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International Perspectives

Editor's Note — Pandemics, Insurance Marketplace and Global Economy

by Mickey Brown, CPCU, ARM

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Welcome to the second quarter 2009 edition of the International Insurance Interest Group's newsletter, *International Perspectives*.

Pandemics

In looking back to our March 2008 newsletter issue, the cover article discussed the catastrophic social and economic impacts of a pandemic. The fact remains that many companies believe it's unlikely that a pandemic could significantly impact their operations. This attitude is changing, however, as broader business planning strategies are taking into account the global interdependencies of today's economy and the far-reaching effects of a pandemic outbreak.

Originating in Mexico, confirmed cases of novel influenza A (H1N1), known as swine flu because it is a virus that usually infects pigs, have now been reported by 74 countries and sickened a reported 28,744 people[1], with Mexico, the U.S., Canada, Spain, and the U.K. having had the largest number of cases. International travel and trade have been impacted — in some cases, significantly, especially to Mexico.

On June 11, 2009, the World Health Organization (WHO) raised its pandemic alert level to Phase 6 in response to the spreading outbreak of the influenza A (H1N1) virus. An alert level of Phase 6 reflects that a pandemic is truly underway and was issued in response to the ongoing geographic spread of the virus; however, it does not mean that the virus is becoming more virulent. At this time,

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most people sickened by the virus have experienced typical flu symptoms and recovered, without requiring serious medical treatment; however, anyone who contracts H1N1 can become severely ill, and people in certain groups appear to be at higher risk.

The 1918 "Spanish flu" pandemic, a strain similar to the H1N1, produced an estimated number of deaths ranging from 50 million to 100 million people, when the global population was an estimated at 1.8 billion and medical care was extremely poor. Interestingly, at the time in the U.S., there was news censorship of the pandemic — where the 1918 virus likely started. The U.S. had entered World War I a year earlier, and negative press accounts involving the war, even about the effect the Spanish flu was having on American troops, were considered a crime. Many of the flu reports came from Spain, a country that did not have censorship — hence the reason why the strain was called Spanish flu.

The 1918 pandemic had a tremendous impact worldwide. There were unique factors that contributed to the high mortality rate. World War I was in full swing, and large numbers of mobile troops were living together in close quarters, enabling the infection to spread nationally and pass into Europe and beyond. Because antivirus research was in its infancy, the Spanish flu swept across the globe in three waves, the first and final waves were incapacitating but survivable, but the second wave was deadly.

Because a pandemic is likely to manifest itself gradually, rather than occurring as a sudden emergency, it is imperative that organizations be neither complacent, nor overreact. They should review business continuity and crisis management plans to ensure they address the various challenges arising from a human pandemic. The focus of business continuity planning should be to reduce exposure, communicate extensively, minimize absenteeism, plan for recurrences, and constantly adjust business activities (and supply chains) to reflect shifts in the global marketplace.

Insurance Marketplace

The extent to which businesses around the world could suffer damages in the event of a pandemic depends on the outbreak's severity. Of course, whenever a loss is incurred, businesses will look to their insurance policies for help. Unfortunately, many claims stemming from a flu pandemic are likely to lead to coverage disputes. For example, insurance companies will argue that the presence of swine flu on the premises does not constitute "physical loss or damage" per the policy definitions. In any case, if an employee has a workplace exposure to the flu, the employer should report the incident to its insurer/s and be aware that, ultimately, claims outcomes are dependent on the specific facts and legal rules in the applicable jurisdiction.

Insurance buyers in this 2009 economy have an acute focus on cost reduction and must be creative in managing risks. On the other hand, insurance companies must balance granting substantive cost reductions for the policyholders' benefit while ensuring enough risk transfer premium to earn a profit. Due to the financial crisis, insurers and reinsurers are unable to raise capital, a critical element to driving growth and mitigating insurance business downturns. As new capital is largely unavailable, insurers and reinsurers are more likely to raise rates in 2009.

Global Economy

The swine flu coincides with a global economic crisis that has required massive layoffs by organizations in an effort to cut costs and decrease operating losses. It is interesting that, according to the United Nation's Food and Agriculture Organization, the world's pig population has grown to over one billion animals from 750 million over the past 20 years. Pigs are a cheap source of protein, so their population will probably keep growing as demand for meat increases with global population growth. Like birds and cows, however, hogs can create health problems, as they are linked to pollution and diseases. Specifically, pigs often live close to humans and are more likely to share viruses with them. In any case, history shows that the swine flu will contribute to the economic toll.

In addition, in these depressed economic times, companies of all sizes must remain vigilant to retain key employees who are also affected by significant declines in available retirement (investment) balances. Organizations, as pension plan sponsors, must therefore react to a sudden demand for large plan contributions. Unfortunately, this financial burden comes at a time when cash is difficult to raise; therefore, many employers have chosen to reduce benefits for their employees to conserve cash, raising a host of fiduciary liability issues.

What started as a subprime mortgage and credit crisis in the U.S. has grown into a global banking meltdown, spreading to most every industry sector and resulting in many bankruptcies. In response to the crippling economic crisis, governments in many countries are providing financial bailouts to private industry via capital infusions. As weakened industries such as the U.S. automobile and Japanese electronics sectors, both burdened with overcapacity, are subject to "bailout funding," it is imperative that governments develop an exit strategy once the economy recovers.

While recapitalization initiatives may prevent the failures of large companies, and resultant devastating economic effects, government relief for private enterprises runs against the principles of free-market capitalism enjoyed by most of the world. In any case, the economic crisis will most certainly hasten stronger government regulation of financial service industries, including insurance companies.

The economic crisis and swine flu have certainly proved the extent to which the world is subject to global risks. Hopefully, 2009 is a year where the world finds the best risk mitigation solutions. In any case, how the insurance industry reacts during this crisis will have a lasting impact on brand reputation, public perception, shareholder confidence and employee morale.

