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## Editor's Note — Is Now the Time to Expand Your Career or Business Globally?

by Mickey Brown, CPCU, ARM



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Welcome to the first-quarter 2010 edition of *International Perspectives*. The International Insurance Interest Group is committed to education on current global insurance and risk topics while offering commentary on the differing world economies and stressing the cultural aspects of business.

Given the ongoing recession and uncertainties in the world economy, one may surmise that now is not an ideal time to "go global." Moreover, the collapse of international financial markets and implementation of local government stimulus programs signal that a decision to pursue global business at this time involves some risk. As local governments look to a more protectionist agenda, they will likely place greater tax liabilities on foreign

individuals and overseas enterprises. Also, while there are an increasing number of international career opportunities, mounting expenditures such as travel costs could impair growth potential. Furthermore, immigration bureaucracies and legal costs present an additional burden to relocating in a foreign country.

In any case, the potential to gaze beyond your borders and develop internationally presents a unique challenge, as the complexity of global business far surpasses that of purely domestic affairs. Even businesses with operations in a single country are often indirectly international, as they are impacted by global regulatory and tax issues via their supply chains, including e-commerce

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# Editor's Note — Is Now the Time to Expand Your Career or Business Globally?

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and the Internet. Fortunately, with our own ingenuity, modern technology and networking resources, such as the CPCU Society's International Insurance Interest Group, to achieve success working globally is a realistic goal.

Therefore, in today's economy, it may be the ideal time to look outside your country boundary for new opportunities. Global population and gross national product trends indicate that emerging markets such as Brazil, Russia, India, China (so-called BRIC countries) and other parts of the world will experience significant middle class and urban growth, resulting in a new demand for products and services. Undoubtedly, some of your contacts may already be following this expansion path and need more resources (your help!) to accomplish their objectives.

With 10 percent unemployment, many professionals in the U.S. have experienced an unwelcoming outlook for career advancement opportunities. There may likely be a lower unemployment rate abroad for managerial positions in key business sectors, including financial (insurance) services. Also, some previously unattractive countries have completed momentous economic strides, and with this comparative prosperity, it is easier to assimilate both financially and culturally.

A successful transition internationally requires education and preparation, as it takes time to develop your image and build relationships. Furthermore, understanding cultural differences is a vital component in working internationally, as clashes could cause delays or terminate potential deals. Imagine two individuals or companies in the same country experiencing differences in opinion; when adding diverse cultures, the native disparities can escalate. While cultural gaps cannot be completely bridged, the chasm can be narrowed with proper due diligence and a commitment to continuous improvement.



In the October 2009 *International Perspectives*' "From the Chairman's Deck — Culture = International?", [Anthony E. Fienberg, CPCU, ARe, RPLU](#), stated: "Knowledge of culture is about being able to ask the question of yourself and the people around you that allows you to anticipate what you need to say, do or feel in order to be an integral part of your surroundings." The challenge is not only overcoming the degree of uncertainty or avoidance in asking the proper questions, as you develop a tolerance to different perspectives, but also at the same time maintain your individualism. Keep in mind that implementing your own ideas or products may take a longer term as countries have laws to minimize uncertainty, especially in the insurance services sector. However, global businesses need integrated solutions to achieve sufficient risk management, and CPCUs are uniquely qualified here.

Going global is a strategic decision that must be approached with discipline,

investment and commitment. You must learn about the habits and traits of other cultures and practice interacting with the local communities. While you may initially be uncomfortable and confused in such intercultural exchanges, they will be great learning experiences. In picking up on the details, you will avoid embarrassing mistakes in the future and earn the approval of local acquaintances.

Whether you're committed to a career in international business, curious about the intercontinental scene, or a consumer of worldwide products and services, you can't escape the effects of globalization. While the experience can be frustrating, it is likely to be stimulating and full of growth opportunities. You will have the prospect to both cultivate unique relationships and discover distinctive inner talents as a result of your novel experiences.

In closing, success with the "international market" requires that you remain sensitive to local issues and relationships. Building

a meaningful international presence takes a long-term vision, combined with flexibility and customization, to provide a foundation for an enriching global expansion. See case study regarding ALDI for a recent example of global expansion success. Of course, you should not only reap great rewards socially and intellectually, but hopefully also financially. Just look at some of the international equity market results for the year ending Dec. 31, 2009: The MSCI EAFE Index<sup>1</sup> gained 28 percent and the MSCI Emerging Markets Index<sup>2</sup> grew 74 percent, both excellent rates of return! ■

## References

1. The MSCI EAFE Index (Europe, Australasia, Far East) is a free, float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index consists of the following 21 country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the U.K. Source: MSCI Barra Web site. Accessed Jan. 10, 2010: <http://www.msibarra.com>.
2. The MSCI Emerging Markets Index is a free, float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 22 country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. Source: MSCI Barra Web site. Accessed Jan. 10, 2010: <http://www.msibarra.com>.

### Global Case Study — ALDI

ALDI was founded in Germany by brothers Karl and Theo Albrecht, who named their company Albrecht Discount, or ALDI for short. ALDI has grown from a small local business to a leading global retailer with an estimated 8,000 stores located in many different countries.

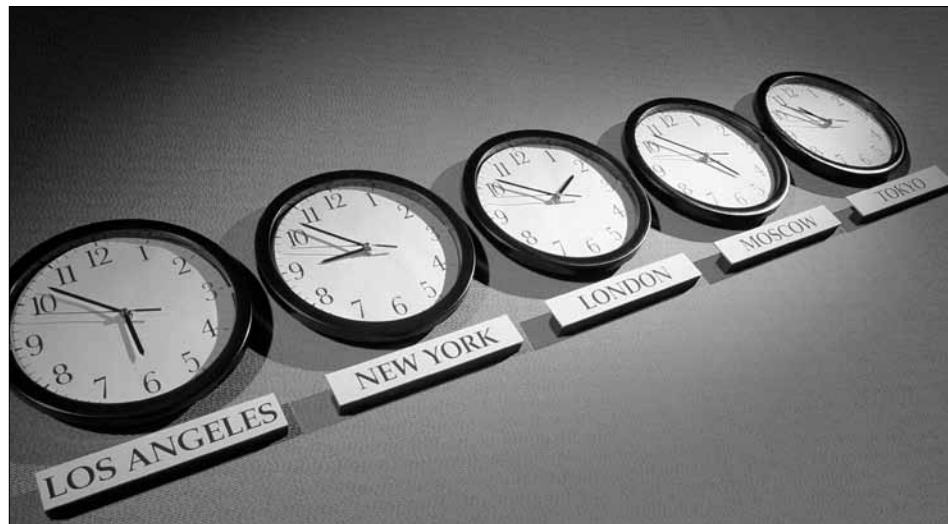
ALDI offers quality products at value prices by facilitating the shopping experience and stripping out certain costs, such as no-service counters for delis, bakeries, butchers and fishmongers. The unique concept of ALDI is that it does not generally sell national brand-name products and does not elaborately display its goods. There is a distinctive ALDI culture that stems from its being a privately owned German company. Its simplicity and efficiency of prepackaged foods keeps prices low, although products are sourced to high-quality standards and often procured from the same suppliers as other leading supermarkets. ALDI also keeps prices low by stocking only approximately 1,000 lines without duplication of products.

