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International Perspectives

Volume 22 Number 3 November 2008

International Perspectives Editor's Note

by Mickey Brown, CPCU, ARM

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Welcome to the November 2008 edition of *International Perspectives*. Given the insurance industry's international focus, we are committed to raising awareness on global risk topics and offering commentary on the differing world economies. An awareness of the international marketplace is especially critical during this period of global financial crisis which is negatively impacting the world's wealthiest nations' businesses and consumers in an unprecedented manner.

The global economic outlook is unfavorable, driven by an increase in liquidity pressure. Recent government bailouts and forced mergers, along with failures of Bear Stearns, Lehman Brothers and several banks, have driven global markets considerably downward. The effect on the insurance industry will be substantial if insurance companies cannot secure investment returns to offset any underwriting losses.

Articles in this issue stress the personal, cultural, technical and political aspects of our business in dealing with the following topics:

- Working Abroad in Canada.
- China Political Risks.
- Global Environmental Awareness.
- Controlled Master Insurance Programs.

The closing article is a new feature, which presents a past CPCU Society president's international perspectives. Put simply, in facing global business initiatives, there are many strategies to consider, and, as inaction is not an option for success, we strive to educate our readers with original writings.

We hope you will enjoy this issue! In looking toward future editions, 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 Mickey Brown at (404) 995-3386 or at mickey.brown@marsh.com. ■

What's in This Issue

Canada: Working Abroad in Insurance

by Deke Phillips

Deke Phillips is an assistant vice president with ACE INA Insurance in Toronto, Canada, where he heads up ACE's International Advantage Unit. Before relocating to Toronto, Phillips was a production underwriter for ACE International Advantage in Atlanta. Prior to joining ACE, he worked as a commercial P&C producer. In addition to being an active speaker on international insurance and risk management issues, Phillips is also a member of the World Affairs Council and the Southern Center for International Studies.

For a lifelong Southern U.S. and Atlanta, Ga., native, having relocated to Canada in the middle of winter was a bit of a culture shock. I had never seen so much snow. (I eventually figured out how to use a snow shovel and an ice scraper!) On the plus side, the summers are beautiful and the people super friendly. Toronto is the fifth largest city in North America, and is the insurance and financial services capital of Canada. With half of its population born outside of Canada, Toronto is a true melting pot. Name almost any culture in any region of the world, and Toronto has an area where that culture's influence can be found. If you are a fan of ethnic food, this is the place to be.

Working with a Canadian broker is absolutely essential in order to be in full compliance.

Working as an insurance professional in Canada is both challenging and rewarding. From an underwriter's perspective, I find a more relaxed business environment in Canada, which is similar to the European way of doing business. (This is especially true in the province of Quebec, where a European influence is at its greatest.) Many professionals work less hours and take more vacation time, yet productivity is still high. I find that in meetings, people first tend to want to build a relationship with you before diving right into the business at hand.

The insurance market in Canada is similar to that in the U.S., but on a smaller scale, with annual non-life premiums at approximately $50 billion. Regulatory issues can be easier to deal with as there are only 13 provinces and territories, of which five provincial insurance councils govern their own insurance regulatory framework. Freedom of rate and form allows underwriting companies to be more flexible, and this in turn makes the marketplace more competitive. However, insurance legislation tends to be more favorable toward the policyholder regarding notices of cancellation, claims reporting periods and other policy terms.

Compulsory insurances in Canada include auto liability and some types of professional liability. Non-admitted insurance is allowed in Canada, with the exception of auto liability (in most provinces); however, Canadian companies that purchase insurance from non-admitted insurers must pay a federal excise tax equal to 10 percent of the premium in addition to provincial premium taxes (which vary by province).

Some exceptions are allowed for reinsurance and certain types of marine coverage. Canadian companies that allocate premiums to non-Canadian parent companies or captives are also subject to full premium taxation. Working with a Canadian broker is absolutely essential in order to be in full compliance.

Many of the large Canadian multinational companies are in the energy and mining sectors, and therefore have very specific insurance requirements which require specialty underwriting. The London syndicates, which brokers in Canada can access directly, are very keen to write both energy and non-energy business, and regularly compete with the multinational carriers, creating a fairly competitive market environment.

Seventy percent of Canada's exports go to the U.S., and this drives the need for cross-border insurance placements.

Working in Canada has been a great experience, and I feel very fortunate to have been given the opportunity. Even though many of us may not be able to get a chance to work abroad, we can gain valuable insight into our businesses from our counterparts and colleagues in other countries. ■

International Importance of the CPCU Designation

by Mickey Brown, CPCU, ARM

The CPCU Class of 2008 held its commencement ceremonies in Philadelphia on Sept. 6. Of the 757 new designees, 58 are located outside the U.S. and come from the following other countries: Barbados, Bermuda, Brazil, China, England, Germany, India, Ireland, Japan, South Korea, Pakistan, Switzerland, Taiwan, United Arab Emirates and Zambia.

Chikara Sakoda, CPCU, now working for Marsh Risk & Insurance in Los Angeles, Calif., is a new designee from Japan. Believing strongly in the merits of the CPCU designation, Sakoda-san recently wrote an article for the Japanese insurance newspaper *Hoken Mainichi*, published in Tokyo. He began the article with his reasons for pursuing the CPCU designation: enhanced professionalism and increased knowledge, both of which would benefit his clients. Sakoda-san also discussed his future plans to continue learning the dynamics of our industry and utilizing his studies in daily client activities.