Following the 2009 World Economic Forum, held in Switzerland, the Global Risk Network of the World Economic Forum in concert with its partners, Citigroup, Marsh & McLennan, Swiss Re, The Wharton School and Zurich, published "Global Risks 2009." This report highlights economic risks on the rise as a result of the financial crisis and suggests taking a long-term approach to risk, looking 10 years ahead, while also responding to the crisis of today. "Global Risks 2009" identifies deteriorating fiscal positions, a collapse in asset prices and gaps in corporate governance, along with issues relating to natural resources and climate, as the pivotal risks facing the world in 2009. The report addresses how local risks, faced in the short term, link to longer term risks with global implications.

Based on a qualitative assessment of global risks and input from business leaders, "Global Risks 2009" predicts that massive government spending to support financial institutions is threatening the fiscal positions in countries such as the U.S., the U.K., France, Italy, Spain and Australia. The report specifically warns of the danger of policies that do not address the root causes of the crisis. As China also suffers a slowdown in growth, the side effects will significantly damage the weakening global economy. While global equity values have fallen by some 50 percent, the report notes that there could be further reductions ahead, as selling equities on a massive scale means flooding financial markets with more assets than they can absorb, triggering more price reductions.

John Drzik, president and CEO of Oliver Wyman, a subsidiary of Marsh & McLennan Companies, said, "There are many lessons we can all learn from the present financial crisis. High among them is the need to embed better risk governance. There are several measures both government and corporate leaders can take to ensure they ask the right questions, understand their risk exposures more fully and improve ways of mitigating them." **Daniel Hofmann,** chief economist at Switzerland-based Zurich, said, "The global economy is still not in the clear yet, as it continues to be prone to substantial volatility. One of the biggest risks is that short-term crisis fighting may induce businesses and governments to lose the long-term perspective on risk."

In addition to the immediate risks stemming from the financial crisis, the report cautions against ignoring risks related to natural resources. As world leaders focus on water availability, the report shows that water is critical to generating energy, with 50 percent of the cost associated with water supply related to energy. It warns of potential rising tensions between developed and developing countries with respect to climate change policy.

The report concludes on a positive note, stating that 2009 could prove an opportune moment to strengthen global governance, build the political will to restore global financial stability, and also focus on the challenges of managing scarce resources. While risk mitigation requires leadership and significant resources, such commitment here should also yield opportunities to strengthen business alliances in different parts of the world. ■

Reference

"Influenza A (H1N1) Update 47." June 11, 2009. World Health Organization Web site, http://www.who.int/csr/don/2009_06_11/en/index.html. Accessed June 11, 2009.

WHO Pandemic Levels

The World Health Organization (WHO) has adopted a six-phase approach to characterize the level of pandemic alert.

Phase 1: No viruses circulating among animals have been reported in humans.

Phase 2: An animal influenza virus that is circulating among animals has been known to infect a human and is therefore considered a potential pandemic threat.

Phase 3: An animal or human-animal mix of an influenza virus has caused small clusters of disease in people, but there has not been sustained human-to-human spread.

Phase 4: There has been sustained human-to-human transmission of an animal or human-animal mix of influenza virus. This level indicates that the risk of a pandemic has increased significantly, but is not imminent.

Phase 5: Verified human-to-human spread of the virus in at least two countries in one WHO region. A level 5 alert "is a strong signal that a pandemic is imminent and that the time to finalize the organization, communication, and implementation of the planned mitigation measures is short," according to WHO.

Phase 6: Pandemic phase, meaning that community level outbreaks have occurred in at least one additional country in another WHO region. A global pandemic is underway.

In addition, WHO identifies two periods after the pandemic has been declared:

Post-Peak Period: Pandemic disease levels in most countries will have dropped below peak levels. Uncertainty remains about whether additional waves will occur.

Post-Pandemic Period: Flu activity will have returned to normal.

Source: World Health Organization

Steering Through the Global Auto Maze

by George Corde, CPCU

George Corde, CPCU, is a vice president at American International Underwriters headquarters in New York City. He has more than 25 years' experience in insurance, with particular specialties in several international areas, including automobile insurance, construction insurance, captive programs and multinational insurance programs. Corde earned a bachelor's degree from Boston College and a master's in business administration from the University of Hartford's Barney School of Business. He is presently the president-elect of the CPCU Society's New York Chapter.

On the surface, automobile insurance appears to be a relatively easy coverage to understand, but when looking under the surface at country differences, you begin to realize that this may be the most complex line of insurance. Automobile insurance is important because it serves the public interest by assuring that vehicle operators have the financial responsibility to meet their obligations to the public. And it employs vast numbers of people — automobile is the largest nonlife premium-producing line of business in the world. See Exhibit A. This article explores some of the differences that exist between countries and the coverage implications.

Automobile insurance is one of the simplest forms of insurance to understand because many of us drive cars. You know how much a car costs and likely what it would cost to replace. It is also fairly easy to understand the obligations we owe to fellow passengers and third parties with respect to injuries we may cause them or damages we cause to their vehicles or other property.

Automobile insurance is also one of the most complex lines of business. For starters, automobile policies are one of

Exhibit A
Automobile Insurance — Largest Nonlife Premium Line of Business in the World

Primary Source: Axco

Country	Auto Premium as a Percentage of Nonlife Premiums
France	33%
Germany	37%
Greece	60%
Indonesia	29%
Israel	50%
Kuwait	37%
Mexico	56%
Poland	61%
South Africa	43%
United Arab Emirates	34%
United States	40%
Venezuela	67%

The relative size of the automobile insurance class, relative to all property-casualty insurance premiums in several countries, is shown above.

There are big differences in the percentage size of automobile premiums in each market, which is impacted by factors including:

- Number of automobiles in the territory.
  - An island nation may have a reduced need for this form of transport.
  - Developing nations without purchasing power may not have many vehicles.
- Extent of coverage purchased.
  - Coverage may be compulsory or voluntary.
  - In some countries, the government provides third-party coverage.
  - Deductibles are more common in certain countries than in others.
  - Liability limits may be defined or unlimited.
- Litigiousness of society and relative claims sizes impact on premium rates/sizes.
- Relative amounts and premiums of other types of insurance purchased.