ALDI's success is based on its competitive advantages to maintain low costs with an emphasis on local sourcing. By limiting product selection, ALDI ensures that its merchandise remains familiar to returning customers. To strengthen brand loyalty, ALDI continues to diversify into new areas to create a bond with customers, such as low-cost, pay-as-you-go mobile phone service.

ALDI's entry into other countries experienced delays due to issues involved with finding store sites, hiring staff, obtaining liquor licenses and other hurdles. However, once resolving the short-term local matters, ALDI implemented ambitious expansion plans, which have succeeded for the long term. Of course, ALDI's expansion still faces fierce competition from well-established chain stores. In any case, ALDI has effectively grown operations in the U.K., Poland, Australia and the U.S., among other countries.

In addition to saving customers money, ALDI promotes environmental sustainability with smaller and energy-saving stores, recycled bags and cartons, and a keen buggy-deposit-and-return system. Overall, shopping at ALDI is structured to capture the essence of conservation. While there are many case studies of successful global business expansions, ALDI is one that most all of us can experience.

**Source:** ALDI Web site. Accessed Nov. 30, 2009: <http://www.aldipresscentre.co.uk>.



# Working Abroad in Insurance — Property Brokerage Perspectives from Afar

by Peter Frater



**Peter Frater** is a senior vice president of Marsh USA in the Atlanta Property Practice. He has 27 years' experience in brokering and servicing property insurance programs, ranging from large global risk management programs to smaller and medium-sized national accounts. Frater began his career in the U.K. as a property broker at Lloyd's and has spent a number of years on assignment in Switzerland and the U.S.

I grew up in the United Kingdom, near a small town northwest of London called Berkhamsted. It was here that I clearly remember the idea of entering the world of insurance first crossed my mind. I was summoned by one of my uncles to the dining room of my grandmother's house, where a family friend, whom I had known for many years, was reintroduced to me as a "name at Lloyd's." At that time I had no idea what that meant, except that it sounded pretty important.

Subsequently, I discovered that Lloyd's was a marketplace of buyers and sellers, trading marine and nonmarine risks from all over the world, backed by the wealthy and well heeled of British society. That was the world of insurance I entered in 1982 as a processing technician for a fine arts and jewelry division of a bygone London insurance broker.

By the mid-1990s, the endless reams of telexes had given way to fading faxes. It was around this time that I grasped the first of three opportunities to experience a working environment overseas. Marsh was pioneering the development of

a platform to test electronic trading. As part of that initiative, our office in Zurich, Switzerland, was revitalised into a local transactional broker, focusing on the leading insurance and reinsurance companies in Switzerland, Germany and Italy. This was a fascinating time to be in Europe, as the leading reinsurers, Swiss Re and Munich Re, were starting to realise that international corporate buyers were looking to them as a provider of large amounts of property capacity that would stand alongside their competitors, such as Zurich and Allianz.

In 1995, at Munich Re's office in Munich, Germany, while waiting for a U.S. client, I remember being enlightened by an anecdote from a senior underwriter in Munich Re's fire insurance department, who said: "If you (my client) had arrived at our door five years ago, without your ceding company, you would have been turned away." How things have changed, as clients and reinsurers alike command a seat at the table today, in both the facultative and captive reinsurance arenas.

Transacting insurance in Europe on behalf of non-European clients is a delicate business. There are major challenges linguistically, culturally and socially. For example, in the U.S., if you don't like the answer you get from normal channels of communication, you call the person's boss. In Europe, this would probably be the fastest way of achieving a stalemate; negotiations would stall, and ultimately the underwriters' position would become more entrenched.

Europeans are often bemused at how Americans make or don't make decisions. This cultural clash of titans is fascinating to watch, but being in the middle of such a tussle is difficult. Tempted by the lure of new business lines, all of the major insurance carriers in Europe have experience with doing business in the U.S., making this transatlantic union highly successful. However, to combine



Detail of the Lloyd's skyscraper in London.

cultures, let alone businesses, usually takes years to achieve, so doing it in a matter of months under the critical eye of investors is an awesome challenge. In 1993, former British Prime Minister [Margaret Thatcher](#), commenting on the European Union, said that combining 16 different cultures was next to impossible. Fifteen years later, Europe is still grappling with the concept of integration.

Having lived and worked on both sides of the pond, I am always fascinated by an American or German business associate who whispers, almost inaudibly, that he or she is having troubles with transatlantic colleagues because “they’re very German or Swiss” or “the Americans have no understanding of how we work.” I have always felt helpless at this point and wished to try to do something to relieve the burden. The British, on the other hand, seem much more relaxed, as a good chat about football and the weather seems to quickly break the ice!

In the spring of 2001, I married, and we relocated from Zurich to New York. Standing on the 41st floor of the Marsh office in Midtown Manhattan, we witnessed one of the most horrific acts of recent times with the Sept. 11 terrorist attacks on the New York World Trade Center buildings. Just the week before, I had uprooted my new wife from Schaffhausen, Switzerland, and moved ostensibly to a two-year assignment to New York, where I joined the Marsh International Property Department. Until this point in my career, I had always been a wholesale broker, but now I was going to concentrate on being a retail broker for some of the world’s largest corporations.

My first impression of living and working in America was interesting. New York is a great city to live and work, although I have to say that coming from Zurich, which branded itself as the “Little Big City,” to New York — the Big Apple — is like going from the sublime to



Empire State Building, New York, N.Y.

the ridiculous. I had spent the previous seven years working in a country where precision and obedience to following rules were almost a religious experience to a country where decimal places are optional and rules are sometimes a mere suggestion.

When I began my career in insurance, modelling was something that attractive people did on catwalks. Today, computer models have transformed the way companies view risk. In Europe, the emphasis on technical underwriting has always been at the forefront of an insurance or reinsurance company’s strategy. In the U.S. on the other hand, computer modelling developed sporadically, with less emphasis on the technical aspects of risk and more on the premium. Ironically, the end result is often the same, with both European and

U.S. underwriters writing many of the same risks.

Today, modelling drives the process. Nothing gets done until modelling has completed her task and disgorged reams of information. I have often wondered whether the introduction of computer models actually changed the way underwriting is done. I started placing business with underwriters who scribbled quotes on bright pink blotting pads, based on three pieces of paper with scant information. Now, the same underwriter will receive volumes of information — spreadsheets, charts, graphics and pictures — on the same risks, enough to fill an encyclopaedia! But what of the final decision: Will the underwriter write the risk or not? Is it more or less, or have we created a culture of information hoarding, where instinctive underwriting is buried under a mountain of impact analyses and vulnerability studies?

I have now worked for Marsh in three countries for more than 20 years, and throughout that time have seen how inventive, aggressive and resilient this company has transformed. Today, I am part of the Atlanta Property Practice in the U.S. Southeast, and it is without doubt one of the most demanding jobs of my career. The competition is high among the national and regional brokers; however, Marsh is designed to make our clients succeed whether you are a novice buyer of insurance or an expert. We have the global intellectual horsepower and operate as one company whether you are in London, Zurich or São Paulo.

This is my perspective on 27 years in the insurance business. I’d like to end by thanking you for your time and leaving you with one last thought regarding my seven-year-old daughter, who speaks two languages and has three passports: I wonder what her international perspectives will be when she grows up. ■

# South Korea Political Risk — From Canoe to Aircraft Carrier

by John L. Linantud, Ph.D.



