87.3%	88.5%	87.8%	89.6%
Brazil Only	137.65	157.15	200.55	247.10	229.12
% of TOTAL	16.4%	17.9%	19.5%	21.3%	21.5%
Mexico Only	282.62	252.00	270.40	264.08	249.65
% of TOTAL	33.7%	28.7%	26.3%	22.8%	23.4%

Source: AXCO Global Statistics — Historical Market Statistics

Exhibit 2
Global Economic Data
(Selected Latin American Countries)

Country	Geographic Region	GDP 2009 bn US$	Population mn, 2009	GDP/ Capita 2009 US$	GNI/ Capita 2009 PPP	GDP Growth (%, real)			Inflation*			Rating**	
						2009	2010e	2011e	2009	2010e	2011e	S&P	Moody's
Argentina	South America	307	40.3	7,611	14,120	0.9	8.4	5.6	6.2	10.7	12.2	B	B3
Bolivia	South America	17	9.9	1,758	4,260	3.4	4.0	5.1	3.3	2.2	4.4	B	B2
Brazil	South America	1,582	193.7	8,167	10,260	-0.2	7.5	4.9	4.9	4.9	4.6	BBB-	Baa3
Chile	South America	164	16.9	9,710	13,430	-1.4	5.3	5.8	0.4	1.5	3.2	A+	Aa3
Colombia	South America	235	45.7	5,141	8,500	0.8	4.9	4.6	4.2	2.3	3.6	BB+	Ba1
Costa Rica	Central America	29	4.6	6,391	10,940	-1.1	4.1	3.5	7.8	5.5	6.1	BB	Baa3
Ecuador	South America	52	13.6	3,818	8,040	0.4	1.9	2.2	5.2	3.6	4.7	B-	Caa3
El Salvador	Central America	21	6.2	3,424	6,360	-3.5	1.1	2.3	0.5	1.3	2.9	BB	Ba1
Guatemala	Central America	38	14	2,689	4,590	0.5	2.4	2.7	1.9	4.0	4.6	BB	Ba1
Mexico	Mexico	877	109.6	8,002	14,110	-6.5	5.1	2.9	5.3	4.1	3.4	BBB	Baa1
Panama	Central America	24	3.5	6,914	12,530	3.0	6.1	6.5	2.4	3.5	3.7	BBB-	Baa3
Paraguay	South America	14	6.3	2,239	4,430	-3.8	8.8	4.9	2.6	4.2	3.9	B+	B3
Peru	South America	127	29.2	4,356	8,140	0.9	7.9	6.4	2.9	1.5	1.9	BBB-	Baa3
Uruguay	South America	32	3.4	9,439	12,910	2.7	7.7	5.3	7.1	6.7	6.5	BB	Ba3
Venezuela	South America	326	28.8	11,333	12,370	-3.1	-2.8	2.8	28.6	29.2	26.4	BB-	B2
TOTAL		**3,845**	**525.7**	**90,992**	**144,990**								

Largest Concentration	GDP 2009	% of Total	
Argentina, Brazil, Chile, Colombia, Mexico, Venezuela	3,491	90.8%	
Brazil Only	1,582	41.1%	64.0%
Mexico Only	877	22.8%	

Sources: Munich Re Economic Research, IMF, Global Insight, Consensus Economics, World Bank, etc.

*increase in average Consumer Price Index (CPI)
**where available, country ceiling for foreign currency ratings, bonds and notes, long-term (Moody's definition; S&P analog)

GNI: Gross National Income, PPP: Purchasing Power Parity (source: World Bank)

from that of the general liability (premises/operations) section.

- The use of deductibles is common in liability policies for general liability, products liability and other coverage extensions.
- In many instances, product liability is available for product exports; however, jurisdictional coverage still remains local to the country, in many instances based on the fact that the insured does not have assets outside of its local country.
- Insurance premiums are primarily flat and not adjustable based on annual turnover (sales) or other rating triggers.
- Coverage is typically provided on an occurrence basis. When a risk involves

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Exhibit 3
Latin America Non Life Insurance Market Data
(Selected Latin American Countries)