As the CPCU designation is relatively new in Japan, the article describes the courses necessary to earn the designation, including a commentary on exam format and education materials. Sakoda-san also offers study tips, including: thorough planning, time allocation, taking the exams in succession, and "do not memorize until you understand."

It is Sakoda-san's desire that others in Japan pursue their CPCU studies, providing not only technical insurance information, but also regulatory, accounting and management knowledge. He noted that the CPCU designation is highly recognized and also enables great networking opportunities! ■

China Political Risk: A Goldmine and a Minefield

by Peter J. Li, Ph.D., and John L. Linantud, Ph.D.

Peter J. Li, Ph.D., is an assistant professor at the University of Houston-Downtown. He earned bachelor's degrees in English and foreign service in China, a master's degree in international relations from Syracuse University, and a doctorate in comparative politics from Northern Arizona University. Li specializes in China foreign relations, among other areas.

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

Editor's note: This is the third in a series of articles on the political risks of Asian countries commissioned by the CPCU International Insurance Interest Group. Previous articles addressed Vietnam and the Philippines.

Introduction

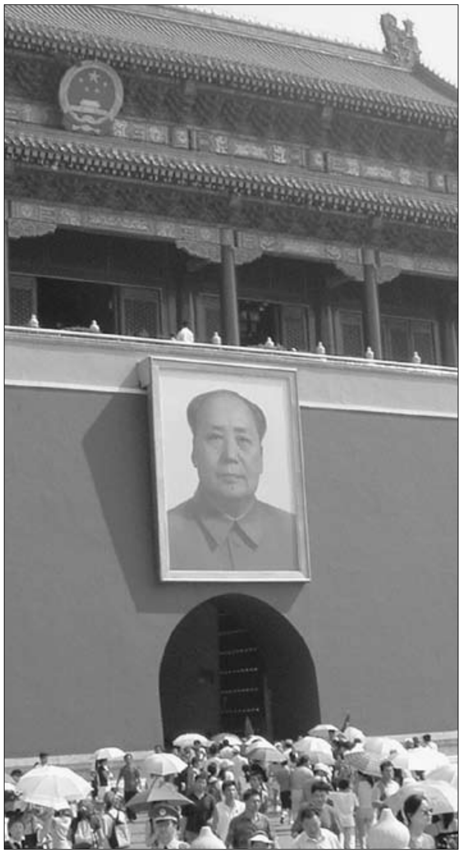
China's emergence as an economic superpower is somewhat of a miracle — only a quarter century ago China was one of the poorest countries on earth, with the world's biggest population living on starvation rations. Three decades of double-digit growth transformed China into a commercial powerhouse. China today has 1.3 billion people (22 percent of the world's total), and is the world's fourth largest country. With 9.6 million square kilometers, it is only slightly smaller than the U.S. But will its economy continue to grow? Behind this question are the risk concerns of transnational corporations currently operating or planning to operate in China.

A Century of Humiliations

Chinese history begins over four thousand years ago. The communist and nationalist politics of today, however, are rooted in the 19th century subjugation of China by the outside world. According to Mao Tse-tung (1893–1976), the founder of the communist state, the humiliations began with British victories in the Opium Wars of 1839–1860. As a result, Britain and others, including the U.S., enjoyed unequal commercial treaties and immunity from Chinese laws. The worst period of alien domination, however, came when Japan conquered and annexed much of China between 1932–1945, before losing the second world war. Civil war in 1946–1949 between Mao's Communists (CCP) and the rival Nationalists ended with the retreat of Nationalist authorities to Taiwan, where they still reside. Mao vowed to restore the greatness of China — but only under his leadership. By 1976 his revolutionary programs had eliminated domestic opposition to the CCP but wrecked the economy and cost dozens of millions of lives, giving communist China a record arguably worse than the Soviet Union (1919–1991) and Nazi Germany (1933–1945) in terms of people killed by their own government.

Dictatorship, Stability and Economic Growth

When Mao finally died, the majority of China's 900 million people were living on the verge of starvation. The crisis was a bad omen: food security has been a perennial problem in China, and past disruptions of agricultural production due to natural or man-made upheavals have frequently led to famine and rebellion. In 1978, new leader Deng Xiaoping (1904–1997), acting on the ancient warning "Hunger breeds discontent," decided to change Mao's state in order to save it. To create the economic foundations for social stability and harmony, Deng abolished collective



Mao Tse-tung, Tiananmen Square, Beijing. Photo: Bob Beatty.

farming, legalized private property, courted foreign investment, and pursued a cadre performance policy based on increased productivity. China's growth in the Reform Era (1978–present) has been earth-shaking. Human development, an index of gross domestic product per capita, literacy, school enrollment and life expectancy, has clearly accelerated since the 1980s.

The politics of the Reform Era, however, continue to rest on the tight grip of the CCP. Figure 1 tracks Freedom House grades on political freedom: the higher the grade, the worse the repression by the state. Since 1975, China has never rated less than 6, because of its regimen of CCP-controlled elections and media as well as the near-total prohibition of autonomous political activity. To be sure, repression has eased in the last few years, and many analysts expect socioeconomic growth to create even more pressure for political reform if a middle class develops and the country becomes accustomed to a higher standard of living in politics as well as economics.