**John L. Linantud, Ph.D.**, is an assistant professor of political science at the University of Houston-Downtown. He earned his doctorate in political science from Arizona State University and a master's degree from George Washington University. Linantud's teaching and research interests include nation-building, American foreign policy, and East and Southeast Asia.

## Introduction

The U.S. is an aircraft carrier in terms of political stability, the argument goes, while developing countries are more like canoes. On the deck of the former, it is safer for politicians to harass each other than in the latter, where an untimely movement could capsize the boat. After decades of turmoil, South Korea is no longer in danger of flipping over. Popular elections since 1987 and peaceful turnovers of power between government and opposition parties since 1997 are strong indicators of stability. Even the impeachment of President [Roh Moo-hyun](#) in 2004 largely unfolded within the rule of law, and without the military and civil unrest that once characterized politics. The hard-won stability of South Korea stands in contrast to the instability of the greater Korean peninsula. North Korea is now the primary source of political violence and terrorism in the South today.

## Geopolitics = Domestic Politics

Korea was part of the Japanese Empire during the Second World War. After Japan fell in 1945, the Soviet Union and the U.S. created enemy regimes across the 38th parallel: the Democratic

People's Republic in the North, led by communist [Kim Il-sung](#), and the Republic of Korea in the South, led by nationalist [Syngman Rhee](#). In 1948, both states declared independence.

The war of 1950–1953 failed to unite Korea in a single state. In June 1950, North Korea and Soviet advisers launched a summer campaign that nearly won the war. In September, however, a U.S.-led United Nations (U.N.) counterattack pushed the North Koreans out of the South, and nearly unified the peninsula under Seoul (the capital of South Korea). But the fear of losing Korea to the West compelled the Soviets and People's Republic of China (PRC) to directly join the fighting in late 1950. Soviet pilots and Chinese infantry expelled the U.N. from the North, but the U.N. held the South. During the conflict, Seoul changed hands four times — a symbol of Korea's vulnerability to geopolitics. In 1953, a truce stopped the war after two million deaths, the majority Koreans. PRC and U.S. losses numbered 600,000 and 36,568, respectively.<sup>1</sup>

The truce did more than restore the status quo prior to the war. Both Koreas annexed small chunks of the other's

## Table 1 — Republic of Korea Basic Facts

(A map of South Korea is available on the International Insurance Interest Group Web site, <http://international.cpcusociety.org>. In the left menu, click on "Newsletters" and then select the "2010" folder.)

Official Name	Republic of Korea
Population	48,508,972
GDP per Capita (2008)	\$26,000
Transparency International Rank (2008)	40/180 worldwide; 5th East Asia, behind Singapore, Hong Kong, Japan, Taiwan

**Sources:** *CIA World Factbook: Korea, South*. Accessed Aug. 28, 2009: <https://www.cia.gov/library/publications/the-world-factbook/geos/ks.html>; *Transparency International Corruption Perceptions Index 2008*. Accessed Nov. 2, 2009: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2008](http://www.transparency.org/policy_research/surveys_indices/cpi/2008).

**Editor's note:** This is the fifth in a series of articles commissioned by the CPCU Society's International Insurance Interest Group on Asian country political risks. Previous articles addressed Vietnam, the Philippines, China and Thailand.

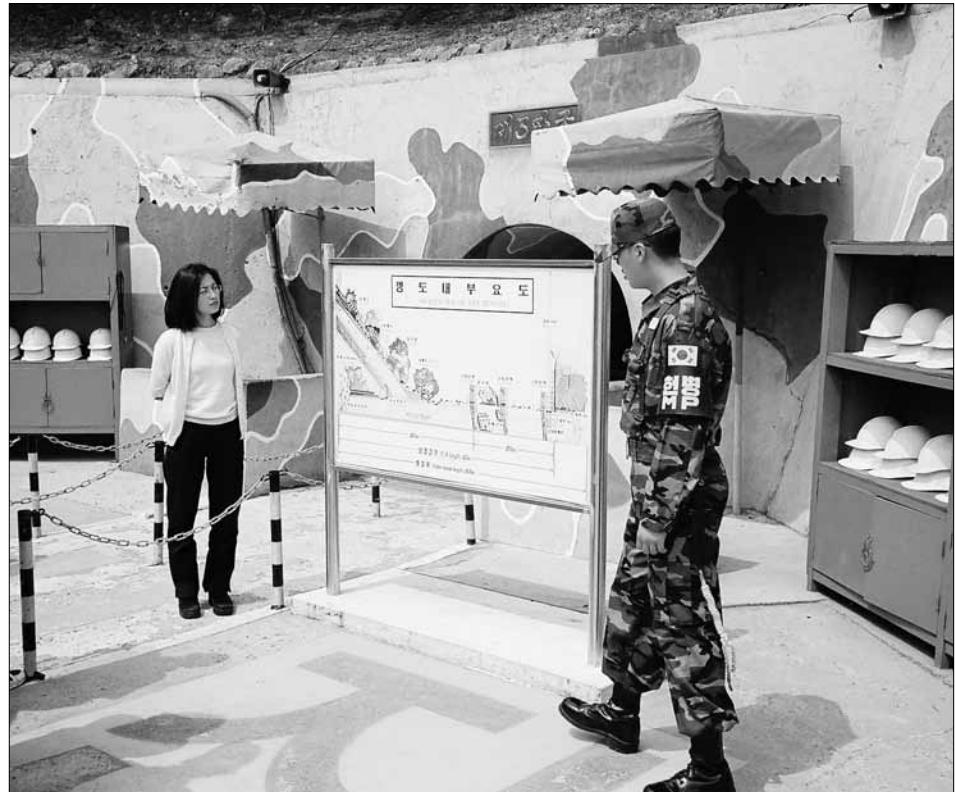
territory and retained foreign protection. U.S. forces remained in the South, while Chinese troops eventually left the North but remained across the border.<sup>2</sup>

Seoul and Pyongyang (the capital of North Korea) have yet to sign a formal treaty. Since the 1960s, the North has adopted the more bellicose position via military adventurism and calls for revolution in the South. Since 1994, the isolated rule of **Kim Jong-il**, son of Kim Il-sung, along with famine, starvation, black markets and refugees, indicate the potential for a failed state.<sup>3</sup>

Nation-building in South Korea has thus moved forward on a three-dimensional war footing. The first dimension is the risk of all-out war. The nuclear crisis dates to 1994, when the U.S. demanded that Pyongyang terminate its weapons programs. In response, a North Korean official threatened to turn Seoul into a “sea of fire.”<sup>4</sup> With all parties mobilized for conflict, South Korea, Japan and the U.S. created the Korean Peninsula Energy Development Organization to coax Pyongyang to dismantle military technology in return for aid. In 2000, South Korea President **Kim Dae-jung** won the Nobel Peace Prize for the first Korean summit with Kim Jong-il.