Country	Geographic Region	2009 Direct Written Premiums (U.S. $ millions)			Non Life % of Total
		Life	Non Life	Total	
Argentina	South America	1,434	6,549	7,893	82.0%
Bolivia	South America	N/A	N/A	N/A	------
Brazil	South America	24,781	23,979	48,760	49.2%
Chile	South America	4,118	2,776	6,894	40.3%
Colombia	South America	1,683	3,624	5,307	68.3%
Costa Rica	Central America	52	571	623	91.7%
Ecuador	South America	157	786	943	83.4%
El Salvador[1]	Central America	145	294	439	67.0%
Guatemala	Central America	N/A	N/A	N/A	------
Mexico	Mexico	7,688	9,664	17,352	55.7%
Panama	Central America	239	608	847	71.8%
Paraguay	South America	N/A	N/A	N/A	------
Peru	South America	682	1,042	1,724	60.4%
Uruguay	South America	106	413	519	79.6%
Venezuela	South America	501	13,504	14,005	96.4%
TOTAL		**41,586**	**63,810**	**105,396**	**60.5%**

[1] *2008 Figures*

Largest Non Life Concentrations	Non Life	% of Total	
Argentina, Brazil, Chile, Colombia, Mexico, Venezuela	60,096	94.2%	
Brazil Only	24,781	38.8%	$\left.\begin{matrix} \\ \\ \end{matrix}\right\}$ 50.9%
Mexico Only	7,688	12.0%	

Sources: Swiss Re (premium data); Axco Insurance Information Services (leading cos.); U.S. Central Intelligence Agency (economic/ demographic data).

heavy products and especially with exports, coverage can be based on claims-made or occurrence with a sunset clause provision specifying a limited number of years.

In Brazil, product recall insurance is provided on a limited basis and subject to a sublimit. Coverage extends only to cover the expenses associated with a recall (advertisement, correspondence-like letters and telegrams, transportation of products recalled, staff expenses to help manage the recall, storage expenses of recalled products) and does not extend to cover product warranties or the loss of use of the product.

Coverage that is typical in the U.S. might not be available in Latin America. For example, when an insurer is asked to insure a soccer (or "futbol") stadium, in many cases coverage for spectator-to-spectator injuries would not be covered in a Latin American liability policy but would in a U.S. one.

Insurance for contractors is extended mainly on a project-specific basis and not on an annual policy basis. This is because of the difficulty of obtaining policy-end rating information of all projects a contractor had been involved in during the course of a year.

Another feature is that in many countries allocated expense is included within the limits of the primary liability policy, much like a professional liability policy in the U.S. Other countries provide for a limited or defined amount above the sum insured limit. The key here is that expense coverage is not unlimited. This helps add clarity to the insurer's policy.

Claims/Legal

Compared to the U.S., the Latin American insurance market is far less litigious. A higher proportion of lower socio-economic groups mean that significant proportions of the population are unaware of their legal rights. Markets have evolved, and in more developed areas, material damage and affected third parties do carry a heaver weight today from a claim standpoint. There is also a trend for the legal profession to raise awareness of a person's legal rights and influence higher awards.

Sales/Marketing/Servicing

Relying greatly on relationships, Latin America is an insurance agent/retail broker-driven marketplace where commercial clients and individual insureds rely heavily on their insurance broker/agent to manage their insurance needs. This culture, though, is friendly and welcoming to insurers, but often conflicts with the U.S. way of doing business. Any proposition must be built on a good relationship developed over time.

Facultative Reinsurance

For many business-as-usual (BAU) type accounts, local market insurers are able to handle these placements within their reinsurance treaties. For risks requiring much larger sums insured or a complex-styled risk with/without expanded coverages, facultative reinsurance markets are accessed frequently (direct and via brokers) to help assist in filling the gap between the clients' local net retention and the policy limit being requested.

Facultative reinsurers support technical training needs of local insurers in all main lines of business.

Coinsurance

In Latin America, it is typical that a policy is coinsured between two or more insurers. These cases may involve higher sum insured limits, a complex risk where one insurer does not want to take on 100 percent of the risk and co-sharing a risk between multiple lines of business. On this basis, it may lessen the need to seek external facultative reinsurance support.

Pricing

In the past, many countries were governed by market tariffs for liability pricing. Today, these have all been abolished, and markets are now competing based on their own developed pricing or supported by international facultative reinsurers.

In many instances, competitive prices can vary quite dramatically, raising questions about the actuarial soundness of the rates being used. Countries do not benefit from an organization such as the Insurance Services Office (ISO), where base rates are established on the basis of each state's trends and developments. Pricing is likely to remain competitive throughout 2011.

