International Insurance Interest Group

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International Perspectives

From the Chairman's Deck — Why Get Involved?

by Anthony E. Fienberg, CPCU, ARe, RPLU

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A few months ago, I had a long discussion with a CPCU Society chapter officer about the actions that could be taken to increase participation, membership, visibility and member services for that chapter (generally following what is in the Circle of Excellence Recognition Program). Toward the end of the conversation, the chapter officer confided in me a question (probably one the officer was itching to pose for a long time and waiting for just the right opportunity): "Why are *you* active in the CPCU Society?"

Instead of reacting like a haughty member of an elite group, I took the time to give an answer roughly like the one that follows, which hopefully will ring some bells for some of you.

You Only Get Out What You Give

Along the lines of what former President John F. Kennedy said in his 1961 inaugural address, I believe you must start with the premise that you should, "Ask not what your … can do for you, but what you can do for your … ." If you are looking at the CPCU Society, or any professional association, as a sort of candy machine where you pay a modest sum of money for something delivered immediately that you can take away without first putting in any effort, you basically have come to the wrong place. Many times I have said to CPCUs, mostly internationally, that belonging to the CPCU Society is indeed important, but if you want something more, becoming active is the only way to accomplish that desire. However, you will only reap some of the "rewards" described hereafter if you invest some of yourself — time, effort, motivation, energy — and some simple caring about the future of your industry, in this case property-casualty insurance.

Once that point has been reached, the benefits an individual can reap from becoming an active member of the CPCU Society include:

Continued on page 2

What's in This Issue

From the Chairman's Deck — Why Get Involved?

Continued from page 1

Professional Development

There is a whole slew of courses you can take at Leadership Summits and Annual Meetings that can help address the burning issues that you, personally, may have in your day-to-day job. By becoming involved in the regular activities of a CPCU Society board, committee, chapter, interest group or task force, you will find yourself learning practical lessons about, for instance:

- Leadership.
- Negotiation.
- Planning.
- Team building.
- Time management.
- Sales.
- Coaching.
- Mentoring.
- Interviewing.
- Behavior modification.
- And more ... (the list is not exhaustive).

All of this is for "free." And you will not be fired, demoted, docked pay or mocked for trying something and learning, which might not exactly be the case if you tried to learn lessons in these areas in your day-job environment. You can also apply the skills you have acquired when you return to your office — interacting with clients, colleagues, direct reports, suppliers, management, stakeholders or even your boss. Furthermore, you will most likely be able to connect with other professional groups, learn about industry trends, gain new perspectives, and generally collect ideas that you can apply to your business career. Sound interesting? Well, there's more!

Networking

Ah, I can use the CPCU Society to go live in my dream city, escape my current boss, become CEO of another company or just get another job. Again, if you look at your participation as milking a cow, you will most likely be very disappointed, because someone once told me as I was looking for my first job, "There is no such thing as luck — only preparation meeting opportunity."

So, why should you network if it is not for one of the reasons listed before? Well, despite common misconceptions, networking is not only for when you lose your job. It is also for meeting people you may want to hire and making contacts for technical resources, introductions, references and even recommendations. Indirectly, you are marketing yourself and your organization. More importantly, it is another way to learn about market information, best practices or even new ideas — ones that you can apply to your business situation immediately.

Other Important Reasons

You will serve your industry by becoming a role model — creating visibility and professionalism as well as educating and exchanging ideas. You also will extract personal benefits by learning about issues such as personal finance or tax planning, or just by having fun by inviting a significant other to activities or maybe meeting someone just plain interesting ... someone who will motivate you, give you a new perspective on a situation or even inspire you!

International

Because I have already written an entire article about why the International Insurance Interest Group is important and relevant to you, just think about how the points raised above can be magnified if you add perspectives of people with completely different markets, cultures, languages, tradition or simply a non-U.S. point of view.

Go ahead and make a gaffe, as even I have done on many occasions as chairman of this interest group, and interact with some of the CPCU Society's "international" members. No one will laugh at you, no one will be hurt and you might even learn something!

If you want some detailed examples of what has been set forth above, please feel free to contact me, or really, any other person who is passionate about the CPCU Society. You can recognize them at most meetings because they probably have a smile on their faces or are in deep conversation with other members. Interrupt them (politely), introduce yourself and ask, "What can I do to (better) help this organization?" Be bold. We are some of the reasons why the Society prospers today. You are the only one who can determine if the organization thrives tomorrow and, for that matter, far into the future. ■

Editor's Note

by Mickey Brown, CPCU, ARM

Mickey Brown, CPCU, ARM, is a senior vice president at Marsh USA Inc. in Atlanta, Ga. He has more than 20 years' experience in international finance, mergers and acquisitions, risk management and commercial insurance brokerage. Brown is a graduate of Loyola College in Baltimore, Md.