In 2003, North Korea left the Nuclear Non-Proliferation Treaty, leading to the six-party talks between North and South Korea, Japan, China, Russia and the U.S. Pyongyang announced nuclear weapons tests in 2006 and 2009, creating a sour context for the 2007 summit between President Roh and Kim. The nuclear issue captures the dilemma of security on the peninsula: Even if the North sees its military as purely defensive, the South must assume it could be used aggressively — and vice versa.<sup>5</sup>

A second dimension involves agitation and propaganda (agitprop), guerilla war and covert operations meant to destabilize South Korea. The list of



*Tourist entrance to North Korean tunnel. Author photo.*



*Tourist hall overlooking North Korea. Author photo.*

tunnels, infiltrators, spies and deadly incidents is long. North Korea tried for years to decapitate Seoul by killing the president, most recently in the 1980s, and has abducted at least 4,000 people from the South and other countries.<sup>6</sup>

Daily reminders of geopolitics include tourist facilities at the border, military

conscription, civil defense drills, a landscape dotted with troops, issues with U.S. forces and the spectacular War Memorial in Seoul. In June 2009, the government published a “spot-the-spy” game on the anniversary of the war.<sup>7</sup> In September, a North Korean

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# South Korea Political Risk — From Canoe to Aircraft Carrier

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dam unexpectedly flushed tons of water towards Seoul, killing several people.<sup>8</sup> In October, a U.S. commander warned of roadside bombs and cyber attacks.<sup>9</sup> In November, a naval clash left several dead.<sup>10</sup> The Allies envision several scenarios in the North that fall short of war, but would still require a response, including the rise of warlords, civil conflict, unsecured weapons of mass destruction (WMD) and a refugee crisis. Any could result from natural disaster, a failed state or botched regime change given the poor health of Kim Jong-il.<sup>11</sup>

North Korea's determination to test the South has provided decades of common ground for nation-building. Nevertheless, a third dimension of geopoliticized development is the struggle between Right and Left. On such issues, the Right is anti-communist, skeptical of Pyongyang and pro-U.S. To date, no conservative president, for instance, has summited with the North. The Left is more suspicious of national security ideology and willing to reach out to the North.

Both sides of Korea's domestic politics now question unification should it require reconstruction and assimilation of malnourished and brainwashed ex-communists. And few mainstream reformers, no matter their resentment of the U.S. or emotional bond with ordinary North Koreans, plan to be a dupe for Kim Jong-il. To guard against truly radical internal threats, moreover, South Korea maintains national security laws that ban actions or speech that promote communism or the interests of Pyongyang.

## The Architect

In November 2009, Singapore's Lee Kuan Yew visited Washington. The White House accurately described Lee as a "guru" within the foreign policy establishment, where he is known for perfect English, a sharp wit and the stewardship of "Singapore Inc."<sup>12</sup>

The accomplished Lee is still just a poor man's version of South Korea's



Park Chung-hee (born 1917, president 1961-1979). Open Source/No copyright: [http://en.wikipedia.org/wiki/File:President\\_Park.PNG](http://en.wikipedia.org/wiki/File:President_Park.PNG).

**Park Chung-hee.** Park was an army general when he seized power in 1961. Never an advocate of laissez-faire economics, he served in the Japanese military and flirted with communism before the war. Park then became an anti-communist and vowed to transplant Japan's "Rich Nation, Strong Army" ethos to Korea. Seoul's war footing, U.S. and Japanese investment and personal gravitas gave Park enough political and financial capital to transform agricultural South Korea into a producer and exporter of heavy industry. Along the way, Park convinced the South to take pride in economic output, and challenged the North to a competition of industrial performance.<sup>13</sup>

Park won three elections as a civilian between 1963–1971, the last over future president Kim Dae-jung, but became increasingly paranoid about national security. In 1968, North Korean commandos tried to attack his residence in Seoul; in the early 1970s, Washington pledged to remove its troops from South Vietnam and South Korea, and made friendly overtures to the North's patron, China; in 1974, a communist assassin killed Park's wife; in 1975 South Vietnam fell to North Vietnam as the U.S. refused emergency aid.

These events bracketed Park's decision to terminate real democracy and civil liberties in 1972. Elections fell under state control, while the abuse of National Security Laws against the nonradical opposition increased. In 1973, Park's operatives would have murdered Kim Dae-jung if not for U.S. intervention. Having dissolved free elections, Park also lost the best mechanism for renewing his own legitimacy or peacefully transferring power. In 1979, he was assassinated by one of his own aides.<sup>14</sup>

Park's death began a tense decade of transition. By 1980, Washington had decided not to withdraw U.S. troops, and prosperity and a middle class discredited communist agitprop. Nevertheless, a new military regime, led by **Chun Doo-hwan**, detained Kim Dae-jung on grounds of national security. The result was a rebellion in Kwangju, a city in Kim's home region, that was suppressed at the cost of many lives. Even though Americans did not fight in Kwangju, critics held Washington responsible because the military fell under U.S. command. Kwangju therefore challenged the national security and pro-American ideology of the state. Subsequent protests never reached the scale of Kwangju, but often involved Molotov cocktails, mass arrests, and beatings by demonstrators and riot police. The unrest compelled the regime to restore popular elections in 1987.<sup>15</sup>

## No Longer a Developing Country

In Table 2, the consolidation of democracy is marked by firsts: the first popular election since 1971; the first nonmilitary president since 1961; the first opposition victory in 1997, which peacefully turned power over to the Left; and a second opposition victory in 2007, which returned power to the Right.

South Korea also weathered the Asian financial crisis, nuclear tensions, the convictions of two former presidents, and an impeachment without backsliding toward repression. Instead, with a

**Table 2 — Presidential Timeline 1987–2012**

1987	Election of government candidate and ex-General Roh Tae-woo by first popular vote since 1971; Roh is the last career soldier to serve as of 2009
1992	Election of government candidate Kim Young-sam, first civilian president since 1961
1996	Kim government sentences former presidents Roh and Chun Doo-hwan to death for Kwangju and other crimes; both men later pardoned
1997	Election of Left-liberal Kim Dae-jung, first opposition candidate to win office
2002	Election of Left-liberal Roh Moo-hyun, former human rights lawyer
2004	President Roh impeached by legislature but restored by courts
2007	Election of Right-conservative Lee Myung-bak, the second opposition candidate to win office after Kim in 1997
2012	Next election

Notes: Elections are held in December; new governments take office in February; presidents are limited to one term in office.

**Sources:** Freedom House: *Freedom in the World — South Korea* (2009). Accessed Oct. 28, 2009: [www.freedomhouse.org](http://www.freedomhouse.org); Koh, B.C. "South Korea in 1996: Internal Strains and External Challenges." *Asian Survey* 37, 1 (January 1997): pp. 1-9.

Freedom House score of 1.5, only the National Security Laws and questions of equal rights block the maximum 1.0 once reserved for the U.S., Canada and Northwest Europe. Decades of socioeconomic progress have moved South Korea to 25 out of 179 states in human development. (A chart of Political and Socioeconomic Trends is available on the International Insurance Interest Group Web site, <http://international.cpcusociety.org>. In the left menu, click on "Newsletters" and then select the "2010" folder.) The current index of 9.28 is higher than the U.S. in 1990 (9.20) and close to the U.S. index of 9.50 and top-ranked Iceland at 9.68.

The obvious "Red Flag" is the March 2004 legislative impeachment of President Roh Moo-hyun for public support of his own Uri party, a violation of laws that prohibit the chief executive from partisan favoritism. That May, a constitutional court overturned the impeachment and returned Roh to office.<sup>16</sup>

The impeachment illustrates how South Korea has changed. First, Roh's lack of formal education, human rights background and overtures to North

Korea had earned him the antipathy of conservatives and the nickname "Roh the Idiot."<sup>17</sup> Before 1987, however, it would have been difficult for a Left candidate like Roh to even be elected over the objections of the establishment, much less survive an impeachment. Second, a comparative perspective indicates South Korea has become stable enough to distinguish partisan rivalry from the legitimacy of democracy itself.