Conclusion

Latin America is continuing to develop. Liability insurance is growing noticeably, and investments in this region by foreign companies are also increasing, helping to fuel manufacturing operations and exports of these products to other parts of the world. Contact with developed markets is also increasing claim developments and trends. Great opportunities exist to further expand ways to transact liability insurance in Latin America as the markets further develop. ■

An Introduction to Extreme Value Theory

by Robert A. Bear, CPCU, FCAS, MAAA

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Introduction

A branch of statistics known as extreme value theory has attracted much interest after the natural and financial catastrophes of recent years. In this introduction to this subject, I hope to show that even with limited data that does not permit one to confidently fit a loss distribution, one can calculate reasonable ballpark estimates of the likelihood that more extreme events will occur in the future. I will use an example that should be of interest to international underwriters to illustrate some basic concepts and results.

Example

Table 1 summarizes the data for my example: The data represents estimated annual damages, adjusted for inflation and normalized for growth in personal wealth and population, arising from tropical cyclones making landfall in the United States from 1900 through 2006 (in millions of U.S. dollars). The formulas that I will apply assume that the observations are realizations from independent, identically distributed random variables. If this assumption is true, theory would lead one to expect 5.25 records between 1901 and 2006. (Note that 1901 is considered to be a record, as is any year since that exceeded all previous observations.)

Table 1
U.S. Tropical Cyclone Data from 1900 through 2006 (Millions of U.S. Dollars)

Estimated Annual Damages, Adjusted for Inflation and Normalized for Growth in Personal Wealth and Population.

Year	Normalized Loss	Year	Normalized Loss	Year	Normalized Loss	Year	Normalized Loss
1900	104,330	1927	-	1954	37,455	1981	180
1901	213	1928	35,298	1955	24,438	1982	45
1902	-	1929	390	1956	606	1983	7,843
1903	6,803	1930	-	1957	4,034	1984	304
1904	1,139	1931	-	1958	535	1985	11,622
1905		1932	6,210	1959	902	1986	53
1906	4,080	1933	14,006	1960	31,469	1987	20
1907	-	1934	932	1961	15,192	1988	182
1908	-	1935	9,150	1962	97	1989	17,609
1909	3,081	1936	838	1963	259	1990	133
1910	876	1937	-	1964	16,478	1991	3,196
1911	235	1938	41,140	1965	22,324	1992	60,547
1912	-	1939		1966	353	1993	133
1913	724	1940	1,224	1967	4,217	1994	2,036
1914	-	1941	2,530	1968	690	1995	7,877
1915	74,262	1942	2,475	1969	22,286	1996	6,864
1916	7,919	1943	3,746	1970	5,909	1997	172
1917	-	1944	54,760	1971	2,188	1998	6,323
1918	886	1945	14,676	1972	18,458	1999	8,692
1919	14,392	1946	4,953	1973	153	2000	38
1920	367	1947	20,071	1974	1,127	2001	7,319
1921	3,348	1948	4,249	1975	2,931	2002	1,566
1922	-	1949	16,147	1976	511	2003	4,423
1923	-	1950	5,806	1977	56	2004	51,587
1924	-	1951	376	1978	153	2005	121,296
1925	-	1952	120	1979	14,801	2006	500
1926	169,398	1953	59	1980	1,682		

Source of Data: The government publication known as NOAA Technical Memorandum NWS TPC-5 and titled *The Deadliest, Costliest, and Most Intense United States Tropical Cyclones From 1851 to 2006 (and Other Frequently Requested Hurricane Facts)*.

This National Weather Service publication was updated on April 15, 2007, for return period information by Eric S. Blake, Edward N. Rappaport and Christopher W. Landsea at the National Hurricane Center in Miami, Fla.

We actually observed four records during this period, which is close enough that our key assumption is not contradicted by the data. (If I had included 1900 in the test, which was an extreme year for hurricanes, we would have observed only two records through 2006 compared to 5.25 expected records. Such miscreant data points are referred to as "outliers" by statisticians and are not treated favorably.)

Gumbel's Method of Exceedances

Let us assume that we have sorted our data from largest to smallest for a period spanning n years. The largest value is called the first order statistic; the next largest value is the second order statistic, and so on. Gumbel's Method of Exceedances states that the expected number (mean or average) of exceedances of the kth order statistic among the next r observations is rk/(n+1). For our 106-year data set, the expected number of exceedances of the fifth largest value ($54,760 m in 1944) during the next 10 years is (10)(5)/107=0.47. The probability of a record loss next year is (1)(1)/107=.0093.