Save the date — the International Insurance Interest Group is hosting a joint meeting with the Europe Chapter in Zurich, Switzerland, on April 3–5. The agenda is in progress, so please check the International Insurance Interest Group Web site often. Society President and Chairman Marvin Kelly, CPCU, MBA, and Society Chief Executive Officer James R. Marks, CPCU, CAE, AIM, will be present. We expect a good attendance — similar to the last joint meeting held in Paris. Please mark your calendar, and don't miss this fantastic opportunity.

Articles in this issue touch on a number of international issues:

- Keith J. Wolfe, CPCU, MBA, gives a personal account of — and a cultural perspective on — relocating to Switzerland.
- Robert M. Swift, CPCU, CIPA, CBCP, writes on disaster preparedness and business interruption coverage in the international market.
- Chris Smy and Ursula Knowles examine global environmental risk management and insurance solutions in the second part of a series of articles on global environmental awareness.
- Robert J. Gibbons, CPCU, Ph.D., CLU, writes a "Letter from Sarajevo" on the current insurance market in Bosnia and Herzegovina.

In looking toward future editions of *International Perspectives*, we are seeking articles about your country-specific knowledge, experiences in working internationally, or dealing with global risk and insurance issues. Here's a great chance to both gain exposure and expand your networking base! If you would like to submit an article, please contact me at (404) 995-3386 or at mickey.brown@marsh.com. ■

Working Abroad in Insurance — Switzerland

by Keith J. Wolfe, CPCU, MBA

Keith J. Wolfe, CPCU, MBA, is a vice president with the Client Markets Unit of Swiss Reinsurance Company. He leads a team of underwriters and other reinsurance professionals to provide solutions for some of Swiss Re's largest clients. Wolfe began in the insurance industry in 1996 as a field engineer with Industrial Risk Insurers in Boston. While in Hartford and Chicago, he held roles at GE Insurance Solutions in information technology and GE's Six Sigma Program, and led the Midwest U.S. operation for property insurance and services. He currently lives in Zurich, Switzerland.

For most people, there comes at least one time in a career when you decide you need a change — perhaps change from your role, your boss or your location. Sometimes you find yourself changing all three at the same time. And so my story begins. Change has been the unofficial theme of my career, which has covered four locations, three acquisitions and two of the largest companies in the world. So far, every turn has provided fantastic opportunities to embrace. When the opportunity to move to Zurich came my way, I was ready to go.

As an international relocation is a complicated process, the extensive preparation to move is guaranteed to be missing at least one component. In my case, I was horribly unprepared to handle the fact that German and Swiss German are not the same language. My wife is nearly fluent in German, and found during her first several forays into our neighborhood that she was greeted by English responses to German-language questions. It turns out that because so many people from other countries live in Zurich, most locals know a bit of English. They will often either respond in English in order to practice their skills or just to be polite. Chalk this experience up as one of my many naiveties to the Swiss way of life.

In addition to my career change, there was also a series of changes in my perceptions. As an American, Switzerland presents plenty of opportunities to be an outsider struggling to adjust. A few examples of things we learned along the way are: the unofficial rule prohibiting noise in an apartment after 10 p.m., meat that costs four times as much as that of other locations, and the fact that the entire country seems to simply shut down on Sundays. However, the water is some of the cleanest in the world, commutes average less than 30 minutes (mine is 12), and the trains are always on time. Some good, some bad, but altogether an international move is an unforgettable experience no matter what happens.

Not too long ago, some of our industry leaders also began to realize some of the same things the Swiss people have always known — Switzerland is different. Home to four national languages and 26 cantons (states) that are each like mini countries of their own, this place prides itself on maintaining its identity (or "swissness" — oh yeah, it's a word). Along with these principles of regional and national pride comes the development of a business-friendly environment for entrepreneurs of all types.

Although other fair maidens exist, Switzerland promises a stable political environment, a relatively low corporate taxation system, and a regulator that understands global (re)insurance well. In fact, companies large and small are finding that the political, regulatory and tax environment in Switzerland provides quite an attractive place to set up shop in our industry. Specifically, a tax treaty between the United States and Switzerland exempts Swiss-based companies that reinsure U.S.-based risks from paying a federal excise tax on gross premiums.