Like that of President [Bill Clinton](#) in 1998, Roh's impeachment caused hard feelings but only a minor interruption in the business of government. True, Roh's supporters started fistfights and tried to blockade the legislature, but the issue was eventually resolved peacefully. Voters instead expressed disapproval of the affair by handing a legislative majority to the Uri party in April, one month after Roh was removed. In the Philippines, by contrast, the attempt to impeach President [Joseph Estrada](#) for corruption in 2001 led to People Powers, violence and military unrest.<sup>18</sup>

Finally, political and socioeconomic development does not guarantee Westernization. On one hand, South

Korea has earned an international reputation for television, film and science, despite the conviction of dog-cloner [Hwang Woo-suk](#).<sup>19</sup> On the other hand, only time will tell if equality for women and minorities gains traction.<sup>20</sup> South Korea also has a high rate of suicide. In May 2009, former President Roh Moo-hyun himself jumped off a cliff during a corruption scandal.<sup>21</sup>

## Conclusion

In conclusion, South Korea has become one of the most stable, democratic and prosperous states in Asia. The problem with being an aircraft carrier, however, is that warships operate in dangerous waters. Seoul has done its part to transform Korea, but the stability of the peninsula at large has always been a geopolitical issue, and never the exclusive province of Koreans — South or North.

## Resources

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# South Korea Political Risk — From Canoe to Aircraft Carrier

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Great South Gate (Sungyemun), Seoul, South Korea.

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# Spitzer's World

by Coletta Kemper, ARM



**Coletta Kemper, ARM**, is vice president of industry affairs for the Council of Insurance Agents and Brokers, which she joined in 1991. She brings more than 30 years of political and public policy experience to the job. Prior to joining the Council, Kemper served as director of public affairs for the National Association of Insurance Brokers for six years. She has worked on political campaigns at the presidential and state levels. Kemper also spent four years in the legislative department for a public interest organization headquartered in Washington, D.C. She has worked in the private sector in the telecommunications and finance fields. Kemper received a master's in public administration degree in 1982 from Harvard's Kennedy School of Government. She holds a bachelor's degree in English Literature from the University of Maryland.

**Editor's note:** This article appeared in the November 2009 issue of *Leader's Edge Magazine* and is reprinted with permission. © 2009 Leader's Edge Magazine. All rights reserved.

**T**he disgraced former New York attorney general and governor affected a lot more than the U.S. brokerage industry. His influence has been felt worldwide.

Just five years ago, the name "Spitzer" put the fear of God into our industry. **Eliot Spitzer** is long gone from a public life of power — first as New York attorney general and then as governor. Exposed, defrocked and discredited — quite a fast fall. He occasionally pops up on some news show as a commentator, but his fan base is greatly reduced. To add insult to self-imposed injury, Spitzer's controversial 2004 agreements with the top three brokers, which forced them to forego contingent commissions (and cost them millions to settle), began unraveling last summer.

In August, the Illinois Department of Insurance said it would allow Arthur J. Gallagher & Co. to receive contingent commissions again. (Gallagher's agreement was with Illinois, not New York.) That announcement was followed by a report that state regulators and attorneys general in New York and Connecticut were considering similar dispensation for Marsh, Aon and Willis, the prime targets of Spitzer's investigation.

Connecticut Attorney General **Richard Blumenthal**, who was party to the Spitzer inquiry, said regulators "are sensitive to the need for a level playing field, so companies are treated equally." That's a far cry from Spitzer's "shock and awe" strategy.

Not that any of the brokers will recoup any of their settlement costs, even though the New York Supreme Court last year ruled that contingent commissions were not illegal. But there is a small price to pay for the reversal on contingent commissions, at least in New York, which is calling for agent and broker disclosure — a practice that most commercial agents and brokers have already adopted in one form or another.

The New York proposal sets out the minimum disclosure a producer must

provide a customer orally or in writing prior to the application of insurance and at renewal. The producer must also tell customers of their right to request additional information on compensation. Some version of the proposed regulation is expected to be final by the end of the year.

Spitzer's gone, but we're still living with the aftermath. Ironically, his investigation may have had a greater impact in other parts of the world. A number of countries have adopted agent/broker disclosure rules from the bare minimum to overkill. Here's a look at how Spitzer-influenced disclosure rules affect a few other countries.

Australia requires disclosure to "retail" (individual and small business) clients. However, all brokers have a general obligation to provide "clear, concise and effective" information about any compensation or possible conflict of interest at a "reasonable" level on any product — retail or commercial.

The three broad areas of disclosure are:

- (1) Explaining the services being offered by the broker, how the broker will be paid and whether the broker is acting on behalf of the client or the insurer.
- (2) Providing additional disclosure where "personal" advice is given to ensure suitability of the product.
- (3) Providing clients with information about the policy being purchased.

In the U.K., life agents must disclose fees and commissions in writing for policies with an investment element. While there are no formal rules for personal lines clients, there's an expectation that the intermediary will disclose information if requested. Last December, regulators decided not to mandate broker disclosure for the commercial sector but strongly

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# Spitzer's World

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suggested that the industry take steps to provide commercial clients with more transparency. The industry developed guidelines that require brokers to clearly inform clients of the right to ask about compensation and to disclose all earnings, including contingents. Any fees must be agreed in advance. Brokers must develop internal policies for managing conflicts of interest and have written policies and procedures in place on disclosure.

Countries with some level of mandatory *Spitzer's gone, but we're still living with the aftermath. Ironically, his investigation may have had a greater impact in other parts of the world. A number of countries have adopted agent/broker disclosure rules from the bare minimum to overkill.*

compensation disclosure include Estonia, Italy, Latvia, Norway, Spain, Sweden and Slovenia. Portugal requires disclosure at the client's request, as does France when compensation equals more than 20,000 euros. In Hungary, disclosure is recommended.

Denmark, Finland and Norway prohibit brokers from receiving any commissions from insurance companies. Switzerland recently introduced legislation that would, in effect, impose a fee-only system on brokers. Under the proposal, commissions belong to the policyholder. Swiss brokers are negotiating with the government to remove the objectionable language; however, the trade-off may be full transparency and a ban on contingent commissions.

In Canada, the broker and insurer must disclose essentially everything about their relationship to the client.

South Africa requires full disclosure. Intermediaries must disclose license status, their relationships with insurers and any potential conflicts of interest, as well as their compensation.

Disclosure is not bad policy. In fact, if anything, it has strengthened the relationship with clients. The problem comes when government tries to regulate compensation, as Finland and Denmark have done. When coupled with transparency, market forces are still the best regulator. Apparently, some U.S. regulators agree. ■

# International Insurance Interest Group Seminar 'Insurance and a Sustainable World'

by Donald M. George, CPCU, MBA, ARM, ACU, AU



**Donald M. George, CPCU, MBA, ARM, ACU, AU**, is the U.S. casualty underwriting manager for Royal & SunAlliance Insurance Agency (RSA) in New York and a member of RSA's Technical Academy for liability. George has worked at RSA since 2002 and in insurance since 1986. His prior roles were with Fireman's Fund, Kemper, Zurich and Wausau.

change and global warming practice at Cozen O'Connor. The panel was moderated by **Anthony L. Cabot, CPCU, ARM**, director of global programs and product development manager for Continental Europe and Asia for XL Insurance Ltd.