Exhibit B
Terminology Varies Among Nations

- Automobile insurance = motor insurance.
- Physical damage coverage = own damage coverage.
- Gasoline = petrol.
- Truck = lorry.
- Wagon = trailer.
- Trunk = boot.
- Bus = coach.
- Blue light and red light vehicles = ambulances and police cars.
- Casco (Casualty and Collision acronym) = Comprehensive (fire, theft, glass breakage, impact with animals). Casco may contain some or all of these perils and can also include collisions with other vehicles and objects. Part-Casco and Full-Casco terms are used in some countries.

the few coverage forms to cover both first-party (damage to your vehicle) and third-party (injury and damage to others) claims. Legal jurisdictions, whether states or countries, further complicate matters, particularly in the areas of legal liability and insurance coverage and costs. Terminology also varies from jurisdiction to jurisdiction. See Exhibit B.

As the largest premium line in any country, automobile insurance attracts large numbers of local insurers, as well as foreign insurers, seeking profitable business. In most countries, insurers have full freedom to establish premiums because government tariff rates are mostly a thing of the past. For other coverage lines, rates must be filed with local insurance departments. Because of the ease with which policyholders can change insurers, automobile insurance is one of the most competitive lines of business in the world.

Premium Size — A Range of Inputs

The size of premium per vehicle varies widely by country. In addition to being influenced by vehicle type, insurance costs are influenced by the scope of coverage purchased and typical claims in the local market. Some cultures are more apt to buy high levels of coverage with nominal deductibles, while others are more willing to assume risk. The scope of statutorily required coverage also varies by country and directly impacts the amount of premium charged.

The cost of claims varies because of both frequency and severity of loss. Here, too, every country presents a unique environment. Claims frequency is influenced by road conditions, weather, terrain, law enforcement, fraud and the number of vehicles on roads. Severity, or average claim size, is influenced by vehicle repair costs (particularly the cost of spare parts), which impacts both third-party liability and one's own damage coverage. With respect to liability claims, severity is influenced by differences in national civil justice systems, cultural differences with respect to how parties pursue lawsuits, medical costs, drinking and driving norms, and seatbelt use.

Legally Compulsory vs. Voluntary

In most countries, automobile insurance coverage is legally required for all vehicle owners or drivers. Generally, the law establishes the minimum third-party liability requirements and scope of one's liability. Because insurance regulations set the coverage requirements of automobile policies, they tend to be highly standardized at the country level. Local insurance regulators usually require that the policy be issued by a locally-admitted (licensed) insurance company, assuring the regulators that the insurance company has adequate financial resources to meet policyholder obligations, will provide regulatory information and will remit local insurance premium taxes.

Despite the fact that automobile insurance is typically compulsory, few countries have uninsured driver pools or bad risks pools similar to the assigned risk plans or the joint underwriting associations in the U.S. Additionally, private coverage for Uninsured Motorist, Underinsured Motorist, or Personal Injury Protection is not generally available, as it is in the U.S., where in certain instances coverage is even mandatory unless rejected by the insured.

Compensation Funds

Some countries, though few, have established compensation funds to address uninsured exposures. The funds that exist may address a variety of interests, including some or all of the following:

- Victims of hit-and-run accidents.
- Victims hit by stolen vehicles.
- Victims of uninsured drivers.
- Claims insured by insolvent insurance companies.

Compensation funds are set by taxing either the insurance companies or premiums paid by policyholders. The compensation funds operate under different names in each country, including, but not limited to, Motor Insurers Bureau, Motor Guarantee Fund and Security Fund.

Taxes and Other Expenses Paid by Insurance Buyers

There are many types of taxes and levies that insurance buyers pay in addition to their premiums. This is an important topic because this expense can be as high as 42.9 percent of premium, as it is in Denmark on third-party liability premiums. How these amounts are charged and the purposes for which the respective government uses them vary widely.

The governmental objectives include those noted in the Compensation Fund section above, as well as social services, fire brigade fees and other road safety needs. Insurance-buyer expenses included

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in this category are premium tax, stamp fees, policy fees and value-added tax (VAT). The amounts may be charged as a percentage of premium and can vary by coverage (for example, third-party or first-party) or be assessed as an amount per vehicle or per policy. Taxes may also vary by vehicle type, vehicle weight or engine size.

The burden of these expenses can be so high that they may impact the scope of coverage that companies and individuals buy. Less coverage (for example, self-insuring Physical/Own Damage cover), of course, results in lower premium, which itself results in lower premium taxes and other fees. Examples of some expenses appear in Exhibit C.

Exhibit C
Insurance Premium Tax, Stamp Fee, VAT, and Other Deductions

Primary Source: Axco

Country	Percentage of Premium	Comments
Argentina	23.52%	Tax, VAT, Social Services, Fire Brigade, Road Safety
Australia	10%–17.5%	Varies by state
Belgium	26.75%	Rate shown is for cars
Bolivia	16%	VAT and Transaction Tax
Chile	19%	
Finland	22%	Tax, VAT, Stamp, Fire Brigade
France	33%	Social security and Guarantee Fund
Germany	19%	
Hong Kong	Nil	
Indonesia	Nil	IDR 6,000 per policy
Italy	12.5%	Plus 10.5% on Liability and 1% on Own Damage
Japan	Nil	Stamp of YEN 200 per policy
Mexico	15%	Plus policy fee
Netherlands	7.5%	
Norway	Nil	
Philippines	12.5%	
Singapore	7%	Plus policyholders protection fund
Spain	6%	Fire brigade charges add an additional 2.5–5%
Sweden	32%	Third-party premium only
Switzerland	5.75%	Third-party premium only, plus CHF1.2%–2.4% per vehicle based upon weight
Turkey	5%	Plus an additional 5% on third-party premium
United Arab Emirates	Nil	
United Kingdom	5%	

Liability Policy Limits

The U.S. is the most litigious country in the world, and therefore the country with the largest claims settlements. With this in mind, one may expect that, as a matter of public policy, the insurance requirements in the U.S. would be among the highest in the world; however, this is not true. The compulsory limits of some states in the U.S. are listed in Exhibit D.