Bermuda, as a comparison, has been undergoing a bit of political turmoil related to (re)insurance. Recently, political threats to its favored tax status (especially with the U.S.) and immigration policies (which make continuity difficult) have driven a few insurers to make changes themselves. Companies such as Flagstone Re, Paris Re and ACE have all recently consolidated operations into Switzerland from Bermuda, each with the hope of providing less dependence on Bermuda's political environment and easier access to "passporting" rights into the European Union. Bermuda-based companies Endurance Specialty Insurance Ltd., Montpelier Re, Aspen Re and Arch Reinsurance Ltd. have all either launched subsidiaries or opened offices here.

Similar to my own personal change in location and career, Switzerland is providing our industry with an opportunity that simply doesn't exist elsewhere. Sometimes, going a bit off the beaten path pays huge dividends. Switzerland continues to prove this every day.

Disaster Preparedness and Business Interruption in the Middle East and Elsewhere in the World

by Robert M. Swift, CPCU, CIPA, CBCP

Robert M. Swift, CPCU, CIPA, CBCP, is a business interruption specialist with more than 30 years' experience in the insurance and risk management field, advising corporate executives on the benefits of properly preparing for a disaster. Through his company, Business Interruption Consultants Inc. (www.bisimplified.com), he has developed a unique, Web-based business interruption resource. Swift is an accredited instructor for the Institute for Business Continuity Training. He is a member of the CPCU Society, the Disaster Recovery Institute, the Risk and Insurance Management Society, the National Insurance Premium Auditor's Association and a past member of the Insurance Institute of London.

I recently spent a month in the Middle East helping government agencies and private companies develop disaster preparedness plans. You would think that here of all places agencies and companies would be fully prepared for any disaster. Not so. In one country, the contingency coordinator for the Ministry of Finance was having trouble convincing managers to participate in developing their respective employer's contingency plan. Therefore, we conducted a table-top exercise for the Incident Command Committee. It was total chaos. Some managers wanted to know why they were there, and some wanted to know who developed the plan. As a result, senior management realized the need to be serious about their contingency plan. It is disturbing that this scenario is typical worldwide. Governments and organizations are not adequately prepared.

According to several studies, 75 percent of businesses with major property damage go bankrupt after a catastrophe because the businesses do not have a tested contingency plan in place and lack the proper financing to see them through the period of recovery. Unprepared businesses are losing millions of dollars after suffering a loss, and always say, "Why didn't someone tell me?" We have been involved in numerous claims where insureds only received 20 to 30 percent of their loss because they did not understand their insurance policy.

Business interruption (BI) is a most difficult and misunderstood coverage, and most business owners do not know how to calculate their exposure. As a result, they receive an education after the loss, which causes hard feelings and increases the probability of lawsuits. Most executives are in denial that a disaster can happen to them. In the worst tsunami-affected area, Sumatra, the Indonesian General Insurance Association (AAUI) recently reported that the estimated total risk value of insurance policies covering earthquakes in Aceh and North Sumatra stood at Rp 16.8 trillion ($1.9 billion). Only 6 percent of all insurance policies in the northern two provinces provide extra coverage against natural disasters, according to Jasindo, one of the largest general insurance companies operating in the area. Many businesses and hotels had no BI insurance, property insurance was inadequate on its own, and of those hotels that did retain BI, many had limited cover due to inappropriate wording, sub-limits, etc.

However, unlike the major international corporations, many small and medium businesses have no insurance cover. Several businesses hit with the tsunami, floods and earthquakes are out of business because management did not believe it would happen to them. Many international businesses believe its companies will recover from a disaster in six months, even though there is no tested contingency plan and management is aware it will require 9 to 12 months to replace its machinery and equipment as well as rebuild its facilities. Interestingly enough, when asked how long its customers and suppliers will wait for the company to resume operations, its confidence disappears and the answer is, "four weeks." With its unrealistic six-month recovery plan, the businesses have grossly underestimated two of the most important contingencies. Their business would never survive.

At the same time, consideration must be given to the particular statutes of various countries. In Ireland, it is illegal to lay off employees after a disaster; England recently passed the Corporate Manslaughter Act where executive officers are criminally liable for bodily injury; and in the Middle East all companies are required to have at least 50 percent Arab ownership. Also, most

Continued on page 6

Disaster Preparedness and Business Interruption in the Middle East and Elsewhere in the World

Continued from page 5

business transactions completed in the Middle East are conducted through Arab brokers and intermediaries.

In the international market, insurance companies leave a lot of premium dollars on the table. (Most experts say almost all commercial property policies are at least 20 percent undervalued.) These companies do not help the situation by accepting what the insured tells them and then planting time bombs (exclusions and valuations) in their policies. Where are the risk management/loss control services that could so easily save organizations from extinction? The Association of British Insurers (ABI) issues a manual entitled, "Recommended Practices Wordings and Procedures Relating to Material Damage and Commercial and Industrial Insurance," and most insurers conducting business in the United Kingdom are members of this association. This body functions much the same way the Insurance Services Office functions in the U.S., as a clearinghouse for policy language.