Table 2 provides a retrospective test of this method, where predictions for 1982–2006 are based on the history for 1901 through 1981.

Table 3 provides projections based upon this method for the 15 years subsequent to 2006 (2007–2021), based upon the history from 1901 through 2006.

Table 4 summarizes the next year exceedance probabilities for the first 12-order statistics, along with estimated return periods (reciprocals of the exceedance probabilities). The probabilities of exceeding each loss level of interest before the return period is calculated by subtracting from one the probability that the loss level is below the level of interest in all years before the return period. It can be shown that the probability of exceeding a low probability loss level before the return period is approximately 63.2 percent.

Table 4 shows that this approximation works reasonably well for return periods above 20. Thus, the time to the estimated return period encompasses approximately 63.2 percent of the time to exceedance probability distribution rather than 50 percent as many may assume. (The mean is well above the median, so one can't assume that one has a 50 percent chance of dodging the bullet before the estimated return period.)

Table 2

Order Statistic	Annual Loss	Year	Predicted Exceedances	Observed Exceedances
1	169,398	1926	0.30	0
2	74,262	1915	0.61	1
5	37,455	1954	1.52	3
10	22,286	1969	3.05	3
25	5,806	1950	7.62	11

Table 3

Order Statistic	Annual Loss	Year	Predicted Exceedances
1	169,398	1926	0.14
2	121,296	2005	0.28
5	54,760	1944	0.70
10	31,469	1960	1.40
25	9,150	1935	3.50

Table 4

Order Statistic	Normalized Hurricane Damage	Year	Probability of Exceedance Next Year (p)	Estimated Return Period (RP)	Probability of Exceedance Before RP
1	169,398	1926	0.93%	107.00	63.38%
2	121,296	2005	1.87%	53.50	63.21%
3	74,262	1915	2.80%	35.67	63.04%
4	60,547	1992	3.74%	26.75	62.86%
5	54,760	1944	4.67%	21.40	63.39%
6	51,587	2004	5.61%	17.83	62.51%
7	41,140	1938	6.54%	15.29	63.76%
8	37,455	1954	7.48%	13.38	63.59%
9	35,298	1928	8.41%	11.89	61.96%
10	31,469	1960	9.35%	10.70	62.51%
11	24,438	1955	10.28%	9.73	62.33%
12	22,324	1965	11.21%	8.92	61.39%

Conclusions

Extreme value theory is potentially a very useful tool to aid those insuring or managing risks from low probability loss events. As I have just scratched the surface of the subject, additional information may be found in Wikipedia, at www.en.wikipedia.org/wiki/Extreme_value_theory.

Anytime something bad happens, you invariably hear that "it could always be worse." Now, with the aid of extreme value theory, you can go forth and calculate the odds that it will be worse next time or that it will be just less awful! ■

CPCU — Achieving Dreams

by Haruhide Sugimoto, CPCU

Haruhide Sugimoto, CPCU, is with Nipponkoa Insurance Company in Tokyo, Japan. He received his designation in 2010 and attended the 2010 CPCU Society Annual Meeting and Seminars in Orlando, Fla.

Editor's note: This essay was originally published by the CPCU Society on its website as a "CPCU Story" (with an abstract published in the 2011 February/ March issue of *CPCU News*).

Author's note: I'm **Haruhide Sugimoto,** a new designee of the class of 2010 in Japan. I wrote an essay ("Becoming a CPCU: Constructing a Real Image of the United States") about becoming a CPCU for the Japanese trade paper *Hoken Mainichi*. This is a translated version of that essay. By reading this essay, you may understand my feelings about the United States, which is sometimes distant and other times close to me. I hope you also gain a better understanding of the insurance business in Japan. (This is not a word-for-word translation of the essay. I adjusted the essay for better understanding by the non-Japanese.)

I wonder what kind of images of the United States Japanese people have. Because of the varied long history between the two countries, I guess the answers are diverse, especially depending on the generation to which that person belongs.

From the time I was a little kid, to me the United States of America was a symbol of affluence and wealth. I was born in 1961, which was 16 years after Japan was defeated in World War II. In those days, almost all the Japanese were poor. In our wooden row houses or huts, we (our parents) didn't have a refrigerator or TV set, and of course, we didn't have a car.