The session began with a video prepared and narrated by **Anthony E. Fienberg, CPCU, ARe, RPLU**, chair of the International Insurance Interest Group. This video highlighted many countries and different languages to illustrate the global nature of our business and the importance of insurance in managing risks. Fienberg discussed the interest group's mission statement: "To increase awareness of the international perspectives of insurance and risk." To view the video, please visit <http://international.cpcusociety.org>.

Building a "sustainable" world is not an ideal but a necessity. The session provided an overview of various definitions of "sustainability" and demonstrated how our societal structure is impacted by climate risk and sustainability, including newly emerging risks.

Patton started the discussion by pointing out that sustainability is the intersection of fire, power, water and transportation. We can reduce stress on our natural resources by using the insurance instrument. Mitigation and adaptation of renewable energy sources are available in insurance products, such as specialty warranty covers for hybrid automobiles.

"Climate risks, with the potential for lawsuits, regulations and/or legislation, are an emerging area of exposure for our customers across the globe," she said. We need to consider sustainability as we make our next generation of insurance products.

Morris noted that sustainability should put us on full sensory alert. We need a resiliency for change, a capacity to reset. What was once a 30-year lifecycle is now only eight years. She pointed out that to have an innovation strategy to gain

a sustainability advantage in our respective organizations we have to have the "Triple A," which includes:

- **Authenticity** — say what we do in creating sustainable value and create authentic relationships in the workplace, fostering creativity and originality.
- **Agility** — when ideas bubble up, embrace them. Understand our uncertainty; change complexity to clarity.
- **Ambiguity** — during the innovation process ambiguity is OK to foster new ideas.

Stewart talked about the 2005 Hirsh Report, which states that peak production of oil was in 2005 and that uncertainty would follow, unless you build for a sustainable future. He discussed climate change litigation citing four major cases. A key point of contention if there is negligence on the part of a business entity is whether this is a political question or one for the courts to decide.

These cases could also involve directors' and officers' liability claims. Now, many boards of directors are issuing disclosures for climate change. Additionally, in March 2009, the National Association of Insurance Commissioners (NAIC) adopted the mandatory Insurer Climate Risk Disclosure Survey, which insurance companies use to disclose to regulators the financial risks they face from climate change as well as actions the companies are taking to respond to those risks.

For a listing of learning objectives for "Insurance and a Sustainable World," see page 15.

The panel took questions on how the insurance industry can innovate to meet the demand for sustainable products. Suggestions discussed included "pay as you go" telemetric automobile insurance products and credits for sustainable building materials used in property reconstruction. ■

**T**he International Insurance Interest Group presented a General Session, entitled "Insurance and a Sustainable World," on Sept. 1, 2009, at the CPCU Society Annual Meeting and Seminars in Denver, Colo. It addressed the hot topic of building a sustainable world, including the impact of risk management and insurance.

Panelists included **Karen A. Morris**, barrister, chief innovation officer from Chartis; **Lindene Patton, J.D., CIH**, chief climate product officer from Zurich Financial Services; and **William F. Stewart, J.D.**, co-chair of the climate

# 2009 CPCU Society Annual Meeting Seminar Review

## ***International Insurance Perspectives — Oops ... My Client Has Gone International!***

by C. Michael Dower

**C. Michael Dower** is vice president at CNA International—U.S. Operations, where his work includes underwriting of both the “inbound business” of strategic partners and CNA foreign branches (“reverse flow”) and the “outbound business” of CNA’s domestic clients (home foreign). He has spent more than 27 years in the international insurance marketplace with various major insurance carriers, including overseas postings to Dubai and Athens. Dower earned a master’s degree in international management from the American Graduate School of International Management (“Thunderbird”) in Glendale, Ariz.; and a bachelor’s degree from the University of Arizona. He is a candidate member of the CPCU Society.

The CPCU Society’s International Insurance Interest Group and Agent & Broker Interest Group presented this seminar in Denver, Colo., on Sept. 1, 2009, to address the basics of placing international insurance coverage, including the kinds of insurers to approach, types of coverage structures available and regulatory compliance issues. One of the ironies of the global economy is how foreign insurance requirements are usually a low priority item on a CFO or risk manager’s agenda. It is not uncommon for international underwriters to receive pleas for help from agents and brokers as they realize their clients have gone global and need coverage — usually with no time to spare and limited information to share.

Moderator **Karen A. Morris**, barrister, chief innovation officer at Chartis, started the session by introducing the distinguished panel of speakers to attendees. First to address the meeting was **Anthony L. Cabot, CPCU, ARM**, director of global programs and product development manager for Continental Europe and Asia for XL Insurance.

Cabot started his presentation with some overseas claim examples to put the group into the mode of thinking globally. Specifically, how does domestic coverage apply overseas in the event of workers compensation, property damage, products liability, premises liability and automobile insurance claims? The essence of the opening message was how to address general insurance coverage concerns when your clients have an overseas operation. What evaluation tools can you use? How can an insurance carrier assist in your deliberations?



Panelist **Michael A. Leinenbach, CPCU, ARM, ARM-P, AIM, ASLI, ARe**, at the podium during the seminar, “International Insurance Perspectives — Oops ... My Client Has Gone International!”

**Michael A. Leinenbach, CPCU, ARM, ARM-P, AIM, ASLI, ARe**, senior underwriter with Zurich North America, was the second speaker for the panel. Getting started in the process was the chief focus for this segment. An insured should collect adequate information on the exposure involved at overseas locations, including product descriptions,

sales estimates, employee data, automobiles and property values. This information is really nothing different or unexpected from what one would expect from the domestic-insurance side.

***The essence of the opening message was how to address general insurance coverage concerns when your clients have an overseas operation. What evaluation tools can you use? How can an insurance carrier assist in your deliberations?***

Of course, the greater detail an insured can provide for overseas locations, the better the agent/broker and insurance company will be able to provide the required coverages. It is important to address the coverage issues as well as determine how to best buy insurance locally. Can your local insurance agent or broker provide coverage country by country, or do you need to approach a global broker and insurance company to put your coverage into one comprehensive global program? Are there Office of Foreign Asset Control (OFAC) concerns or difficult countries/territories to consider? Compliance with local insurance rules and regulations is also a key consideration when you put international insurance programs in place.

**Mickey Brown, CPCU, ARM**, senior vice president at Marsh USA Atlanta, was the third speaker on the panel and provided finer detail on managing a global operation as well as global coverage by line of business. He discussed how communicating internationally presents its own unique problems, and negotiating strategies are vastly different by country. Also, translations to a foreign language may not convey the true meaning of the



At the 2009 Annual Meeting seminar developed by the International Insurance and Agent & Broker Interest Groups, attendees listen carefully as panelists field questions raised about various international insurance coverages.

information that you are sending to a local underwriter or agency/brokerage.