I believe the international business income coverage called loss of profits or business interruption actively forces businesses to over-insure its exposure. The loss of profits coverage pays for turnover (sales), less standing charges (cost of sales), which are considered discontinuing expenses. Some of these standing charges do not completely stop, so the claim calculation model is incorrect in that area The loss of profits coverage is purchased in two parts: the limit of insurance (percentage of turnover at risk) and the period of indemnity (recovery period). The common amount purchased is 100 percent of turnover with a 12-month recovery period. The interesting thing about buying 100 percent turnover is that it actually represents more like a two year business income limit as the calculation is turnover minus standing charges or gross profit, not sales.

BI policies pay for lost future income, so the trending of the business is very important and the insurance buyer needs to look at its future gross profit as the business income amount to be insured, not its turnover. For example, a $10 million turnover and $5 million standing charge equals a $5 million gross profit. Therefore, 12 months' protection is $5 million, not $10 million, and 50 percent turnover would carry them through 12 months of recovery. As for the recovery period, sometimes a partial loss takes longer than if it were a total loss. If businesses chose a 12-month indemnity, and the partial loss takes 15 months, the last three months' loss would not be covered even though there is plenty of limit left on the policy. There also is the "extra expense" component, which is actually "expenses to reduce loss" coverage. If insurance buyers spend $10 extra, they must prove they reduced the loss by $10.

With competition increasing and customer demand for more services, it is essential to communicate with customers throughout the year. Insureds must assume responsibility for their own risk management programs. This includes plugging the gaps in standard business interruption insurance policies, completing a business contingency plan, accurately calculating their exposure, and knowing how to present their business interruption claim so that they are paid what they are entitled. However, we are not communicating these issues to insurance buyers, but rather letting them make their own assumptions about policy language. For example, quite a few executives wrongly believe depreciation is a discontinuing expense.

Standing charges (discontinuing expenses, as in cost of sales) deducted in the accountant's claim models are sometimes in error because percentage deductions are taken instead of actual deductions. The fundamental question is would these charges, in whatever category the charges fall, change in relation to turnover? Sales might be made up later, but there will still be continuing costs.

According to the loss of profits policy, there has to be physical damage to described premises from a covered peril that interrupts operations and causes a loss of income. However, not all physical damage causes a loss of income. For example, if a warehouse storage facility burns and is destroyed, it might still operate the business and make "sales," which means there is no business interruption. The business interruption loss period starts with the disaster and continues until operations are where it should be had there been no loss. Loss reduction expenses (extra expenses) are additional expenses used to reach expected sales quickly and stay there while the facilities are repaired or replaced.

A business income report (appraisal) should be completed for every insured. A business interruption surveyor completes the report. One of the difficult aspects which the report attempts to address is to estimate the maximum loss sustained by the operating company. In the context of underwriting, the information in the report enables the underwriter to consider a rate and premium calculation for the risk related to the amount of the coverage which the underwriter is prepared to return for his/her own account, and/or receive and cede to reinsurers. The interruption report is also of value to the claim adjuster or claims official investigating the post-damage situation when a potential loss of profit is to be considered, as it makes available information established before the disaster and gives a structure for discussion about the best procedure to minimize the possible loss of gross profit.

Underwriters need to understand their risk and the financial impact of a disaster so they are able to price their product accordingly, and insureds need to be adequately prepared for the worst-case scenario. In conclusion, a little effort in communication with the insured will go a long way to increasing everybody's profitability. ■

New Interest Group Member Benefit

by CPCU Society Staff

Beginning Jan. 1, 2009, *every* Society member became entitled to benefits from every interest group for no extra fee beyond the regular annual dues, including access to their information and publications, and being able to participate in their educational programs and functions.

An Interest Group Selection Survey was e-mailed to members beginning mid-November. By responding to the survey, members could identify any of the existing 14 interest groups as being in their primary area of career interest or specialization. If you did not respond to the survey and want to take full advantage of this new member benefit, go to the newly designed interest group area of the Society's Web site to learn more about each of the interest groups and indicate your primary area of career interest. You will also see options to receive your interest group newsletters.

Currently, there are 14 interest groups: Agent & Broker; Claims; Consulting, Litigation & Expert Witness; Excess/Surplus/Specialty Lines; Information Technology; International Insurance; Leadership & Managerial Excellence (former Total Quality); Loss Control; Personal Lines; Regulatory & Legislative; Reinsurance; Risk Management; Senior Resource; and Underwriting.