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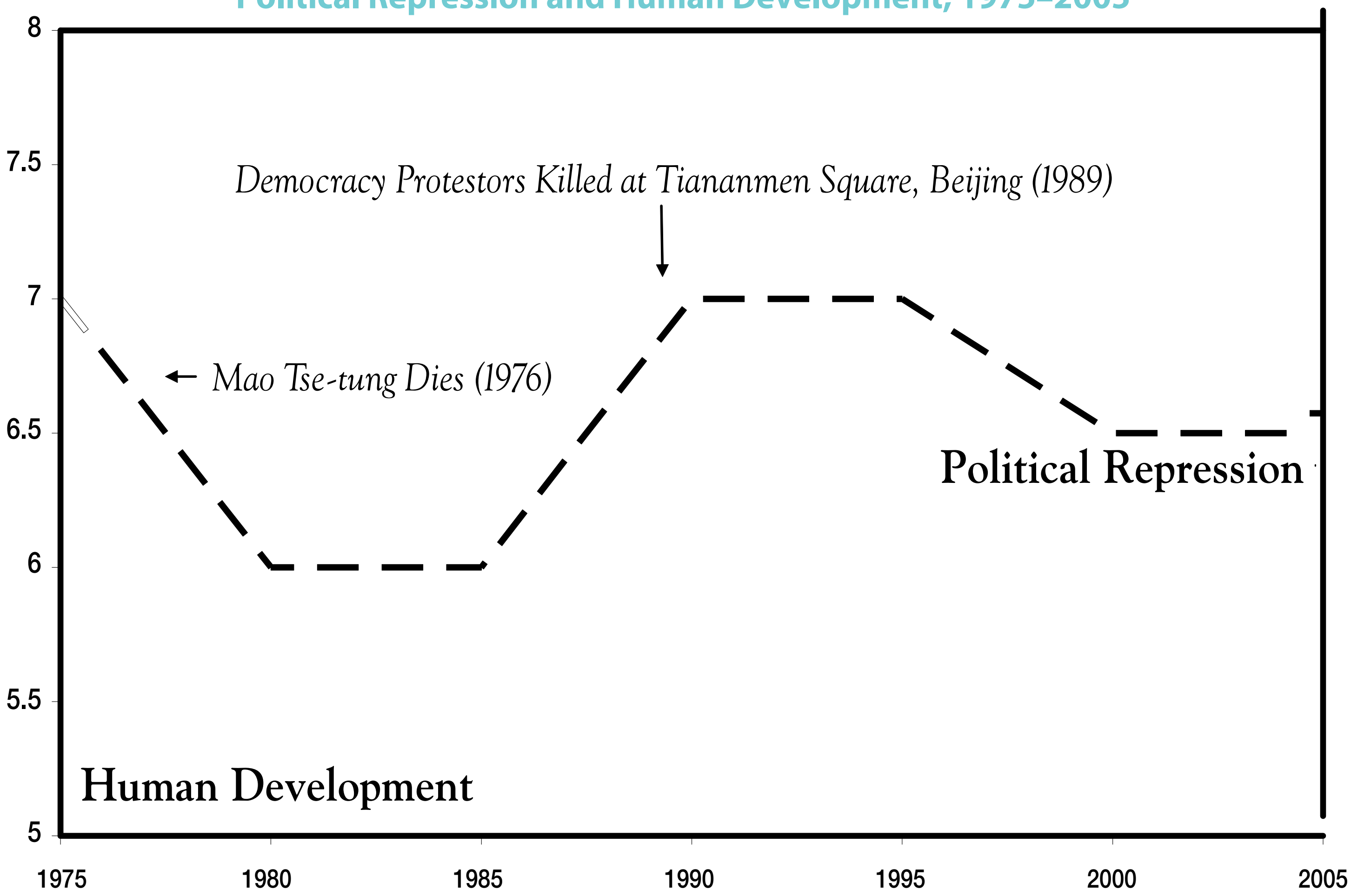
Figure 1
Political Repression and Human Development, 1975–2005



Sources: United Nations, *Human Development Report 2007/2008,* "Table 2: Human Development Index Trends," p.235 (http://hdr.undp.org/en/); Freedom House, "Freedom in the World Country Ratings, 1972-2008" (freedomhouse.org).

Notes:
The Human Development line multiplies index scores by 10 to make whole numbers. The best possible score is 10, designating a state with the highest possible standard of living in terms of life expectancy, literacy, school enrollment and gross domestic product per capita. HDI is not yet available for 2006 or 2007. The Freedom House line averages separate annual assessments of political and civil rights. The highest, or worst, possible rating is 7, designating a state with no political or civil rights. The lowest, or best, possible rating is 1, designating a liberal democracy. China received a mark of 6.5 for both 2006 and 2007.

China Political Risk: A Goldmine and a Minefield

Continued from page 5

From a certain perspective, the CCP's power to dominate politics and society explains why China, by and large, has been able to marshal so many economic resources so quickly, including the one-child policy that bans couples from legally raising more than a single offspring. But absolute power breeds absolute corruption, and the Chinese government is one of the most opaque and non-transparent powers in the world. In 2007, the execution of the head of China's food and drug administration in response to tainted shipments to the West was only the tip of the iceberg. Steering clear of the muddied waters of corruption and still operating successfully in China are a big challenge to transnational businesses.