In the 1970s, I happened to see the American movie "The Graduate." Many scenes in that movie overwhelmed me. The scene where Dustin Hoffman's parents were having a graduation party for their son in their big mansion with their big pool left a deep impression on me. I also vividly remember a scene where he spun along a broad highway in his open-top red sports car with a beautiful girl next to him. I can easily recall those scenes with the music of Simon and Garfunkel as a symbol of the affluent American lifestyle, although I was just a kid at that time.

As I was growing up, Japan became inundated by American culture. Day by day, we came to think that all American things were cool, including Coca-Cola, McDonald's hamburgers, black leather jackets, blue jeans, etc. When I was a university student, Haruki Murakami's several novels from his early days infatuated me because the protagonist's lifestyle was quite American. Murakami's style seemed to draw heavily on the typical American novel, and this added to its appeal. I dreamed of America like children dream of Disneyland.

After graduating from a university and joining a Japanese insurance company, I worked in a domestic sales division where, because of the same or similar insurance premium rates throughout the whole country, the insurance sales worker could only succeed in proportion to his degree of street smartness, self-sacrifice and longer working hours.

During those 15 years, there was no time to dream of anything. I was struggling to raise the company's share in a homogeneous market. After passing the age of 40, deregulation of the insurance industry in Japan had already begun, and I was transferred to a support staff job, leaving the sales division. It gave me more time to read and reflect.

At that time, I accidentally saw an article about CPCU in the company magazine. Impulsively I decided to take the exams for this American qualification. I believe that the CPCU qualification is a "real" American qualification, unlike the "fake" American things I once dreamed about — from fluffy advertisements to romanticized American movies. It was like after realizing Mickey Mouse was not a real mouse and not your real friend, but still you want to study how Disneyland is run and what kind of people run it.

I started passionately studying, trying to understand American society and the insurance business, even though I didn't know what was in it for me and where it could lead me. As an ordinary Japanese worker in the financial sector, I still had (and have) to work 11 hours a day, so studying four hours a day was a tough thing. I failed four times but finally passed the eight exams.

In the original Japanese insurance market, many mergers and acquisitions occurred because of the pressures of deregulation and a dwindling birthrate. Finally, the market was/is controlled by the "3 Mega Sonpo," which are three major groups of non-life insurance companies.

After passing the last CPCU exam, I got a celebratory email from Anthony L. Cabot, CPCU, ARM, an interest group governor and member of the CPCU Society's International Insurance Interest Group. Since it is so rare that I get an email from a foreigner, I was so excited that I replied instantly to him that "having seen the energy and passion of other CPCUs, it may sound childish, but to me being a CPCU is like being a 'Jedi warrior' from the movie 'Star Wars.' When the first 'Star Wars' movie was released, I was a high school student, and we were excited because the Jedi light saber was like a Japanese sword in the Japanese samurai dramas."

The Conferment Ceremony in Orlando started with a solo national anthem performance by eight-year-old **Gina Marie Incandela,** who was diagnosed with autism when she was two years old but still became a national anthem performer. In the midst of the ceremony, several new designees of the 2010 class presented their CPCU stories. One of them was **Patricia Wallace, CPCU,** who was sent to Iraq as a soldier but still kept studying for the exams and finally passed all of them. When she was reading the blue CPCU insurance textbook in Iraq, Iraqi people stared at her curiously, and after small conversations with them, she finally found out Iraqi people don't understand the idea of insurance.

From those presentations, I got a clear message that if you have a passion and keep studying, you can learn something and achieve your dreams in any situation.

The ceremony was glamorous, attended by more than 700 new designees. It was like the Academy Awards ceremony, although we didn't wear tuxes or evening dresses and jewels. All of the participants were touched by the festivities and highly encouraged by the speakers.

At the end of the ceremony, brass band music started and crackers were shot off. At this moment, my imagined image of America that had only previously existed in the movies I watched and novels I read became real to me. The United States of America is not an aloof country any more, and I felt that I had become part of it in some way. My "American" dream was realized, and I was almost close to tears. (I am a too over-the-hill guy to cry.)