As part of the Interest Group Selection Survey, members also were asked to express their interest in the following proposed new interest groups: Actuarial & Statistical; Administration & Operations; Client Services; Education, Training & Development; Finance & Accounting; Human Resources; Mergers & Acquisitions; New Designees/Young CPCUs; Nonprofits & Public Entities; Research; Sales & Marketing; and The Executive Suite.

Members who missed the Survey may update their selections on the Society's Web site or by calling the Member Resource Center at (800) 832-CPCU, option 4. Members can also order printed newsletters for nonprimary interest groups at an additional charge. ■

The **Agent & Broker Interest Group** promotes discussion of agency/brokerage issues related to production, marketing, management and effective business practices.

The **Claims Interest Group** promotes discussion of enhancing skills, increasing consumer understanding and identifying best claims settlement tools.

The **Consulting, Litigation, & Expert Witness Interest Group** promotes discussion of professional practice guidelines and excellent practice management techniques.

The **Excess/Surplus/Specialty Lines Interest Group** promotes discussion of the changes and subtleties of the specialty and non-admitted insurance marketplace.

The **Information Technology Interest Group** promotes discussion of the insurance industry's increasing use of technology and what's new in the technology sector.

The **International Insurance Interest Group** promotes discussion of the emerging business practices of today's global risk management and insurance communities.

The **Leadership & Managerial Excellence Interest Group** promotes discussion of applying the practices of continuous improvement and total quality to insurance services.

The **Loss Control Interest Group** promotes discussion of innovative techniques, applications and legislation relating to loss control issues.

The **Personal Lines Interest Group** promotes discussion of personal risk management, underwriting and marketing tools and practices.

The **Regulatory & Legislative Interest Group** promotes discussion of the rapidly changing federal and state regulatory insurance arena.

The **Reinsurance Interest Group** promotes discussion of the critical issues facing reinsurers in today's challenging global marketplace.

The **Risk Management Interest Group** promotes discussion of risk management for all CPCUs, whether or not a risk manager.

The **Senior Resource Interest Group** promotes discussion of issues meaningful to CPCUs who are retired (or planning to retire) to encourage a spirit of fellowship and community.

The **Underwriting Interest Group** promotes discussion of improving the underwriting process via sound risk selection theory and practice.

Global Environmental Awareness

by Chris Smy and Ursula Knowles

Chris Smy is the global practice leader of the environmental practice at Marsh. He joined Marsh in 2000, and has fulfilled a number of senior leadership roles in North America and the United Kingdom. Smy's prior experience includes risk management, underwriting, environmental consulting and 17 years in Her Majesty's Royal Marines.

Ursula Knowles, who has 21 years of environmental experience, is an environmental broker, specializing in the development of risk transfer solutions for environmental liabilities. She also acts as the knowledge manager for the Marsh environmental practice, providing research and information pertaining to all areas of environmental exposures and coverage.

Editor's note: This is the second in a series of articles commissioned by the CPCU Society's International Insurance Interest Group on global environmental risk topics.

Environmental risk is a complex issue and even more so when contemplated in a global setting. Determining the appropriate approach to environmental risk management involves a number of key considerations.

Centralized or Decentralized Global Risk Management

In reviewing risk drivers and exposures, many companies struggle with the degree of autonomy provided to geographically spread operations. In determining the appropriate level of centralized control, a number of factors merit consideration:

- Decentralized environmental management can lead to a compliance-driven process with little focus on the broader issues. Clearly, compliance is an essential element of any management system. However, it should be considered the starting point, as forward-thinking companies look beyond compliance and keep their focus on "greening," "environmental stewardship" and ultimately on "sustainability."
- Environmental Management Systems (EMS) are a good starting point, but they are not a panacea, as decentralized decision making may result in applying the lowest standards to their operations in a certain country. For example, China's State Environmental Agency has imposed penalties on the Chinese operating units of multinational companies for polluting water. The Chinese regulator accused these companies of applying a lower standard to its environmental emissions than they would in its home country.
- Often, a change in local policy or regulation triggers regulatory scrutiny and oversight. Hence, it is important to have a forward-looking process that anticipates the broader impacts of policy or regulatory change.
- Decisions around local supplier or vendor relationships must be consistent with environmental objectives. Frequently, multinational corporations implement corporate structures to limit liability or optimize financial performance, which can inadvertently jeopardize the integrity of the arrangements.
- Insufficient visibility of risk management decisions, such as the acceptance and retention of risk and the purchasing of insurance, can lead to inefficiencies, heightened risk and noncompliance with regulations.

Risk Retention or Transfer Decisions

Decisions relating to acceptance, retention, transfer or avoidance of risk can be critical to the financial performance of an organization. While risk appetite is often driven by exposures such as treasury risk or past loss experience, this approach can be problematic when considering environmental risk.