Nationalism: A Double-Edged Sword

Nationalism also influences international business. On one hand, China welcomes foreign investment and uses nationalist appeals to motivate itself and the Chinese people to pursue economic growth, a sharp contrast to former times when the CCP viewed foreign capital as a sinister means of exploiting the people. On the other, nationalism may still turn virulent. For example, in response to sanctions on China after the Tiananmen Massacre of pro-democracy protestors in 1989, some officials charged that Western businesses were seeking to overthrow the CCP. In the mid-1990s, another wave of anti-Western sentiment swept across China with the publication of *China Can Say No,* a book full of ultra-nationalistic utterances. U.S. bombardment of the Chinese embassy in Belgrade in 1999, and the forcing down of an American spy plane by Chinese warplanes in 2001, triggered another anti-Western storm. The latest happened in May 2008, when French businesses were accused of supporting the Tibetan independence movement.

Caution is key to sidestep the risk of a nationalistic backlash. To the Chinese, transnational corporations should focus on commercial gains, not China's internal affairs, and more importantly, they should not be involved in activities challenging China's core values, jeopardizing its national interests and harming its territorial integrity. Tibet is just such an issue that international businesses should treat with caution. According to Chinese official historiography, Tibet has been part of China for more than 1,000 years. Communist forces entered Tibet in 1950 to reincorporate that region into the motherland, not to conquer an independent people. Consequently, Western support of Tibetan independence and the Dalai Lama evokes memories of the Century of Humiliation, as do other sensitive subjects such as Taiwan, human rights, the Beijing Olympics and China's Darfur policy. Foreign companies operating, or planning to operate, in China should be mindful of controversies connected to these issues.

A Different Lifestyle

It may be impossible, however, to stop the changes to China's national and international identity that have followed economic growth. To begin with, China's economy depends on globalization, with 70 percent of its GDP from foreign trade and its exports flooding into not only the West, but also Afghanistan, Iraq, Haiti and Africa. China is the world's second biggest oil importer, and at the same time the second biggest contributor to global warming. Investments in Africa and Latin America, moreover, have raised charges of a neo-colonial plot to dominate the world's natural resources and feed China's appetite for raw materials.

In 2002, China replaced the U.S. as the biggest destination of foreign direct investment. More than 400 of the world's top 500 corporations have invested, built production lines or opened branch offices in China. Urbanization is also sweeping across the country. Today some 46 percent of the Chinese people live in urban areas, compared to 29 percent of the native populace in neighboring India. Urban sprawling has resulted in China's ferocious consumption of building materials, including some 40 percent of the world's steel and 45 percent of the world's cement.

China's growth-maniacal government is therefore an asset to international firms wishing to cash in on its tepid commitment to environmental and labor protection. In the foreseeable future, foreign companies can still expect a lukewarm Chinese interest in green regulations and an over zealous interest in capital from companies that flee their home countries because of tightened environmental governance. Regarding China's abundant and youthful labor force, foreign companies can still pursue practices that are legally and morally dubious in their homeland, and still receive preferential treatment from not only the central government, but also local authorities.

To Chinese conservatives, however, economic reform has opened a Pandora's Box of social and political uncertainties. China may be moving away from the image of a low labor cost country, and some foreign companies are feeling the pinch of rising wages and shortage of migrant workers. The Chinese lifestyle, moreover, is changing quickly — witness the massive import of Mercedes and BMW autos and the popularity of McDonald's. Just a few decades removed from starvation, China's single-child generation grows up on meat and foreign sodas. China's younger generation may also be more similar to their counterparts in the West than to their own parents. The Chinese, for example, now spend far more money on non-essential items, such as pet ownership and vacations. In 2005, 34 million people traveled overseas, making China Asia's biggest source nation of tourists.

Finally, reformist China is in the early stages of its first bottom-up political movements: autonomous non-governmental organizations (NGOs) have called for green regulations, labor protection and state protection of animals. The closure of a large number of polluting factories in Guangdong and the Yangtze delta region is partially attributable to the activities of the Chinese grassroot NGOs.

Conclusion

China is both a goldmine and a minefield for international business. The country has come a long way in its interaction with the outside world, and is arguably the world's most vibrant economy. With regard to concerns over the possible slowdown of the Chinese economy in the wake of the Beijing Olympics, a senior official of the World Bank predicted that the economy would still grow quickly for 20 to 30 years. This means that the government will continue to welcome international capital into China and that investors must proceed with caution and political savvy. ■

Controlled Master Programs: An Underwriter's Perspective

by Thomas T. Gu, CPCU

Thomas T. Gu, CPCU, is specialist and a senior underwriting officer in the Multinational Risk Group of the Chubb Group of Insurance Companies in Boston, Mass. He is responsible for production, underwriting and marketing of multinational business for Chubb's Boston and Northern New England region, and is a frequent speaker at insurance and international trade events.

Multinational companies that have bricks-and-mortar operations around the world are often required to purchase insurance from insurance companies licensed to write business in the countries where such operations are located. But many of these multinationals will experience insurance gaps if they don't supplement their insurance with an international policy, commonly referred to as a "master policy."

A controlled master program (CMP) is an international property-casualty insurance program underwritten and controlled from a central location, combining a non-admitted "master" difference in conditions/difference in limits (DIC/DIL) policy with foreign admitted insurance placements issued by a single insurer or its affiliates. A CMP provides broad international insurance complemented by local placements, which may include insurance features unique to that country.

The need for structuring a CMP stems from the globalization of the world economy, as more businesses are conducting business across country borders. Examples include manufacturers moving to Mexico and China, computer networking and financial service providers expanding to India and Eastern Europe, and products being sold across all continents, including South America and Africa. As a result of this globalization, companies have encountered new liability challenges that are unfolding in unfamiliar territory. Insurers are in the business of following their customers' footprints and supplying them with insurance solutions that meet their needs. A CMP will help protect customers from foreign exposures with insurance for property, general liability, excess auto liability and foreign voluntary workers compensation.