In most countries, the compulsory motor liability limits exceed those required in the U.S. **In many countries, compulsory motor liability coverage is unlimited.** In several countries (Australia, South Africa, New Zealand), the government assumes the responsibility of providing the liability protection. In South Africa, for example, this is funded by taxes on fuel. Exhibit E provides a sampling of several countries' statutory minimum limits. Of course, insurance buyers may purchase liability limits higher than the minimum required by statute, and such amounts are commonly referred to as Market Practice Limits. For example, despite the statutory minimum limits for Germany, many instead purchase limits of €100 million for Bodily Injury, capped at €8 million per person.

In the U.S., the automobile insurance market provides primary coverage for frequency claims, and the excess/umbrella market provides coverage for catastrophic/severity claims. In most other countries, the automobile market provides coverage for both frequency and severity claims. The implication for insurers is that they must have both the service infrastructure to handle large claims volumes and the financial capacity to withstand the impact of catastrophic claims.

Exhibit D
Sample of Statutory Minimum Limits by State in the U.S.

State	Bodily Injury Per Person	Bodily Injury Per Accident	Property Damage
Alaska	$50,000	$100,000	$25,000
California	$15,000	$30,000	$5,000
Florida	$10,000	$20,000	$10,000
Illinois	$20,000	$40,000	$15,000
New York	$25,000	$50,000	$10,000
Maine	$50,000	$100,000	$25,000
Texas	$20,000	$40,000	$15,000

Unlimited Liability — Implications

From an insured's perspective, having an insurance policy that provides unlimited liability eliminates the need to purchase additional insurance limits via excess or umbrella policies. Insurance companies, meanwhile, do not have unlimited capacity to assume risk and must rely on reinsurance protection. Unlimited liability reinsurance is typically purchased on an excess-of-loss basis (insurer assumes the first layer of loss), with several reinsurance participants sharing in the risk.

It is crucial that insurance companies appreciate that unlimited liability laws exist in over 30 countries and that catastrophic claims are not exclusive to the U.S. Insurance companies would be wise to check their reinsurance treaties for exclusions or limitations that would cause them to be bare of reinsurance for exposures such as terrorism and airside liabilities. Terrorists have used automobiles to carry explosives to high-profile targets. With respect to airside exposures, if a vehicle interferes with an aircraft's landing or take-off, the results could be catastrophic. Many countries' insurance laws do not allow exclusion of airport premises from the original policies. Examples of three high-profile automobile claims follow:

- **Mont Blanc Tunnel Fire.**
  The Mont Blanc tunnel is 7.25 miles long, connecting Chamonix Haute-Savoie, France, and Courmayeur, Aosta Valley, Italy. It is a major trans-Alpine transportation route, with Italy relying on it to carry one-third of its freight to northern Europe. On March 24, 1999, a Belgian truck carrying margarine and flour caught fire in the tunnel. Neither the driver nor first responders could stop the fire. Few vehicles were able to turn around, as the tunnel quickly filled with dense smoke. Drivers who tried to outrun the fire by foot, or who sought refuge in their vehicles, were quickly overcome. The fumes filled the tunnel so quickly that several attempting to drive to safety found that the fast-traveling fumes robbed their vehicles of the oxygen needed to keep the engine running. The heat of the fire (1,832 F) melted electric wiring and put the tunnel in darkness. The fire trapped many of the first-responding firefighters, ultimately leading to their deaths. The fire burned for 56 hours, and it took five days before the tunnel cooled enough to allow anyone to enter. Thirty-nine people died, and many more were injured. The tunnel was severely damaged and remained closed for three years. The estimated claims-cost range is up to €300 million.
- **Selby Train Accident.**
  On Feb. 28, 2001, in Great Heck near Selby, England, a man driving a Land Rover that was towing a trailer carrying another car swerved off the motorway, and went down an embankment and onto railroad tracks. The vehicle was struck by a passenger train traveling at 120 mph; the train derailed but continued down the tracks for a half-mile, colliding with a freight train carrying coal. Ten people died, 82 were injured and railroad equipment was destroyed. Total liability cost is estimated at GBP 40 million.
- **Wiehltal Bridge.**
  On Aug. 26, 2004, a car collided with a tanker truck, containing 32,000 liters of fuel, on the Wiehltal Bridge in Germany. The tanker fell under the bridge, and the heat from the fire destroyed the load-bearing capacity of the bridge, resulting in its closure. The tanker driver died, bridge repairs were estimated at €32 million, and replacement and disposal of bridge waste were estimated to cost up to €250 million.

Cross-Border Exposures

Automobiles can travel across jurisdictional borders, creating an additional set of issues. In the U.S., insurance policies contain a provision that allows them to conform to the statute of the state in which insureds are driving. These policies accommodate driving within the U.S. and Canada, but not in Mexico.

In several regions of the world, countries have banded together to establish conventions to allow the insurance purchased in one member jurisdiction to be applicable in other member jurisdictions, with the insurance automatically conforming to the local minimum liability statute. This means that when a vehicle moves from a jurisdiction requiring modest limits of liability, e.g., €1 million, to a jurisdiction requiring unlimited liability, the insurance policy will conform to the higher-liability limit.

International insurance coverage is evidenced by certificates, and the largest and most widely recognized certificate is referred to as the Green Card. The Green Card applies to all countries

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in the European Union (EU) plus Andorra, Croatia, Iceland, Norway and Switzerland. It can include Albania; Belarus; Bosnia-Herzegovina; Bulgaria; Gibraltar; Iran; Israel; Liechtenstein; Macedonia; Moldova; Monaco; Morocco; Romania; San Marino; Serbia and Montenegro; Tunisia; Turkey; and Ukraine.

Several other regions of the world have established similar systems:

- Orange Card — approximately 20 nations of the Arab League.
- Pink Card — Central African nations.
- Brown Card — West African nations.

Because international cover is not always automatic, insurance buyers must remember to request the coverage where needed.

Summary

The premium size of the highly competitive automobile insurance marketplace is significant in every country. Each jurisdiction has unique traits and requirements that can impact both the likelihood of claims and their average size. Government objectives add to the complexity, as they determine the statutorily required coverage levels and the types of compensation schemes that exist in otherwise uninsured situations. These variables ultimately impact the cost of insurance that policyholders pay, including premium, taxes and other fees. Unlimited liability laws affect insurance companies in that they may cause statutorily required coverage situations that are difficult to reinsure. Automobile insurance is further complicated when vehicles travel across international borders where insurance requirements are different than the home country of the vehicle. All in all, this line of business is clearly more complex than it first appears.

