

# **BIPAR 1994 GENERAL ASSEMBLY**

**William J. Kelly  
J.P. Morgan  
5/18/94**



WHEN HENRY VIII DECIDED TO TAKE HIS FOURTH WIFE, HE IS SAID TO HAVE DESCRIBED THE DECISION AS THE TRIUMPH OF OPTIMISM OVER EXPERIENCE. HAVING JUST CONCLUDED THE RENEGOTIATION OF MY GLOBAL PROPERTY INSURANCES, I WOULD DESCRIBE IT AS AN EXPERIENCE WHICH THOROUGHLY TRIUMPHED OVER OPTIMISM.

ONCE UPON A TIME IN AMERICA, A MULTINATIONAL COMPANY WOULD INSURE ITS FOREIGN EXPOSURES THROUGH AMERICAN BROKERS USING AMERICAN INSURERS, WITH LOCALLY ADMITTED POLICIES ISSUED OVERSEAS THROUGH THE INSURER'S INTERNATIONAL NETWORK. THESE LOCAL POLICIES WERE BACKED UP WITH EXCESS AND DIFFERENCE IN CONDITIONS (D.I.C.) COVERAGE IN THE U.S. AMERICAN RISK MANAGERS AND THEIR BROKERS EXPECTED TO LIVE HAPPILY EVER AFTER, SUPPOSEDLY SECURE IN THEIR BELIEF THAT NO MATTER WHAT HAPPENED ANYWHERE IN THE WORLD IT WOULD BE COVERED UNDER THE D.I.C.

SUCH ENTIRELY AMERICAN SOLUTIONS ARE NO LONGER POSSIBLE. RISK MANAGERS ARE NOW FORCED TO DEAL IN THE WORLD MARKET AND TO BE AS COGNIZANT OF THEIR EXPOSURES IN NEW DELHI AS IN NEW YORK. CERTAIN AMERICAN INSURERS HAVE IN RECENT YEARS FOR A VARIETY OF REASONS WITHDRAWN FROM THE GLOBAL MARKET. AT THE SAME TIME, HOWEVER, MAJOR EUROPEAN INSURERS HAVE BEGUN TO COMPETE

AGGRESSIVELY FOR AMERICAN MULTINATIONAL BUSINESS.

UNTIL VERY RECENTLY A RISK MANAGER COULD STILL CRAFT A GLOBAL PROPERTY PROGRAM WITH ONE LEADING AMERICAN OR EUROPEAN INSURER. THIS IS NO LONGER THE CASE. TRADITIONAL MARKET LEADERS MUST NOW JOIN TOGETHER WITH OTHER LEADING INSURERS. TODAY THE CREATION OF A GLOBAL PROGRAM NECESSITATES A PANEL OF MAJOR INSURERS. THIS RESULTS FROM REINSURANCE DIFFICULTIES IN COMBINATION WITH MORE CAUTIOUS UNDERWRITING. HURRICANE ANDREW AND OTHER DISASTERS HAVE CLEARLY HELPED TO FOCUS THE MINDS OF INSURERS ON POTENTIALLY UNACCEPTABLE CONCENTRATIONS OF EXPOSURE IN PARTICULAR GEOGRAPHIC AREAS. FOR EXAMPLE, NO ONE INSURER PROVIDES SUFFICIENT CAPACITY TO ARRANGE A SIGNIFICANT LIMIT OF COVERAGE FOR EARTHQUAKE IN JAPAN.

WITH RESPECT TO REINSURANCE, WE HAVE ALL SEEN THE ENORMOUS POWER OF A FEW EUROPEAN REINSURERS. AS A RESULT OF A DECISION BY A FEW SUCH FIRMS, ENTIRE LINES OF COVERAGE HAVE CEASED TO EXIST. ONE OBVIOUS EXAMPLE OF THIS IS COVERAGE FOR TERRORISM IN THE UNITED KINGDOM. AS A RESULT OF THE SUDDEN WITHDRAWAL OF REINSURANCE, WE ARE LEFT WITH A GOVERNMENT ENGINEERED CRISIS SOLUTION. THE BRITISH GOVERNMENT ACTED RESPONSIBLY IN ADDRESSING THE CRISIS.

PAGE 2

UNFORTUNATELY, THE PROBLEM WITH GOVERNMENT CRISIS SOLUTIONS IS THAT THEY SOMETIMES BECOME EMBODIED IN LAW. BOTH AMERICAN AND U.K. RISK MANAGERS WOULD LIKE TO SEE A REEVALUATION OF THIS CRISIS SOLUTION AND A REVISED APPROACH INVOLVING A FAR GREATER SPREAD OF RISK AND THE GREATER PARTICIPATION OF COMMERCIAL INSURANCE.

ONE OF THE SUBJECTS WE HAVE BEEN ASKED TO DISCUSS THIS MORNING IS GLOBAL INSURANCE BROKERAGE. WHEN ONE COMPARES INSURANCE BROKERS WITH OTHER TYPES OF SERVICE FIRMS, ONE STILL SEES THE EFFECTS OF A HISTORY OF PAROCHIAL INSURANCE REGULATION AND PRACTICE, WHICH HAS SERVED TO INHIBIT THE DEVELOPMENT OF BROKERAGE ON A GLOBAL BASIS.