The master policy is an important element of the CMP and can be structured in two ways, depending on the needs of the insured:

- **Single-tower method.** One property and/or package policy that insures local operations on a primary basis and global operations as a DIC/DIL on a non-admitted basis. The benefit of this approach is ease of policy processing. Instead of two, there is a single policy for the insured's worldwide operations. The downside is that the insured has only one limit of liability for exposures both at home and abroad. In the case of general liability, when a large local claim potentially exhausts the one limit, there would be no insurance left for the insured's foreign exposures.
- **Twin-tower method.** A stand-alone DIC/DIL non-admitted policy is issued solely for international exposures. It carries its own limits for general liability, property, foreign workers compensation and foreign excess automobile (motor liability). A benefit of this approach to the insured is a

separate foreign insurance limit rather than having to share the limit with the domestic exposure.

The ability to provide an insured with a true controlled master program is heavily dependent on the carrier's international capabilities, which should include:

- **Financial strength and experience.** High ratings for financial strength, an important consideration that underscores an insurer's ability to pay its claims now and in the future.
- **Local representation.** The ability to efficiently issue locally admitted policies in countries where insureds are located with good local standard terms and conditions, and the ability to provide local market expertise.
- **An affiliate network of insurance carriers.** The ability to complement a network of branch offices with local insurance carriers in countries around the world.
- **Technology.** The ability to quickly and effectively communicate, which is critical in the administration of local programs.
- **Worldwide loss control capabilities.** The ability to provide consistent loss control services to the insured anywhere in the world.
- **Centralized claim handling.** The ability to centralize multinational claim handling to increase expertise in working with local claim adjusters in the country where the claim occurs.

Structuring a controlled master program for your multinational client may seem daunting at first, but if you stay focused, you will be doing both yourself and your client a service. There are other options that are available to your customer; however, they may not fully meet your client's needs. They are:

- **Admitted insurance placements only.** Admitted insurance is a contract written by an insurer that is licensed or registered to do business in the country where the risk is located. This policy is in the local language and currency and complies with local tariffs, taxes and forms. The local policy is recognized as a legal insurance contract in the local court of law, and premium paid is tax deductible. Disadvantages of this approach include: the policy is written in a foreign language; unfamiliar terms and conditions may be used; obtaining broad form and package policies may be difficult; and the insurer's solvency is governed by unfamiliar standards.
- **Non-admitted placements only.** Non-admitted insurance is a contract written by an insurer that is not licensed or registered to do business in the country where the risk is located. Disadvantages of this approach include: the insured is subject to penalties in certain areas; premium may not be tax deductible; foreign managers have limited awareness of the insurance solution; and control of the program is not at the local level, where insurance needs are best understood.
- **Decentralized multinational program.** A decentralized multinational program is a property and/or casualty international insurance program combining a non-admitted master DIC/DIL policy written by one insurer and admitted insurance placements issued by multiple insurers with no central coordination. This presents significant challenges for the insured's parent company because it is difficult to stay informed of what is in place in its foreign subsidiary countries. Also, this type of program provides no capability to bridge insurance gaps that are prominent in the foreign market.

When structured correctly, a controlled master program can serve the best interests of the multinational insured. It blends the advantages of admitted and non-admitted insurance, providing the best of both worlds, while also bringing protection to a desired uniform level over multiple policies and countries. Centralization of underwriting and services, such as loss control and claim handling, also brings ease and consistency to the insured. ■

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 first in a series of articles on global environmental topics commissioned by CPCU Society's International Insurance Interest Group. In the second part of this series, we will examine global environmental risk management and insurance solutions.

Environmental risk is a complex issue, and even more so when contemplated in a global setting. An Internet search of the term "global environmental risk" results in over 15,000 hits — addressing issues from climate change to acid rain, and from polluted sites to green buildings. Knowing what aspect of environmental risk to pay attention to, actively manage and, where appropriate, invest risk capital in, can be a critical success factor for entities competing in a global marketplace. Decisions around new product development, market-entry strategy, outsourced manufacturing, acquisitions and divestments, and the raising of capital are frequently influenced by environmental factors. Hence, the question of how companies conduct operations internationally can result in significant liability, not to mention putting reputations at stake.

Historically, as a result of strict liability legislation and a hostile tort environment, the United States has been at the forefront of corporate environmental liability. However, many other countries essential to the operations of global corporations are closing the gap. While the global environmental liability "fallout" is still to be realized, it is clear that regulations are likely to be enacted which will hold someone responsible for cleaning up sites, for defense costs, for settlement costs, and for future monitoring costs.

There has never been a more critical time for companies to be approaching their environmental risk management activities in a holistic manner. Today, leading corporations have to be forward-thinking with regard to managing environmental risks that are emerging as a result of advances in technology, new products and markets, changing regulatory environments, and the general public's preference for all things green and sustainable. Those companies that have a high degree of attention and activity in proactively addressing their environmental exposures will be the frontrunners in the global marketplace.

So, what are some of the primary drivers influencing environmental risk management issues abroad?