Exhibit E
Country Statutory Minimum Limits

Primary Source: Axco

Country	Bodily Injury	Property Damage
Argentina	ARS 30,000	ARS 30,000
Australia	Unlimited[1]	AUD20,000,00[02]
Austria	€5,000,000	€1,000,000
Bahrain	Unlimited	Not Stated
Belgium	Unlimited	€100,000,000
China	CNY 110,000[3]	CNY 2,000
Cyprus	€30,000	€1,000,000
Denmark	DKK 93,000,000	DKK 13,000,000
Finland	Unlimited	€3,300,000
France	Unlimited	€1,000,000
Germany	€2,500,000[4]	€500,000
Hong Kong	HKD 100,000,000	Nil
Hungary	HUF 1,500,000,000	HUF 500,000,000
India	Unlimited	INR 750,000,000
Ireland	Unlimited	€250,000,000
Israel	Unlimited	Nil
Italy	€775,000	€154,000
Japan	JPY 40,000,000[5]	Nil
Kuwait	Unlimited	Unlimited
Mexico	MXP250,000[6]	MXP250,000[6]
Malaysia	Unlimited	Nil
Netherlands	€5,000,000	€1,000,000
Norway	Unlimited	NOK 10,000,000
Oman	Unlimited	OMR 75,000,000
Pakistan	Unlimited	Unlimited
Philippines	PHP 100,000	Nil
Poland	€1,500,000	€300,000
Russia	RUB 160,000[7]	RUB 160,000
Saudi Arabia	Unlimited	Nil
Singapore	Unlimited	Nil
South Korea	KRW$100,000,000[8]	KRW$10,000,000
Spain	€70,000,000	€15,000,000
Taiwan	Unlimited[9]	Nil
United Arab Emirates	Unlimited	AED 250,000
United Kingdom	Unlimited	GBP 1,000,000

Exhibit E Notes

Important: Statutory limits are subject to change and may vary by type of vehicle or coverage, such as separate bodily injury and medical expense limits. Differences within countries also exist between provinces, territories or states.

Other notes are as follows:

1. Australia — Government-provided in all but two territories, New South Wales and Queensland.
2. Australia — Not required, but typically purchased at AUD 20,000,000.
3. China — Also a requirement for medical treatment costs of CNY 10,000. Limits applicable to pedestrians, cyclists and other road users are: CNY11,000 BI, CNY100 PD and CNY1,000 medical treatment costs.
4. Germany — €7,500,000 for three or more persons.
5. Japan — Limits vary by type of injury or disability.
6. Mexico — Applies to States of Nuevo Leon (includes Monterrey) and Jalisco (includes Guadalajara) only. For the entire republic of Mexico, buses require a limit of MXP 137,934 per passenger, and trucks require limits of MXP 500,000 per accident, in addition to MXP 900,000 for Pollution Liability.
7. Russia — Per person.
8. South Korea — KRW 20,000,000 applies to medical expenses. Limits in Exhibit E apply to death and disability.
9. Taiwan — Limited at TWD 1,400,000 per person — death; TWD 200,000 per person — injuries.

The Environmental Liability Directive — A Challenge for the European Insurance Industry

by Mathias Schubert

Mathias Schubert is a vice president with Gen Re, Corporate Underwriting Services (CUS), in Cologne, Germany. Originally an attorney-at-law, he has been with the company since 1988. After completing a decade in casualty facultative underwriting with a three-year assignment to Gen Re's New York City office, he switched to the treaty side and joined CUS in 1999. His main function is manager for underwriting support in non-U.S. liability business.

Editor's note: This is the first in a series of articles presented by the International Insurance Interest Group on the European Union's Environmental Liability Directive. The author, Mathias Schubert, based this article on his Gen Re Topics No. 16 paper, "The Environmental Liability Directive — A Challenge for the European Insurance Industry," and is reprinted with permission. Subsequent articles on this subject will focus on the insurance industry's approach to the directive, with an emphasis on the German market.

The Environmental Liability Directive (ELD) of 2007 establishes a new liability regime for the prevention of remediation of environmental damage in the European Union.[1] On April 30, 2007, the deadline passed for implementation of the ELD into the national law of the Member States. At that point in time, only three Member States had such legislation in force: Italy, Latvia and Lithuania. In Germany, the implementing legislation was passed on March 30, 2007, but did not come into force until Nov. 14, 2007. By March 2009, the vast majority of Member States have implemented the ELD; notable exceptions are Austria and Finland.

The Directive — Summary

What does "environmental damage" mean? The ELD mentions environmental harm of a type with which we have already been familiar in the past: "land damage" (meaning land contamination that creates a significant risk to human health) and "water damage" (meaning damage that has a significant adverse effect on the ecological, chemical or quantitative status or ecological potential of the waters concerned). The truly new dimension is a different type of environmental harm — damage to protected species and natural habitats, which is defined as "any damage that has significant adverse effects on reaching or maintaining the favourable conservation status of such habitats or species." The significance of such effects is to be assessed with reference to the original state ("baseline condition"), taking into account certain criteria set out in the ELD.

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"Protected species and natural habitats" refers to those species and habitats that fall under the Birds Directive (Directive 79/409/EEC) and the Habitats Directive (Directive 92/43/EEC). Furthermore, a Member State has the option of extending the definition to any additional habitats or species that it designates for purposes equivalent to those laid down in these two Directives.

Since the ELD is only concerned with the interest of the public in the integrity of the environment, it does not give private parties a right of compensation as a consequence of environmental damage.

Liability under the ELD comes in two flavours:

- Strict liability for any environmental damage will attach to a host of occupational activities that are considered inherently dangerous to health and the environment. These activities are listed in Annex III of the ELD; they include industrial installations subject to authorization under various EC Directives as well as many waste management operations, the use or release of genetically modified organisms (GMOs), and the transport of certain dangerous or polluting goods.
- Occupational activities that do not fall under Annex III of the ELD, however, may result in liability for damage to protected species and natural habitats and for any imminent threat of such damage, if the operator is "at fault or negligent." In this context, "occupational activity" refers to any activity carried out in the course of an economic activity, business or undertaking, irrespective of its private or public, profit or nonprofit character.