A robust assessment and quantification of environmental risk is fraught with challenges. In many cases, the risks are poorly quantified or sometimes not quantified at all. While it is relatively easy to develop an understanding of first-party cleanup exposures, liability from third parties is difficult to quantify. Also, environmental exposures are rarely aggregated, but rather are managed to a single number. Hence the decision to accept risk will mean retaining the risk on the balance sheet with limited or inadequate information.

Insurance Considerations (or 'Our Local Operation Arranges Its Own Insurance')

Despite the availability of robust, cost effective environmental insurance, many corporations do not purchase specific environmental coverage. There are many reasons for this decision, including misperceptions relating to coverage availability and cost, the perception of risk, and the belief that coverage exists in other lines of insurance. While limited coverage may indeed exist in other lines of insurance, there are likely to be significant gaps.

When the decision is made to purchase environmental insurance by global entities, it is important to consider program design. A key issue is whether to leave the arrangements to a local country manager or elect a centralized approach. Some of the drawbacks to purchasing a program on a local basis are that it may limit the "buying power" of the entity, may not be consistent with corporate programs, and may not protect directors and officers. Alternatively, a policy placed to protect the parent company typically includes an indemnity provision for the parent in the event that a subsidiary makes a claim against the parent. There are a number of challenges to this approach, as such contracts may have tax implications and in some circumstances may not respond at all. Additionally, many countries now regulate the purchasing of foreign insurance polices, and hence there is a risk of non-compliance and subsequent sanctions.

Program Design Considerations

When determining the appropriate insurance structure, there are a number of factors to consider:

- Is there a need to show proof of local insurance? What do local laws dictate?
- Can premium be allocated easily and effectively across the global group?
- Is appropriate cover available locally? Local wording may be available in many countries; however, in some instances, local policy restrictions (for example, occurrence-based policies or multiyear-term mandates) may make it difficult — even for local carriers — to write a policy that is in compliance with local regulations while at the same time offering the needed coverage.

- Will local carriers be acceptable to third parties who require insurance? For example, the security or rating of local branches of Bermudian insurers may differ from sister companies in other countries, and parental guarantees may be necessary.
- Is there a need/wish for local (foreign) claims-handling services?
- Who will ultimately receive the benefit of the insurance recoverables? There are often legal ramifications for foreign subsidiaries receiving cash transfers or insurance recoverables. In addition, there may be potential tax ramifications — such as in the case where payment may be considered as income in some countries.

Leadership in Environmental Risk Management on a Global Basis?

Companies that are leaders in this arena always look at environmental exposures on a multifunctional basis. As previously stated, these risks are not solely managed via the company's health and safety department, but rather each department within a company focuses on reducing its environmental exposures — from the maintenance department through to the purchasing, leasing, contracts, manufacturing and administrative departments. The following is a list of environmental risk management leadership trends:

- Leaders manage environmental exposures holistically — they look at every aspect of their business through an environmental lens and plan their response accordingly.
- Leaders implement cross-functional decision making.
- Leaders implement robust crisis management protocols that include environmental issues. These protocols are consistently monitored and upgraded.
- Leaders use risk management know-how to actively take risk as a source of competitive advantage. They ensure consistency with corporate structure, culture and risk management practice.
- Leaders consider and utilize financial solutions such as insurance. They know where their coverage gaps exist, and are aware of ramifications of local policies versus worldwide indemnification policies. They consider locally-admitted policies as the default position.
- Leaders constantly "scan" the environment for trends or changes, and frequently rely on advisors with global reach to accomplish this.
- Leaders understand the sources of exposures in their supply chains and instigate appropriate contractual controls and auditing protocols, ensuring that auditing protocols include environmental management and risks. This includes understanding and influencing how environmental risks are addressed in contracts with suppliers and contract manufacturers.
- Leaders anticipate and plan for the potential impact of macro-issues that impact infrastructure, buying behavior, public opinion, resource availability or supply chain pressure.

The more a company pays attention to, and follows, these "trends," the better chance it will have to be an environmental leader — setting the bar for global environmental stewardship. ■

Letter from Sarajevo

by Robert J. Gibbons, CPCU, Ph.D., CLU

Robert J. Gibbons, CPCU, Ph.D., CLU, is executive director and president of the International Insurance Foundation. Since joining the Foundation in 1996, he has guided its evolution into the leading provider of technical assistance for emerging insurance markets. Formerly a vice president with the American Institute for CPCU and the Insurance Institute of America (the Institutes), Gibbons has extensive professional insurance education experience in distance learning and the management of educational institutions. He earned his Ph.D. at Yale University, specializing in economic history and international economics.