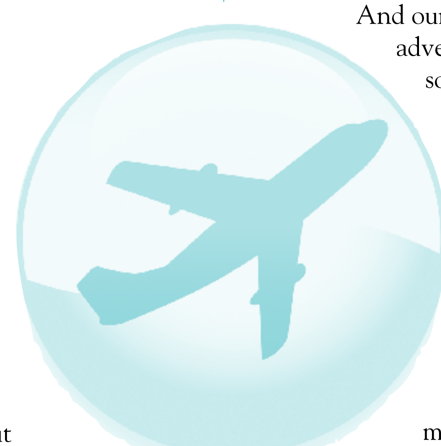
I want to take a moment to thank my bosses and colleagues at Nipponkoa for their cheerleading. To them, my challenge must have seemed quixotic, like a middle-aged Japanese Sunday baseball player who tries to participate in the major leagues. ■

CPCU Society Travel Program — A Great Way to See the World!

by Richard A. Vanderbosch, CPCU, CLU, AIS

Richard A. Vanderbosch, CPCU, CLU, AIS, retired in 1999 after a 36-year career with State Farm. Named a CPCU Society Standard Setter in October 1998, he continues to be active in CPCU Society activities. Vanderbosch is coordinator of the CPCU Society Travel Program, member of the CPCU Society Colorado Chapter and contributing writer to the CPCU Society Retirement Resource Interest Group.

Want to travel but do not want the hassle of dealing with details such as research, picking a destination, arranging travel plans, identifying attractions and making sure you have all the required documents?



Why not join us on one (or more) CPCU Society Travel Program adventures and leave all of the details to us. Not only do we make traveling easy, but you will also be able to join other CPCU professionals as you enjoy the wonders of the world. Once you register for a trip, you will be prompted and reminded of all the things you will need to do from a personal standpoint — everything else is taken care of by the travel company. Then, just follow the group leader to enjoy all the sights and attractions of the trip.

Over the past several years, we have traveled to Germany, Canada, Czechoslovakia, Ireland and France. And our upcoming May 2011 adventure, which is now sold out, will be China. Future destinations are selected from the input of past travelers and the general CPCU membership. If you have a travel preference you would like considered, just send me an email at rbosch@aol.com. Selection and announcement of the next year's trip take place each summer.

Give us a try and see for yourself just what you've been missing — a great program established for you, your families, your guests and other CPCUs. You'll be glad you did! ■

The Insurance Industry and Sustainability

by Anthony L. Cabot, CPCU, ARM

Anthony L. Cabot, CPCU, ARM, is director of product development for Europe and Asia for Argo Insurance Group and senior executive officer for Argo RE DIFC Ltd. (Dubai). He is a CPCU Society interest group chapter governor, a longtime member of the CPCU Society International Insurance Interest Group Committee and a founding member of the CPCU Society Europe Chapter. He is an active member of the Italian Academic and Risk Management Association and a regular guest lecturer at the University of Verona's master's in risk management program.

Author's note: My thanks to **Bruce D. Hicks, CPCU, CLU,** for his valuable assistance in editing this article.

Why and how might the insurance industry act on the sustainability issue? After all, our industry produces a comparably small carbon footprint, and it already offers some products that address several aspects of sustainability.

While non-economic benefits, such as being considered a good "corporate citizen," may be noteworthy, do they, by themselves, justify expenditures on potentially expensive upgrades or on the creation of new products and services?

I argue that insurance companies should follow sustainable policies as an element within our industry's responsibility to the community at large as good corporate citizens. A further reason to do so is because the insurance industry sets itself apart from many industries with its strong set of core values. These values include the desire to excel, a commitment to clients and to each other, the courage to do the right thing and to seek continuous professional development.

I suggest adding a concern with sustainability to these core values. Specifically, I believe that a commitment to development that meets the needs of the present without compromising the ability of future generations to meet their own needs become an additional guiding principle for the insurance industry.

Justifying Sustainability

If we look closer at what sustainability means we will find:

- **Sustainability creates value.**
  Studies performed by both broker and academic groups demonstrate positive returns and value creation. The Dow Jones World Sustainability Index reiterates this point, stressing that environmental and social governance (ESG) "is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments." The creation of value for the insurance industry's stakeholders is a key theme and strength. Therefore, it must hold that the insurance industry has a clear, concise and operational sustainability program.
- **Sustainability ensures competitiveness (for employees and investors).**
  In the face of an increasingly sustainability-minded generation, potential employees and investors are more likely to review a company's sustainability record. If the insurance industry is to remain competitive and attract new investors and talent, it follows that it must publicly enact its sustainability efforts.
- **Sustainability means sensible economics.**
  Critics often point to the incremental and start-up costs of creating and enforcing sustainable policies. Yet, in the long run, it is clear that following sustainable practices more than pays off any initial cost. Furthermore, insuring individuals, governments or nongovernmental organizations (NGOs) that operate in a manner that is not sustainable lacks logic. This practice exposes insurers to greater probability of loss.