In this context, "occupational activity" refers to any activity carried out in the course of an economic activity, business or undertaking, irrespective of its private or public, profit or nonprofit character.

In relation to water as well as protected species or natural habitats, remedying environmental damage is achieved through the restoration of the environment to its baseline condition by way of primary, complementary and compensatory remediation. The three types of compensation are defined as follows:

- "Primary" remediation is any remedial measure that returns the damaged natural resources and/or impaired services to, or toward, their baseline condition.
- "Complementary" remediation is any remedial measure taken in relation to natural resources and/or services to compensate for the fact that primary remediation does not result in fully restoring the damaged natural resources and/or services.
- "Compensatory" remediation is any action taken to compensate for interim losses of natural resources and/or services that occur from the date of damage until primary remediation has achieved its full effect. (In this context, "interim losses" are defined as losses that result from the fact that the damaged natural resources and/or services are not able to perform their ecological functions or provide services to other natural resources or to the public until the primary or complementary measures have taken effect. It does not consist of financial compensation to members of the public.)

The ELD comes on top of already existing legislation. In most Member States, there are public law provisions that allow public authorities to pursue polluters in cases of water or soil pollution, but the authorities usually have a margin of discretion as to whether or not to really proceed against the polluter. Under the ELD, the competent authority is obliged to enforce the polluter's duty to remediate environmental damage. With regard to damage to protected species and natural habitats, existing legislation generally does not impose remediation.

One point that was highly controversial during the legislative process at the EU level was whether financial security requirements should be imposed upon operators subject to strict liability (that are first and foremost facility operators). Financial security requirements can be fulfilled in various forms, but for practical purposes, this means compulsory insurance in most cases. Although the Proposal already considered that some form of financial security would be vital to the success of the directive, it did not make it mandatory. Instead, Member States are required to "encourage" the development of financial security instruments and markets by the appropriate economic and financial operators "with the aim of enabling operators to use financial guarantees to cover their responsibilities under this Directive." (Article 14)

Nevertheless, individual Member States are still free to introduce financial security requirements. In Central and Eastern Europe, several countries are following this route or are contemplating doing so. In Spain, the legislator has also decided in favour of financial security requirements, which will come into effect in 2010. The obligation of the operators concerned and the required limits of indemnity will be set by the competent authority, depending on an assessment of the environmental damage that an operator is thought to be capable of causing and subject to a maximum of EUR 20 million. ■

Reference

1. Directive 2004/35/EC of the European Parliament and of the Council on environmental liability with regard to the prevention and remedying of environmental damage.

U.K. Corporate Manslaughter Act — Underwriting Issues

by Michael A. Leinenbach, CPCU, AIM, ASLI, ARe, ARM, ARM-P

Michael A. Leinenbach, CPCU, AIM, ASLI, ARe, ARM, ARM-P, is a senior underwriter with Zurich North America, Global Corporate Division, in New York City. He currently underwrites global casualty programs for multinational enterprises. He is on the governing committee of the CPCU Society's International Insurance Interest Group and has authored articles on international risks for its newsletter.

Editor's note: This is the third in a series of articles commissioned by the CPCU Society International Insurance Interest Group on the United Kingdom's Corporate Manslaughter Act of 2007.

With the first anniversary of the Corporate Manslaughter and Corporate Homicide Act of 2007 ("CMCHA"), which came into force on April 6, 2008, this is a good time to reflect on the underwriting issues.

Let's recap what we know from previous articles: They (prosecutors) have always been able to convict individuals when they were found grossly negligent for, as an example, the death of a worker under their supervision. This created a prosecutorial gap when certain organizations, especially large ones, were able to escape prosecution when the cause was determined to be an issue of overall management and not being able to pinpoint a specific responsible person.

As of the writing of this article, there have not been any prosecutions under the CMCHA; thus, it is still difficult to assess coverage implications under the various available insurance policies. In hindsight, it actually may not have been best to discuss insurance coverage issues first, as the real protection lies in proactive risk management, that is, formalized safety and training procedures, a mechanism enabling lower ranking employees to report weaknesses to upper management, and appropriate follow-up to assure training and procedures are carried out at all levels of the enterprise.

As explained in the previous articles, the most coverage you are likely to see from an actual policy would be defense; and that would be limited, as we have already concluded that there should be neither expectation of coverage for fines nor the consequential injury to an indicted or convicted organization resulting from the publicity. So, it turns out that the best defense is a good offense.

In loss control matters, an organization's offense lies squarely on the shoulders of the risk manager or safety director. Two scary thoughts, perhaps, are if an organization does not have such positions or if safety and risk management duties are assigned as additional responsibilities to executives who hold other titles and related management burdens. In such executive management structures, those senior managers may be more susceptible to an indictment, because they were responsible for creating the structure (that is, assigning the responsibility for corporate safety to certain management positions) as well as for implementation of the actual safety plans themselves.

In loss control matters, an organization's offense lies squarely on the shoulders of the risk manager or safety director.

Even if there is an appropriate structure where senior management can be proactive in monitoring the safety of the organization, in the event of a death resulting from the operations of an enterprise subject to the law, one should beware of what constitutes "senior" management. At first instinct, one is likely to consider those corporate executives in charge of safety certainly being at the highest levels of the organization; but any budget decision-maker may also be given the responsibility.

In reality, an experienced individual who is placed in charge of a new recruit at a distant job site can ultimately be held responsible as the face of the enterprise for that job site. A failure to provide the authority, training and resources to this nonmanagement worker to

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U.K. Corporate Manslaughter Act — Underwriting Issues

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enable supervision over the new recruit would likely be considered a failure of management, which could lead to an indictment if that inexperienced hire was killed on the job.