Regulatory Liability

Around the world, environmental liability regimes are rapidly developing to cope with an increased sensitivity to environmental risk. In the European Union (EU), member states are in the process of transposing the EU Environmental Liability Directive into law. Aspects of this directive, such as liability for biodiversity damage, significantly broaden the potential for a company to be held liable for environmental damage. In South America and in Eastern Europe, for example, many countries are just beginning to enact and enforce environmental legislation. Risks in countries where environmental legislation is new are often easier to quantify and enforce than those in countries where regulations have been implemented for years, primarily because of the complexity of ensuring that new and existing regulations mesh. Most importantly, much of the emerging regulation is focused on products, their life cycle and ways that they could impact the environment. This development is significant — a product or component focus has the potential to bring into the liability chain a much larger group of entities. To adequately manage risk, companies need to think more broadly about their environmental "footprint" and consider the full lifecycle of their products and operations.

Reputational Risk

It seems that not a day goes by without someone commenting or talking about how green a company is or how large a company's "carbon footprint." The emergence of blogging on the Internet has not only provided a new venue for established professional editors, writers and reporters, but has given rise to a new breed of amateur journalists. In this environment, reputations can be tarnished in an astonishingly short time frame. This trend can be particularly challenging in marketplaces where reporting of alleged environmental damage can take on an apparent political dimension. Large, multinational companies with prominent brand equity are particularly exposed.

The appetite for environmental reporting is not limited to activist journalism. Indeed, many corporations are actively positioning themselves on green issues. Recognizing the benefits of responsible environmental stewardship, these companies seek to gain competitive advantage and access to capital from likeminded investors. Investors are increasingly placing more emphasis on social and environmental performance in their decision making. Their requirements for information and position statements can pose significant reputational risk issues. While a strategy to position around green issues has the potential to drive significant growth, companies need to ensure that the statements and commitments they make are accurate, achievable and material. Failure to do so can result in accusations of greenwashing or worse.

Access to Capital

In addition to increasing investor pressure, lenders are imposing more stringent environmental requirements on their decision making. An example of these requirements are the Equator Principles, a voluntary set of environmental and social standards to which many of the leading project finance lending banks are adhering. Market conditions, such as recessionary pressures, will likely lead to a trend of asset-based rather than cash-flow-based lending. Any focus on assets, such as real property, will inevitably lead to heightened awareness of risk management. According to Innovest, a provider of extra-financial research, trillions of dollars of investment capital are ready and able to go to those firms that can manage their environmental exposures and act in a socially and environmentally responsible way. Companies that are able to assess, quantify and actively manage their international environmental risk will be better positioned to access capital and invest in growth.

Supply Chain

Many of the leading current environmental stories are related to supply-chain risk. These include headlines on product recalls relating to lead-based paint in children's

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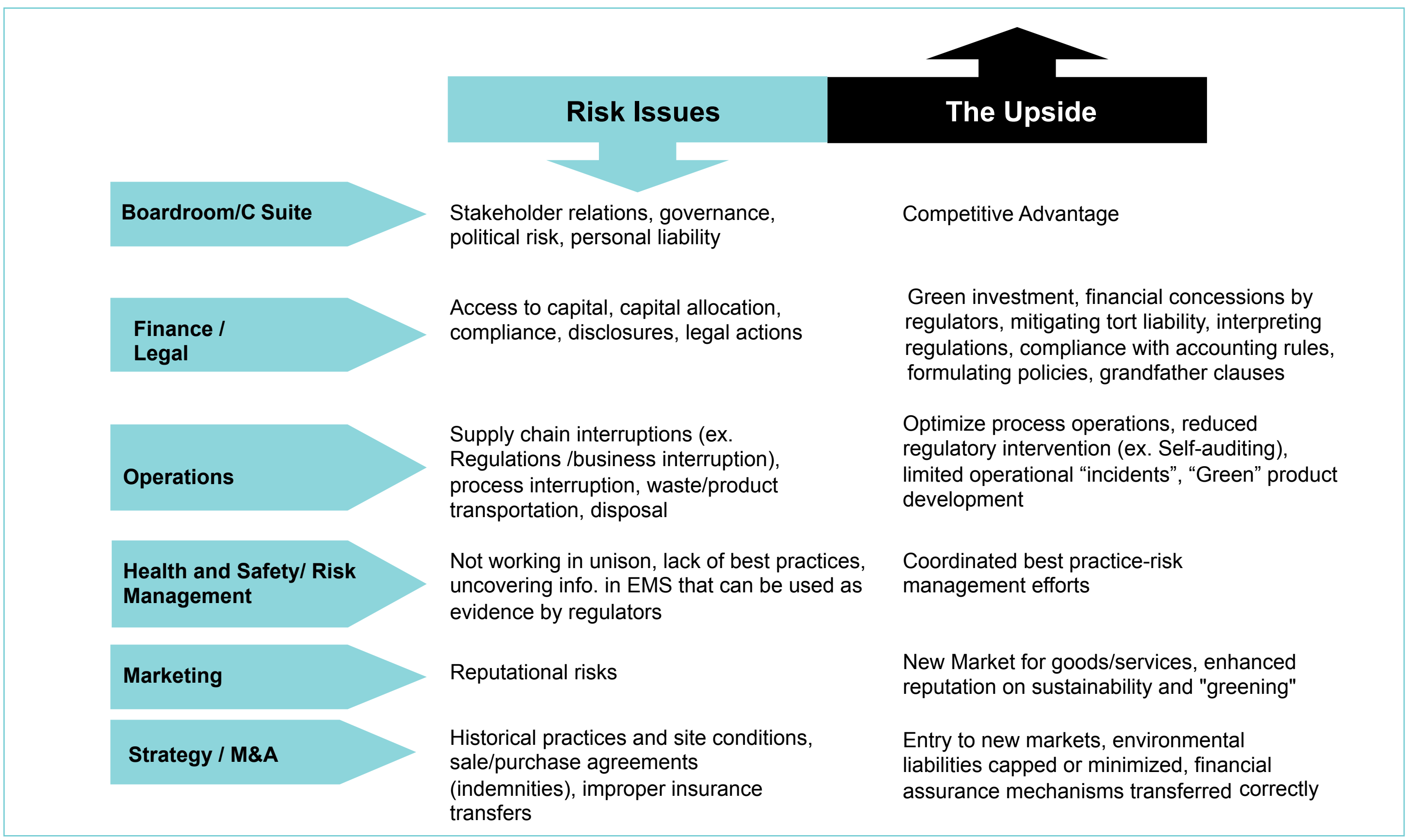
Figure 1
Environmental Risks are Pervasive