Achieving Sustainability

The above points may serve as a blueprint to take the insurance industry's sustainability efforts to the next level — that of embedding ESG considerations within each actor's company or activity.

We can build on these ideas by availing ourselves of the efforts made by an established group of like-minded insurers, reinsurers, brokers, agents, consultants and experts. That collaborative group is United Nations Environment Program Finance Initiative (UNEP FI) and the

Insurance Commission. The basic aims of this group are:

- Raise awareness on current and emerging sustainability issues.
- Promote best practices in sustainability.
- Improve knowledge and understanding of ESG risks and opportunities.
- Embed ESG issues in products, services and core processes.
- Support the development of sustainable insurance.
- Underpin the vital role of the insurance industry in sustainable development.

Since its inception in 1972, UNEP has had a mandate to encourage economic growth compatible with environmental protection. The UNEP Finance Initiative was launched in 1991 when a small group of commercial banks joined forces with UNEP to spur environmental awareness within the banking industry.

In 1995, UNEP joined forces with a group of leading insurers and reinsurers to launch the UNEP Statement of Environmental Commitment by the Insurance Industry. In 2006, UNEP FI's Insurance Working Group (IWG) was the natural progression for the insurance industry. The IWG was formed by 15 industry leaders who wished to drive the incorporation of sustainability practices further and expand this approach to more insurers. The IWG (now the Insurance Commission) promotes relevant research, education, product development and methodologies on sustainability. An important part of its programme is to identify specific examples of best practices in core processes, products and services.

- The Insurance Commission is working on a groundbreaking document entitled "The Principles for Sustainable Insurance (PSI). This document will create a best-practice framework to facilitate the systematic consideration of ESG risks and opportunities in core insurance company strategies and operations. It would also establish a UN-backed global initiative of insurers proactively addressing ESG risks and opportunities based on their commitment to implement the Principles.

The PSI goals are to:

- Enable holistic risk management to reduce risk and increase business opportunities.
- Harness the insurance industry's capacity to tackle long-term and systemic risks.
- Create a global insurance forum to pool information, resources and best practices.
- Promote cooperation on ESG issues and stimulate innovative solutions to enhance the value of risk management and insurance to society.
- Engage with policymakers and regulators for appropriate frameworks that consider relevant ESG issues.
- Build a sustainable insurance industry to better serve all its stakeholders and accelerate the transition to a sustainable global economy.

Implementing the principles and participation in the PSI Initiative will:

- Lead to more prudent and responsible insurance and investment practices.
- Harness the insurance industry's unique and significant capacity to tackle long-term and systemic risks.
- Create a global forum for sustainable insurance.
- Promote collective action on ESG issues.
- Stimulate innovative solutions and partnerships on ESG issues.
- Contribute to a more stable, resilient, responsible and sustainable insurance industry.

The insurance industry should not miss this opportunity to increase its credibility. It would allow the industry to tap into an important source of information on emerging risks and emerging markets. And it also represents a chance to demonstrate to all stakeholders that the industry takes the issue of sustainability seriously — "genuine not just generous." ■

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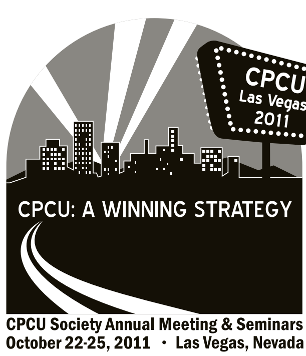
10 Reasons Why You Should Attend the CPCU Society Annual Meeting and Seminars

1. Celebrate with the CPCU Class of 2011.
2. Spend four great days with the best and brightest in the business.
3. Hear exclusive insights from senior-level executives on today's hottest topics.
4. Sharpen your knowledge through the industry's finest array of educational programs.
5. Be inspired by compelling speakers to achieve your goals.
6. Learn new technical skills that you can put to use immediately.
7. Strengthen your leadership skills.
8. Find out how to take control of your career.
9. Network with your CPCU Society peers at special events.
10. Be energized to achieve your personal best!



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