In fact, just such circumstances led to manslaughter convictions of not-so-senior supervisors of work details at construction sites in the past (as individuals, not under the new legislation). And if that scenario doesn't scare you into coming up with some formal safety and training procedures, note that you can be responsible for the same negligent behavior by subcontractors.

What specific industries are likely most at risk? It is not a stretch to assume the prosecutorial authorities will go after organizations under the same types of scenarios where they have successfully prosecuted individuals under common law manslaughter in the past. A review of case history indicates that construction firms would be an easy target. That makes sense in that lower-level supervisors can be considered "management," and subcontractors are a regular part of operations. Of course, as many construction jobs are inherently dangerous, you have a perfect storm of circumstances that could lead to a worker death, and thus a manslaughter indictment under CMCHA.

But a close second doesn't even deal with the death of an employee. As the law applies to those in your care, it should not be a surprise to find medical professional enterprises as potential targets of manslaughter prosecution under CMCHA.

Another perspective to consider is that the legislation was brought about by a public outcry for "justice" in circumstances where deaths occurred resulting from grossly negligent operations by major enterprises. Should a prosecutor fail to move forward with charges now that the legislation is in full force and effect, the political ramifications could be disastrous. One can only conclude that when the next catastrophe hits the front pages, the Health & Safety Executive (HSE) and law enforcement will have no choice but to act, and act quickly.

Finally, keep in mind this is a criminal prosecution and the procedures will be handled as such. As the proceedings move forward, brand names will likely be on trial in the court of public opinion, not historically known for fair judgments based on accurate testimony.

The bottom line here is in fact the bottom line. Do you, as upper management, want to be responsible for stock price faltering dramatically, or even the total failure of the enterprise resulting from the publicity and fines after a conviction for manslaughter? As of the writing of this article, there is no case law, because there have not been any convictions. If you are not proactive with advance risk assessment and planning, especially if your operation entails historically dangerous work or inherently dangerous products, you just may be volunteering to be the first case. ■

Past CPCU Society President's International Perspectives — Chop Sticks, Fish Forks and Wine

by Betsey L. Brewer, CPCU

Betsey L. Brewer, CPCU, is a partner and senior vice president of The Rule Company, a regional broker in Pasadena, Calif. Currently, she is a trustee of the CPCU Loman Education Foundation and first vice chair of the Girl Scouts of Greater Los Angeles. Brewer is a past president of the CPCU Society and the Independent Insurance Agents & Brokers of Los Angeles. With more than 35 years' experience in the insurance industry, she is a survivor and beneficiary of seven mergers and acquisitions.

Having spent my entire career as a retail agent/broker, I am amazed at the amount of exposure agents and brokers can have to the international insurance community. Small, local agents and brokers often do not realize the need for knowledge of the international insurance arena. As you will read, I learned gradually — and quite by accident — what was needed to assist clients with their foreign operations and to provide them with an "in-country" contact to guide them with insurance issues.

Starting out as a small, local Los Angeles agent, I dealt with coverages for clients traveling to Mexico, especially auto insurance. Then, in the early 1980s, many California manufacturers began to transfer light manufacturing and assembly work to Mexico, and I started to really learn that not everyone had the same insurance laws. Now don't laugh, but I really never thought about how different countries were organized and ruled.

As the years progressed, my company's ownership changed, and I became part of Jardine Matheson, a diversified business group with an international focus. Then I began to learn more about both London and Hong Kong. My first visit to our London office was a real eye opener. Things were done so differently there than in Los Angeles. I obviously was the girl "from the colonies" and quickly learned that my corporate title was considered a higher rank than my actual knowledge and experience dictated. To walk around and visit underwriters and have them sign on for a portion of the risk was clearly a new concept to a person raised on package policies faxed or sent by messenger to the underwriter. I followed things closely and made sure I listened and asked questions. Meanwhile, I developed relationships that have helped me throughout my career.

At my first corporate lunch in London, there was a fish course, and the appropriate utensils were in the place setting. I could hear my mother's voice in my head, "Work your way in from the outside and watch the host." As usual, she was correct, and I survived. Fish forks are not the normal part of my everyday place settings.

During the Jardine years, I partnered with a Japanese client to service its operations in the United States. It was an occasion to learn not only about a business culture, but also the social culture of a country. Once again, it proved beneficial to my career. Working within the Japanese expatriate community gave me insight and taught me patience. Everything I said was translated, and all I heard was translated. Therefore, I learned to choose my words carefully, to avoid colloquialisms or shorthand insurance terms.

I often had to ask clients to briefly explain something, so I could get a picture of what they were trying to accomplish. I learned to tune my ear to the speaker, and on occasion did not need an interpreter. Of course, it may have helped that there is no translation for insurance terms, for example, business interruption.

When the Jardine insurance operations were purchased by Alexander & Alexander (A&A), I was able to move into the A&A Japan Group — once I had passed its chop stick, sushi and karaoke test. Key to my learning was an even broader client base and a greater exposure to the Japanese insurance marketplace. With the acquisition by Aon, I continued with the Japan Group and later became the inward investment manager for the West Coast, which was the beginning of increased business dealings with Europe and Australia.

I left Aon and went back to a smaller regional broker, The Rule Company. Curiously, I still needed all the information — and more — to deal with clients who manufactured and sold around the globe. So, now you know my story, but, as you can tell, my international involvement was almost always from a U.S. point of view.

The benefits of serving in our CPCU Society are numerous and include dealing with people working in the full spectrum of our industry. No where else

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Past CPCU Society President's International Perspectives — Chop Sticks, Fish Forks and Wine

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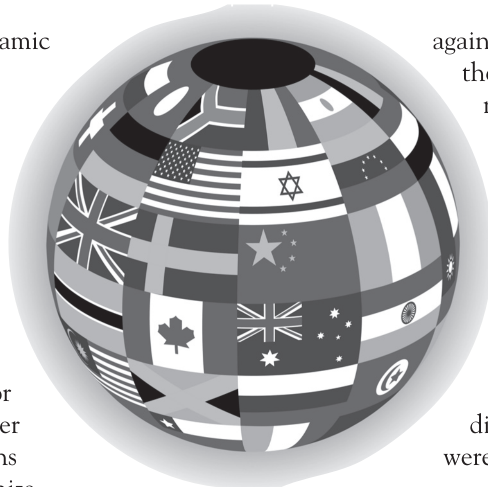
can a regional broker create a worldwide network. Of course, through our employers we often have one, but to have one with CPCUs is a true treasure. As Society president, I had many chances to work on my network, visiting domestic chapters in 33 states as well as the Europe and Japan Chapters. And I also participated in the International Insurance Society's annual seminar in Berlin.