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toys, toxic chemicals in seafood, and contamination in pet food. Company operations are impacted by supply chain issues that could easily be disrupted by environmental events and result in product risks. Examples such as supplier or contracted manufacturing outages caused by environmental pollution events or increased regulatory scrutiny can represent significant business interruption risk to companies with global operations or supply chains.

Trends such as those discussed above have the potential to impact many of the traditional functions of a business. This means that corporations need to manage their environmental exposures holistically or at every level throughout the company. See Figure 1.

Identifying Global Environmental Risk

So how does one identify environmental risks in a global marketplace? There are many ways to categorize such exposures, and numerous chain reactions that can take place when any one is not addressed. In any case, we have categorized them into three primary areas:

1. **Exposures from interests abroad.** One of the primary exposures stems from the uncertainty regarding regulations that are currently being put into place, and more importantly, how these regulations are being implemented. Regulations such as RoHS, WEEE and REACH (see sidebar) focus on raw materials and products rather than fixed operation exposures. As a result, issues such as risk assessments related to chemical "ingredients," elimination of certain chemicals and metals from products, and end-of-life disposal become a significant consideration. In addition, emerging regulations can impact operations, permitting and triggering clean-up requirements or worse, plant closures.

Secondary exposures stem from ownership and the "flow" of liability. Although the exposures associated with sole ownership, joint ventures and contract manufacturing interests all have their own particular nuances, some of the broader exposures are the same. Examples include Director and Officer exposures and whether or not the implementation of environmental management systems runs the risk of "piercing the corporate veil." Other exposures may be embedded within the covenants of contracts associated with project financing and/or operations, or as a function of a lack of control over vendor contracts — whether these companies manage themselves and their suppliers in the same manner as your company. Operations of surrounding environments other than your own, such as those on adjacent properties in industrial parks, may also have a serious environmental impact on your operations.

2. **Importing products or raw materials.** Environmental exposures in this category that have been in the news lately are ones such as toxic metals in toys and in toothpaste or where shellfish have been harvested from rivers where there is so much pollution that it is necessary to feed the shellfish with antibiotics simply to keep them alive. Exposures such as these can have significant liability costs and can be enterprise-threatening. Adequate responses will not only include the need to recall products, but significant costs may also include medical monitoring and bodily injury compensation to consumers, the cost of disposal of contaminated products, and

- **RoHS:** Restriction of Hazardous Substances Directive — restricts the use of six hazardous materials in the manufacture of electronic and electrical equipment.
- **WEEE:** Waste Electrical and Electronic Equipment Directive imposes responsibility for the disposal of waste from electrical equipment on the manufacturers.
- **REACH:** Registration, Evaluation, Authorization and restriction of Chemicals — it will require companies manufacturing or importing certain chemicals in certain quantities to register them with a new European Chemical Agency.

ultimately the potential disposal liabilities.

3. **Exporting products and services.** Environmental exposures in this category involve taking into account the local regulations that may impact products. They also include exposures such as packaging regulations. The elimination of certain chemicals or metals from the products can pose a significant exposure. For example, there was a recent incident where a consumer electronics manufacturer experienced product launch delays due to a small quantity of a prohibited metal being found in one of the control wires for its products. While the immediate action of shipping replacement control wires was relatively easy to resolve (although costly), it took 18 months for the manufacturer of those electronics components to find out where the prohibited metals had entered into the supply chain for the product. Because of the long lead time in design and manufacturing, companies need to have a robust way to scan and anticipate emerging trends.

   The service industry, too, must consider the impact of emerging environmental trends. In particular, projects involving infrastructure or utilities may be particularly vulnerable. For example, service providers to cross-border projects like mega projects for tunnels, pipelines or highways may run into issues such as requirements to adhere to cleanup criteria, and either inadequate environmental information or, in the case of war-torn countries, powerlessness to access environmental information.

   The broad considerations above are by no means complete or indeed discrete. There is potential that these issues can interact with one another with significant impact. Take for example the considerable controversy and concern over the years about the use of lead in products. The introduction by the EU of RoHS in electrical and electronic equipment effectively eliminated lead from electronic circuit boards. As a result, manufacturers switched from lead to tin-based solder, thus increasing the demand for tin. In 2006, regulators in Indonesia, a prime tin producer began to target tin mining operators due to concerns related to the environmental risks of their mining operations. This environmental focus led to the closure of a significant number of smelters. By February 2007, the price of tin was at a 20-year high on the London Metal Exchange. While the spike in tin prices was not solely due to the environmental factors, clearly circumstances such as these can result in significant, unbudgeted costs due to raw material inflation and supply chain disruption.