To the outside world Sarajevo is known for dramatic events rather than for its rich multicultural heritage. The assassination that started World War I occurred only a few blocks away from the hotel where I am staying while presenting a seminar for the country's insurance supervisors. As I gaze at the hills surrounding the city, two indelible images of more recent dramatic events come to mind. They are lingering televised pictures of these same hills. One dates from February 1984, the euphoria of the 14th Winter Olympics. The other features the artillery and sniper fire from these hills during the awful 1992–95 siege of Sarajevo. Like the half-full, half-empty glass, the issue of which picture dominates on any given day colors my current assessment of Bosnia and Herzegovina's prospects.

It is no wonder that I vacillate, for there is both good news and bad news. Since the Dayton Accord ended the war, life has returned to normal in most respects. Europe's oldest system of electric trams smoothly carries people to work every day. In the evening, couples and families stroll nonchalantly in the Bascarsija, the old Turkish market section. Throughout the country, reconstruction, partly funded by $14 billion in foreign assistance, is far along, and the economy has been growing. A currency board pegs the currency to the Euro, keeping inflation low. The reformed banking sector functions smoothly, and ATMs dispense cash as needed. Because of the municipal elections taking place, posters appear everywhere. Sarajevo seems like most other European cities.

Most of the bad news is political — dealing with the bizarre governmental structure. Thankfully, the Dayton Accord ended the war. Another good thing about it was … ? There is no way to complete that sentence; the Dayton Accord created a constitutional monstrosity in Bosnia and Herzegovina. While preserving the country's territorial integrity, it allowed the warring factions to control distinct areas until they could agree on the structure of a democratic central government. In the interim, the United Nations holds ultimate authority, exercised through the Office of the High Representative, which is due to shut down as soon as the conditions are met. Although there is a tripartite presidency, parliament, and council of ministers at the state level, the creation of a real state-level government for the entire country has been a slow process. Ongoing reforms have led to the creation of a single, multiethnic military under state-level command, as well as a state-level taxation administration that collects a nationwide value-added tax. Despite this progress, ordinary functions of government, such as infrastructure, healthcare and education, fall to two entities: the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS). Thus, different laws, regulations and procedures often apply in these two different parts of the country.

My assignment is to guide these two distinct insurance markets through this constitutional thicket toward a "single economic space," increasingly integrated with the European and global economy. Each entity has its own supervisory agency, and until recently, the two entities' insurance laws were totally different. It was not possible for a company from one entity to conduct insurance in the other entity.

To coordinate supervision in the two entities, as well as to ensure the insurance laws of Bosnia and Herzegovina conform to European Union Insurance Directives, the state-level Insurance Agency of Bosnia and Herzegovina (State Agency) began work in April 2007. The State Agency harmonizes entity-level legislation and the supervisory work of the entities' agencies, collects statistics at the state level and represents the country in international relations. Accordingly, the State Agency quickly joined the International Association of Insurance Supervisors and the International Insurance Foundation. It published 2006 and 2007 editions of Statistics of the Insurance Market in Bosnia and Herzegovina. Results come slowest in its principal area of responsibility, coordinating the entity-level supervision. Its greatest feat of coordination so far is newly harmonized licensing regulations, which now allow "inter-entity" business — an insurer from one entity can have a branch operating in the other entity after obtaining permission from each entity's supervisory agency.

At the request of the State Agency and under the auspices of USAID's Partnership for Advancing Reforms in the Economy, the International Insurance Foundation organized the "Seminar on Global Standards of Insurance Supervision." The 36 participants included employees of the State Agency, the FBiH Supervisory Agency, the RS Supervisory Agency, the Policyholder Protection Funds of each entity and a few private sector representatives. As outsiders, we cannot possibly sort out the political divide complicating the supervisory framework. We can, however, point these diverse organizations toward a common benchmark, the IAIS Core Principles of Insurance Supervision. The Seminar drilled home the importance of the Core Principles with frequent reminders that the IMF/World Bank Financial Sector Assessment uses the Core Principles to evaluate the country's insurance supervision.

Fortunately, my colleague in this endeavor, **André Swanepoel,** contributes an insider's knowledge, gained serving during the formative years on the IAIS Executive Committee and chairing its Emerging Markets Committee. Since retiring as South Africa's top insurance supervisor, André has devoted much of his time to helping other countries build supervisory capacity. During this Seminar, his 40 years of insurance experience elucidated many aspects of the Core Principles in detail. Using the IAIS Questionnaire, André led the group through an objective self-assessment of the country's observance of the Core Principle on licensing. This day, with representatives of both entities together in one room discussing the implementation of a global standard, I was definitely hopeful about the country's prospects.