So what additional lessons did I learn, and how did I apply them to my life and my work? From the technical side, handling risk in other countries under different laws, codes and regulations can be a test — mostly due to a lack of knowledge and understanding of those very laws, as well as local customs and practices. On the personal level, I broadened horizons by a new understanding of countries, people and customs. I allowed myself to be taught, and then could bring the information and ideas back to my office and teach others.

More important lessons were learned from others attending the Berlin seminar. I spent time with people from India and learned of their need to find qualified and, more importantly, ethical agents, and how training and testing was a huge challenge because of language, geography and demographics. In 2007, India was looking for 200,000 property-casualty and life agents plus underwriters, claim handlers and a few thousand actuaries. What an immense project it was going to be. The ethical component alone was mind boggling. How do you create a model that would be understood and willingly adopted throughout a large population in a short period of time? Obviously, the CPCU Society and the Institutes were willing to assist and have been ever since.

Takaful, an Arabic word meaning "guaranteeing each other," is also an Islamic insurance term — and one that was completely new to me. I had the chance to really learn about this method, used in Islamic countries to offer a quasi-insurance product without violating religious tenets. Other new idioms came from the European Union (EU), including Basel I and II, a global standard for how banks and other financial institutions measure and recognize risk, and, of course, the terms Solvency I and II on the insurance side. From banking to insurance companies, the EU is moving to standardize these industries for ease of use and understanding. Establishing requirements for capitalization; governance and risk management; and effective supervision and transparency, while also ensuring companies' staying competitive, are quite an undertaking.



When visiting the Japan Chapter in 2007, I was introduced to members of the national trade press. Thanks to my host, **Keiji Fukasawa CPCU, CLU, ChFC,** I was briefed on one of the burning insurance issues at the time so that I would be prepared to speak on the topic with a clear understanding as to why it had occurred and what the Japanese were considering. I also had the opportunity to make Connection visits with an insurer, a reinsurer and a broker. I knew that CPCU had "language barriers," but not until I visited both Japan and Europe did I realize that CPCU was considered a U.S. designation. More importantly, I discovered that a number of countries had their own designations

Because of the travel required by some of its members, the Europe Chapter meets only twice a year. And chapter members make the most of each opportunity by holding two-day meetings that include social and educational events. Once again, I learned more about the differences in the respective countries' laws and how clearly they affected business and human resources. In both Europe and Japan, the real fun was at the dinners, where not only were the conversations diversified but the wines were superb!

Applying what I learned is not difficult. First and foremost, I now have a much greater appreciation for what our industry is like outside the U.S. Although I still have limited overall knowledge, I am much better equipped than previously to work within a global framework. When I initially returned to my office after my visits, I was able to share some of the things I learned with colleagues and clients. With clients who have operations in Kenya, Tanzania, Mali, India, Germany and Mexico, my local agency also has benefited from the new contacts that are now part of my enhanced international network.

I had a tremendous year as CPCU Society president and for all four years as an officer. Our Society is blessed with an abundance of great, intelligent and gracious people! ■

CPCU Society Annual Meeting and Seminars — Denver, Colo.

by Mickey Brown, CPCU, ARM

Now is the time to make a strategic investment in yourself — and your organization. Join CPCUs, non-CPCUs, new designees and insurance industry leaders at the 2009 Annual Meeting and Seminars in Denver, Colo., to develop the technical and leadership skills you need to stay competitive. This is also a great opportunity to make business connections and look into new career opportunities. In today's volatile marketplace, professional and personal success requires the continuous development of technical skills and an ability to anticipate complex and changing business needs.

This year's Annual Meeting will include two General Sessions and more than 45 educational seminars. The International Insurance Interest Group will present two programs.

General Session — Insurance and a Sustainable World

Tuesday, Sept. 1, 2009
8–10 a.m.

Generously sponsored by the CPCU-Loman Education Foundation (premier sponsor); and CNA, Samsung Fire & Marine Insurance Co. Ltd. and the CPCU Society's Utah Chapter (partner sponsors).

Building a "sustainable" world is not an ideal but a reality. This General Session will provide an overview of various definitions of "sustainability" and show how our societal structure is being impacted by climate risk and sustainability, including newly emerging risks. Panelists will address the risks from risk management, legal, regulatory and senior management perspectives. And they will outline the insurance industry's response to the risks from agent/broker and insurer perspectives. The program is designed for insurance and risk management professionals across the industry.

Moderator:
Anthony L. Cabot, CPCU, ARM
XL Insurance Ltd.

Presenters:
Karen A. Morris, Barrister
AIU Holdings Inc.

Lindene Patton, J.D., CIH
Zurich Financial Services

William F. Stewart, J.D.
Cozen O'Connor

Seminar — International Insurance Perspectives — Oops ... My Client Has Gone International!

Tuesday, Sept. 1, 2009
1:30–3:30 p.m.

Developed in partnership with the Agent & Broker Interest Group.

The goal of this seminar is to enable the agent/broker who does not regularly work with international risks to assist a client who is "going international." Attendees will walk away with ideas as to what steps to take to place coverage outside their domestic comfort zone, including which insurers to approach, what type of coverage structures are available, and how to address compliance issues and unique local risk management quirks. This will be a valuable seminar for agents/brokers who work with international exposures (or who want to be prepared for that possibility), along with underwriters and other insurance company personnel who handle international exposures.

Moderator:
Karen Morris, Barrister
AIU Holdings Inc.

Presenters:
Mickey Brown, CPCU, ARM
Marsh USA Inc.

Anthony L. Cabot, CPCU, ARM
XL Insurance Ltd.

Michael A. Leinenbach, CPCU, ARe, ARM
Zurich North America, Global Corporate, International Casualty ■

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