The second half of Brown's presentation focused on international insurance programs and differences/similarities with domestic risk issues and concerns. The Controlled Master Program (CMP) policy and its component parts of admitted and nonadmitted insurance was discussed. Difference in Conditions (DIC) and Difference in Limits (DIL) language was defined with its distinctly international interpretation. Emerging issues in various jurisdictions around the world closed out the presentation.

The audience was very engaged in the discussion and asked a variety of international coverage questions — from business interruption insurance to pricing unlimited levels of liability insurance in Europe. Along the way, the panel fielded questions on kidnap and ransom insurance, travel insurance and tourist automobile coverage for Mexico. ■

### **'International Insurance Perspectives — Oops ... My Client Has Gone International!' Learning Objectives**

- (1)** What makes a prospect/client "international"?
- (2)** What steps should one take when faced with a client/prospect whose exposures one way or another extend outside the home country?
- (3)** What should I expect from my insurers when attempting to place coverage for an international client/prospect?
- (4)** Of what risk management issues unique to the international realm should I be aware?
- (5)** What type of coverage structures is available in the marketplace for my international clients and how can one choose among them?

### **'Insurance and a Sustainable World' Learning Objectives**

- (1)** Review definitions of sustainability.
- (2)** Identify the areas of our societal structure impacted by climate risk and sustainability.
- (3)** Identify emerging risks associated with climate and how climate relates to sustainability.
- (4)** Identify the role that insurance can play and actions insurers can take to mitigate risk and improve sustainability.
- (5)** Identify the role that insurance can play and actions insurers can take to help stakeholders adapt to and mitigate the negative effects of climate change and improve sustainability.



*Related article on page 13.*

# Piracy in the 21st Century — Ancient Marine Insurance Response

by Duncan Cox, CPCU, MBA, ARM, AMIM



**Duncan Cox, CPCU, MBA, ARM, AMIM**, is a senior vice president with Marsh USA Inc. and the West Zone cargo claims manager, responsible for providing clients with cargo claim advocacy and consulting services. Cox began his 27-year marine insurance career at Lloyd's, moving to Seattle, Wash., in 1990. He holds a master's of business administration from Seattle Pacific University.

*“Everyone on here is okay. We’re on our way to Mombasa with Navy Protection on board. Captain Phillips is still hostage in the lifeboat with the four pirates. It was a pretty stressful situation. I have to say I am impressed with how the crew responded. They have to know that if they kill him (Phillips), they’ll be done.”*

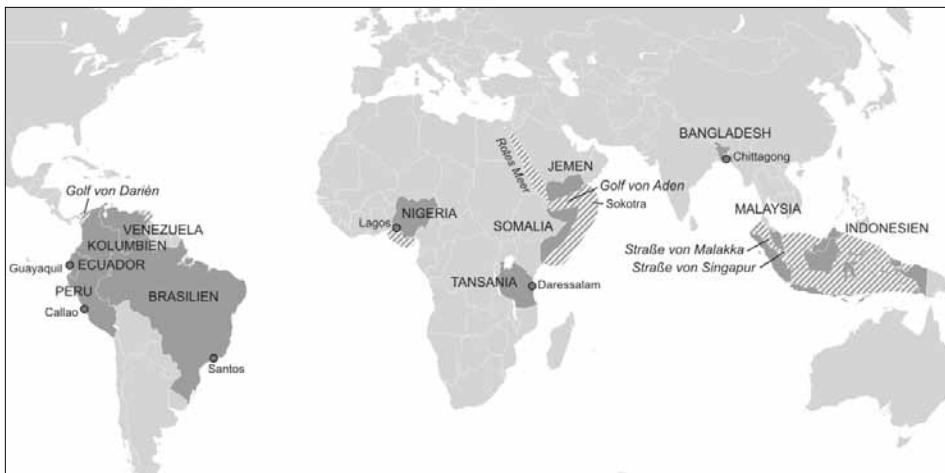
— Excerpted from an e-mail sent by the MV Maersk Alabama 1st Engineer on April 10, 2009. The MV Maersk had been attacked by Somali pirates two days earlier and its captain, **Richard Phillips**, held hostage in a lifeboat. Phillips was eventually freed after U.S. Special Forces attacked the lifeboat.

**T**he e-mail message sent from the MV Maersk Alabama personalizes the experience felt by mariners who are trained to operate their ships, not wage a war on piracy, and most likely understates the stressfulness of the crew. This article will present an overview of piracy and an explanation as to how the maritime community manages the associated risks.

Piracy is defined in Article 101 of the *United Nations Convention on the Law of the Sea (UNCLOS)* of 1982 as, in part, “any illegal acts of violence or detention, or any act of depredation, committed for private ends by the crew or the passengers of a private ship or aircraft, and directed:

- (i) on the high seas, against another ship or aircraft, or against persons or property on board such ship or aircraft;
- (ii) against a ship, aircraft, persons or property in a place outside the jurisdiction of any State.”

## Piracy Hot Spots



It is with interest that aircraft are mentioned; and, of course, it is possible that a float plane could land on the high seas.

The location of a majority of piracy used to be centered in narrow channels, with little room for escape — for example, the Strait of Gibraltar, eight miles wide, and the Malacca Strait between Malaysia and Indonesia. However, these areas do not traditionally meet the definition of the high seas, which historically meant more than three miles from land. The current UN treaty states that territorial waters extend 12 nautical miles from the shoreline, meaning that many of the above-mentioned narrow channels are not high seas.

Of course, pirates don't really pay attention to UN definitions, and therefore courts of law usually refuse to apply the strict definition of high seas and instead apply the piracy principles to any navigable waters.

## Areas of Modern Piracy

Piracy can be defined as committed for private means. The Barbary Pirates were in fact not pirates but “rovers,” working for the states of North Africa. Also, the privateers, travelling with “letters of marque” (mart) and “letters of counter mart” under the orders of kings and queens to seize foreign assets of those who committed an offense under the law of nations, were not pirates by definition. (The right to use such letters of marque started in 1707, and essentially allowed one nation to attack another without declaring war. They were relinquished in the 1856 Treaty of Paris.)



*Somali pirates.*

## Piracy Attacks

The International Maritime Bureau (IMB) report of Oct. 25, 2009, states that: "Global piracy figures have already surpassed the total number of attacks recorded in 2008, with 306 incidents reported to the IMB Piracy Reporting Centre (PRC) in the first nine months of 2009, while in 2008, the total number of attacks for the year was 293."

The report also revealed that the total number of incidents in which guns were used had risen by more than 200 percent compared with the corresponding period in 2008. Global piracy statistics reveal that in the first nine months of 2009, 114 vessels were boarded, 34 vessels hijacked and 88 vessels fired upon. A total of 661 crewmembers were taken hostage, 12 kidnapped, six killed and eight reported missing.

## Identifying the Risk

Losses caused by pirates usually consist of theft of cash and other valuables; ransom for cargo; vessel and crew; injuries to crew; and damage to the vessel, by either fending off the pirates or by the pirate's actions. For example, vessel damage has included excessive engine wear to evade the pirates and controlled fires to prevent boarding. Other costs include fees for a professional negotiator; expenses to fly and house family members; costs to arrange for the physical ransom payment; and the loss of vessel hire to the ship-owner or charterer for the time taken to negotiate the release.