On the other hand, the underdeveloped insurance market is not playing its full role of protecting assets, stabilizing income and encouraging investment. In planning the Seminar, André Swanepoel and I visited each of the supervisory agencies to learn more about market conditions. In Banja Luka (where the RS supervisory agency is located), as well as in Sarajevo, we heard similar stories. Insurance companies are thinly capitalized, and insurer financial reporting is unreliable. Accounting standards are weak, but outside the control of the supervisors. Most companies are out of compliance with the investment limitations, some egregiously so.

Since the country's only reinsurer receives mandatory cessions for the next five years, supervisors do not focus on reinsurance adequacy. The RS allows its insurers exceptions to the reinsurance monopoly, although the Supervisory Agency does not yet have a basis for evaluating reinsurers.

Intermediaries must be licensed, but companies encourage them to begin selling before the license has been processed. Thus consumers do not know who is licensed to sell insurance and who is not.

A design flaw threatens the sustainability of the FBiH Policyholder Protection Fund. Like an unsatisfied judgment fund, the Fund compensates accident victims when the responsible party is uninsured. Like a guarantee fund, it compensates claimants of insolvent insurance companies. Because these two functions are mixed, the Fund cannot establish a proper actuarial basis. Worse, the liquidation procedure takes place under the court system, not under the purview of the insurance supervisor. Meanwhile, claims against one insurer, which may or may not actually be insolvent, are rapidly depleting the Protection Fund.

These are only some of the problems that surfaced during the Seminar. When I asked what consumer problems the country has, the response was, "What problem don't we have?"

When I asked whether they knew of any unlicensed insurers selling products in Bosnia and Herzegovina, the floodgates opened. Nearly everyone in turn explained how certain Austrian and German insurers exploited the disintegration of Yugoslavia to market its products. Their reputation stemmed from Bosnia's historic ties with Austria. Regardless of which entity they came from, all the Seminar participants regarded this situation as a major affront, draining the country of premiums. Despite their profound chagrin, they did not mention the implication that insurance consumers in Bosnia and Herzegovina evidently do not accord a higher value to transactions with legitimate, supervised insurers than with unsupervised insurers. Obviously it will take considerable effort to instill confidence in Bosnian consumers and to raise the level of insurance supervision to that of EU member states.

Clearly, the present supervisory authorities lack the necessary legal powers to exercise their responsibilities fully. In some cases they may also lack the necessary courage or experience. It is up to them to protect policyholders and assure the overall integrity of the insurance market. As we reminded them, in a voluntary market without sound supervision, few people would buy insurance. Notably, more than half of the insurance purchased in Bosnia and Herzegovina is compulsory.

In Sarajevo, a mosque, a Catholic cathedral, an Orthodox cathedral and a synagogue stand within 500 meters of each other. Locals boast about this evidence of the city's multicultural past, enriched by influences from all directions at this crossroads of civilizations. Although still open, all the houses of prayer now seem underutilized, for Bosnia and Herzegovina needs an abundance of prayers.

Not only must it bind up the nation's wounds, it must establish a just and lasting peace. Once again it must be open to the world and learn to take the best from each corner. The Stabilization and Association Agreement with the European Union, which Bosnia and Herzegovina signed in June, provides new channels for cooperation and assistance. Eventual membership in the European Union promises a brighter future, but many more reforms are needed to fulfill that aspiration. In the judgment of the

Continued on page 12

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Letter from Sarajevo

Continued from page 11

High Representative, "Reforms in Bosnia and Herzegovina have slowed down, despite commitments from all political parties to ensure fast progress on the EU agenda."

During my time in Sarajevo, the International Monetary Fund (IMF) issued its latest report on Bosnia and Herzegovina's economy. The IMF report is ambivalent. Bosnia and Herzegovina's national income compares well to neighboring countries, in line with other transition economies, taking account of the time lag resulting from the war. Its growth rate, however, falls short. Bosnia and Herzegovina risks falling behind, rather than catching up with other transition economies and the rest of Europe. Accelerated structural reforms are critical to encouraging private investment and stimulating growth.

The insurance market also risks falling behind. The supervisory agencies recognize most of its problems and are moving in the right direction, but are not moving fast enough. The agencies must intensify international cooperation and adopt best practices quickly. As the economy grows and opens more to Europe, the holes in the supervisory framework will become craters, and irresponsible players will exploit them savagely if they are not filled.

Some may say that Bosnia and Herzegovina is but a small, faraway country, but I will return to help it implement global standards of insurance supervision. Sound supervision will be good for the people there, and it will be good for the global insurance market as a whole. As events in Sarajevo have proved more than once, what happens in small, remote places still touches us all. ■

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