CPCU Society Past President's International Perspectives

by Donald J. Hurzeler, CPCU, CLU

Donald J. Hurzeler, CPCU, CLU, was the 2004–2005 president of the CPCU Society. He recently retired from Zurich North America, where he held jobs ranging from various positions in support of sales and marketing to chief underwriting officer, CEO and president of middle markets, and president of the Zurich Foundation. Hurzeler is the author of *Designated for Success,* a book about the ups and downs of insurance careers. He is currently writing a new book on careers, enjoying his newfound freedom and traveling the world.

What follows are the ramblings of a recently retired, content and experienced insurance guy. I spent 40 years in the commercial lines property-casualty insurance industry. I love the business, and enjoyed my various jobs right up to retirement. I spent 27 years with Allstate Insurance, a very fine company that moved me around the country and let me see every part of the United States. My one dissatisfaction with my tenure at Allstate was the little international experience I received, outside of Canada and London with various Lloyd's syndicates. I spent my last 11 years with the Zurich Financial Services organization. Again, most of my work was on U.S. business. This time around, however, I was surrounded by an international network of businesses and people.

My first observations about doing business around the world came through participating in various educational experiences and workshops that took place in Switzerland. There were people there from dozens of different countries, a few of which had very difficult relationships with the U.S. Those political difficulties did not seem to matter much, however, when it came to business. The people treated me well, and we quickly learned to work together as a team. One aside: People were curious about the U.S. and wanted contacts in our country. They also wanted to get on my case about the number of guns we have in the U.S. I would often be asked how many guns I had. My standard answer became, "You mean, on me now?" Somehow, that answer usually changed the dinner discussion to some other area.

I also quickly learned that there were very talented people all over the world. In particular, a young lady from China impressed me with her language skills, use of technology and world awareness. She asked me to become her long-distance mentor. I happily accepted. One of her first requests for help was on how to deal with difficult people. I gave her some standard advice, and eventually asked her to be more specific. The help she needed was with older male government regulators … people who treated her as unimportant and beneath them. In what has to be one of the biggest coincidences of my life, I had just hosted the very same regulators here in the U.S. Of the billion or so Chinese people, I actually knew the people that were causing her problems. I made a couple of very long distance calls, and her difficulties cleared up nicely.

It takes a network to get work done across the globe.

The above story leads me to my most important discovery about doing business internationally. ***It takes a network to get work done across the globe.*** That sounds so easy, especially in a company as large and as international as Zurich. However, those networks are living organisms that need to be nurtured and cared for each and every day. People change jobs and move. Laws and regulations change constantly. Technology is often fragmented or country-centric — and in dire need of centralization and/or integration. Customs, norms and expectations need to be understood and accommodated. It's tricky doing business outside of one's own country.

And, just because someone is your contact person in another country or different part of the world does not automatically mean that person is any good at his or her job. How do you build initial trust with your contact persons? How, for example, do you find out if they know what they're doing, will put your interests above their own and will come through when you need them the most?

The answer to the above questions is: you don't know. You start off with what exists or what you can patch together, work off

of recommendations or comments from others, and refine the network based on feedback and results over time. CPCU gave me an advantage in this area. Being able to find and network with fellow CPCUs around the world saved me a great deal of trial and error over the years.

During 2004–2005, I had the honor of representing the CPCU Society as its president. Part of the job that year was to attend what turned out to be a terrific meeting put on by the CPCU Society's Europe Chapter. It was one of the best-organized, useful and fun experiences of my presidential year. There were CPCUs attending from 11 different countries. I did not sleep much while in London for the meeting, but I learned a lot and had a great time building on my ever-growing network of international professionals.

Over the years, I have come to learn that we increasingly are in a worldwide business. I needed to become aware of currency fluctuations, political changes and catastrophe exposures all around the world. I also developed a new view on talent acquisition. I started to look around the world for the best talent, not just within the U.S. That was when I found out it was not always easy to get the government permits I needed to bring people into this country to work full time. Lots to learn!

All of this leads up to some things I would do differently today if I were just starting off on my career. Today I would:

- Learn at least two other languages. After watching the Olympics recently, one of those would be Chinese.
- Look for an opportunity to attend a year or two of university someplace overseas. Living overseas early on would have made me think differently about the world.
- Go to work for a company that offers the possibility of foreign assignments. Zurich is one such company. I wish I had found them earlier in my career.
- Put a huge effort into expanding my network of international professionals.
- Spend more time learning about global insurance mechanisms.

And two things that I would continue to do:

1. Treat people as my equal no matter where they live or what they do.
2. Be respectful of the differences that each culture brings to the workplace.

I am one over plan on "Arrogant Americans" for a lifetime. I saw firsthand how an Arrogant American made people feel about Americans in general and how this person's attitude really diminished his/her ability to get outstanding results around the globe. A humble and respectful attitude would have served this individual and his/her company very well.

For those of you who have taken on the international insurance market as your career, thank you. Thanks for helping the world become better connected. Thanks for letting this amateur international underwriter work alongside you and learn a little bit about the business. And thanks for the time and effort you spent to become CPCUs — and for carrying that standard of excellence with you as you move around the globe.

As I said the day I got sworn in as president of the Society: "My name is Don Hurzeler, and I am proud to be a CPCU." Well, I am retired now … and still proud to be a CPCU. I bet you are, as well. ■

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International Perspectives
is published four times a year by and for the members of the International Insurance Interest Group of the CPCU Society. http://international.cpcusociety.org

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International Perspectives

Volume 22 Number 3 November 2008

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