**Peter Chalk**, senior policy analyst for The Rand Corporation, testified in February 2009 before a U.S. congressional committee that Somali gangs netted about US\$20M in 2008, with ransoms reaching up to US\$3M. They estimate that the true cost to the maritime industry is in the range of US\$1B to US\$16B. (Testimony of Peter Chalk: "Maritime Piracy — Reasons, Dangers and Solutions." <http://www.rand.org>)

## Sharing the Risk — General Average

Vessel owners are charged with executing the maritime venture, which usually means delivering cargo from port A to port B and as such having primary responsibility to the cargo. However, the liability of the vessel is less clear, and is limited according the terms of the Bill of Lading. Liability regimes include Hague Visby Rules, Hamburg Rules, Carriage of Goods by Sea Ace (COGSA) and the yet-to-be ratified Rotterdam Rules. Cargo owners also share in this risk. Each of the regimes includes clauses dealing with situations that can impact the maritime venture and how any financial losses that arise are to be handled.

Piracy is an act which impacts the entire maritime venture, and although the vessel owner is the one dealing with the problem initially, cargo owners will be asked to assist with any financial loss in accordance with the wording of the Bill of Lading. This process is called General Average (GA), which allows for

a proportional distribution of incurred expenses to save a maritime undertaking from peril among all with a financial interest in the safe execution of the venture. Interests may include vessel owners, cargo owners, owners of the bunkers (fuel), and owners of the money made from the carriage of the cargo (known as freight). This is not always the owner of the vessel, but can be a charterer who pays the vessel owner for the use of the ship.

General Average can be traced back to Rhodian Sea Law, which was written in about 800 BC and provided rules for maritime commerce and risk sharing. The concept of General Average is unique in maritime trade, allowing a vessel owner charged with ensuring the safe arrival of the maritime venture to make sacrifices (such as jettison of cargo to lighten the ship) to save a vessel in peril; when the vessel safely arrived in port, the value of the saved property was tallied with compensation paid to those that made the sacrifice. Rhodian Sea Law included terms such as “vessel capture and usurpation by pirates,” and was adopted on a broader scale as maritime trade evolved; they were changed by the Romans, by elements of the Byzantine Empire and eventually pirates.

General Average is still in effect today and can be defined as a loss arising out of extraordinary sacrifices made, or extraordinary expenses incurred, for the

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# Piracy in the 21st Century — Ancient Marine Insurance Response

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benefit of ship and cargo. The sacrifices must be:

- (1) Extraordinary and made on behalf of all in interest to the venture.
- (2) Intentional and reasonably made in response to a common peril.
- (3) Successful in that some of the interest must survive.

So what does General Average have to do with piracy? In the case of *Hicks v. Pallington*, (1590 Moore's QB R 297), the English court determined that a ransom payment was a sacrifice, and fits the above three prongs, and thereby could be shared among all interests in the venture.

## Risk Financing Plans

Marine insurance is typically provided by Hull and Machinery; Liability, known as Protection and Indemnity (P&I); and Cargo insurance policies

## Hull and Machinery Insurance

The American Institute Hull clauses and the London Hull clauses deal with piracy differently. The Americans decided to keep the historic marine perils wording, which any scholar of maritime history will enjoy:

*"Touching the Adventures and Perils which the Underwriters are contented to bear and take upon themselves, they are of the Seas, Men-of-War, Fire, Lightning, Earthquake, Enemies, Pirates, Rovers, Assailing Thieves, jettisons, Letters of Mart and Counter-mart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes and Peoples, of what nation, condition or quality soever, Barratry of the Master and mariners and all other like Perils, Losses and Misfortunes that have or shall come to Hurt, Detriment or Damage of the Vessel, or any part thereof, excepting, however, such of the foregoing perils as may be excluded*



by provisions elsewhere in the Policy or by endorsement thereon."

War clauses were later developed. It was decided that piracy should be covered by these (and specifically excluded within the paramount exclusion clause) rather than disrupt the historic language of perils clause.

The British approach is to keep piracy within the confines of the Hull policy; however, this can create a problem when a hull is insured in both U.K. and U.S. markets. It is important that the broker ensure there are no coverage gaps in costs incurred to avoid or mitigate a pirate event that can be covered by a Hull policy as sue and labour expenses.

## Protection and Indemnity Insurance

Injuries to crew as a result of an attack will be covered under the liability policy or protection and indemnity policy. However, these policies do not cover any ransom payments to ensure the crew members do not get harmed. These policies do cover repatriation expenses should a crew member need to be transported home.

## Loss of Hire Insurance

This policy provides coverage for lost charter hire due to the attack to either the owner of the vessel or the charterer, depending upon the contractual agreement.

## Cargo Insurance

The ship's cargo does not usually suffer any damage from a pirate attack, although the payment of ransom is a large cost paid under the rules of General Average in proportion over all the maritime interests. Cargo policies insure the payment of the insured's share of the General Average payment. However, more recently insurers have started to dispute whether piracy and resulting ransom is a General Average event, arguing that the ship-owner failed to take anti-piracy measures, and, therefore, the attack is not unexpected which could rule out General Average.

## Yacht Insurance

Yachts are a target for pirates because of the potential for both large sums of money and high-valued personal effects on board. The yacht policy should provide coverage here.

## Piracy Insurance

Some creative brokers and insurance markets have modified kidnap and

## 2009–2010 International Insurance Interest Group Committee

ransom policies to specifically address both the ransom payments and costs to physically make the payment, usually cash to a dangerous location, costs to allow family members to travel and independent negotiator fees.

### Loss Prevention

The IMB tracks all pirate attacks and provides tips, which include:

- Ensure early detection, as most pirates will stop their attack if spotted. Keep multiple watches on board and sound the alarm when an attack is noticed.
- Know where you are at all times and be aware of current situations.
- Conduct regular drills to ensure the entire crew knows what to do. Address language barriers within the crew.
- Ensure fire hoses are rigged and charged.
- Follow the known protected channels.

Vessel owners are now hiring private armed guards to defend their ships. Navies are becoming more active in the known hotspots, even using unmanned drones to spot pirates; however, they have to tread carefully, given the various political issues and jurisdictions in which pirates have no interest. For more loss prevention measures, consult the article “Piracy — The East Africa/Somalia Situation,” published in 2009 and available through the Oil Companies International Marine Forum, [www.ocimf.com](http://www.ocimf.com).

### Conclusion

Piracy has been around since the days maritime trade commenced, and with the upsurge of attacks in the Gulf of Aden, it does not appear that it will disappear. Rather it will re-emerge in nations where people are desperate for money and there is no government rule of law. The insurance community can do little to prevent the underlying problems. However, insurance is vital in ensuring that trade continues through piracy hot spots by providing financial support to all with an interest in the maritime venture. ■

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# International Insurance Interest Group

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## **Volunteer Leaders, Rising Stars to Gather in Phoenix**

The CPCU Society's current and emerging leaders will focus on strategic issues affecting the Society and your chapter at the 2010 Leadership Summit. The conference will be held on April 29–May 1, 2010, at the Pointe Hilton Squaw Peak Resort in Phoenix, Ariz.

All volunteer leaders are urged to attend this distinguished gathering to chart the Society's future course and participate in a free-flowing exchange of ideas on vital topics.

**The Summit will include:**

- Board of Directors meeting.
- Committee, task force and interest group meetings.
- CPCU Society Center for Leadership courses. Open to all members.
- Chapter and interest group leader workshops.
- Leadership luncheons with special guest speakers.

Register today at  
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