OTHER TYPES OF FIRMS HAVE EVOLVED GLOBALLY DEVELOPING CORPORATE CULTURES AND GLOBAL IDENTITIES, IN SUCH FIRMS THE NATURE AND QUALITY OF THE SERVICE PROVIDED BY ANY ONE OFFICE MIRRORS THAT WHICH WOULD BE AVAILABLE FROM ANY OTHER AND THE GLOBAL RESOURCES OF THE ENTIRE ORGANIZATION CAN BE QUICKLY MARSHALLED FOR THE BENEFIT OF THE CLIENT.

AS A CONSEQUENCE OF HISTORY, GLOBAL BROKERAGE FIRMS TEND TO BE U.S. OR U.K. BASED ENTITIES WITH COLLECTIONS OF SUBSIDIARIES AND/OR

AFFILIATES THROUGHOUT THE WORLD, SOME BEING THE RESULT OF RELATIVELY RECENT CONSOLIDATIONS. CORPORATE CULTURES CANNOT BE MANUFACTURED, HOWEVER, BROKERAGE FIRMS ARE CLEARLY WORKING TOWARD THE ESTABLISHMENT OF GLOBAL IDENTITIES AND TOWARD THE DEVELOPMENT OF THE ABILITY TO PROVIDE FOR THE SEAMLESS DELIVERY OF CONSISTENT SERVICE THROUGHOUT THE WORLD.

SUCH BROKERS HAVE RECOGNIZED THAT ONE INITIATIVE WHICH WILL BE PARTICULARLY IMPORTANT TO ACHIEVING THESE GOALS LIES IN THE ENHANCED USE OF TECHNOLOGY TO IMPROVE COMMUNICATION. SOME TYPES OF BUSINESSES ARE TECHNOLOGY DRIVEN AND AS A BYPRODUCT ENJOY STATE-OF-THE-ART ELECTRONIC COMMUNICATIONS. ALTHOUGH INSURANCE IS NOT TECHNOLOGY DRIVEN, WISE BROKERS ARE WORKING TOWARD ACHIEVING THE CAPABILITY TO MOVE INFORMATION INSTANTLY AND EFFICIENTLY THROUGHOUT THE WORLD IN ORDER TO OFFER VALUE IN FACILITATING GLOBAL TRANSACTIONS AND IN PROVIDING CONSULTATIVE SERVICES.

I WILL OFFER ONE FINAL OBSERVATION ON THE ORGANIZATIONAL STRUCTURE OF BROKERS AND INSURERS. HISTORICALLY AMERICAN FIRMS MADE A CLEAR DISTINCTION BETWEEN DOMESTIC AND FOREIGN ACTIVITIES. THIS HELPED TO CONTRIBUTE TO AN US VERSUS THEM MENTALITY.

PAGE 4

AS MORE FIRMS OPERATE ON A TRULY GLOBAL BASIS, SUCH DISTINCTIONS BLUR. I SUGGEST THAT THE TRADITIONAL ORGANIZATIONAL SEGREGATION OF INTERNATIONAL FROM DOMESTIC NO LONGER RESPONDS TO THE MANNER IN WHICH THE GLOBAL CLIENT NOW FUNCTIONS NOR DOES IT FACILITATE THE CRAFTING OF GLOBAL PROGRAMS.

I WOULD SUGGEST THAT FOR A BROKER OR INSURER TO ORGANIZATIONALLY SEGREGATE SUCH FUNCTIONS WHEN DEALING WITH GLOBAL CLIENTS IS ANACHRONISTIC AND OFTEN COUNTERPRODUCTIVE BECAUSE THINGS ARE NOT AS THEY WERE ONCE UPON A TIME IN AMERICA.

THANK YOU.



WINDOWS TO THE WORLD 2000

BIPAR



AVENUE ALBERT-ELISABETH 40  
B-1200 BRUXELLES  
TEL: (02) 735-60-48  
FAX: (02) 732-14-18



The Council  
of Insurance  
Agents & Brokers

316 PENNSYLVANIA AVE., SE  
SUITE 400  
WASHINGTON, DC 20003-1146  
TEL: (202) 547-6616  
FAX: (202) 546-0597

**1994 BIPAR General Assembly**

May 15-18, 1994

Sheraton Washington Hotel  
Washington, D.C., USA



The Council  
of Insurance  
Agents & Brokers



**WEDNESDAY, MAY 18**

7:30 am - 8:20 am **Continental Breakfast**  
*Cotillion Foyer*

8:30 am - 10:15 am **GENERAL SESSION PANEL. FOREIGN CLIENTS  
SERVICE AROUND THE WORLD**  
*Cotillion Ballroom*

A discussion of servicing clients in an international environment. Learn what are the expectations of commercial consumers in different parts of the world, and what are agents and brokers' responsibilities in placing business.

**Moderator**

Claude F. Galletto, Managing Director  
*Willis Corron International Americas*

**Panelists**

Harry F. Cusis, Chairman & CEO  
*The CIMA Companies, Inc.*

Roel Van Der Wal, Vice Chairman, Management Board  
*Rollins Hudig Hall-Holland*

Stephen Brubeck, Executive Director  
*Consumer Federation of America*

Gregory Georgiotti, Managing Director & Senior Vice  
President, *Chubb & Son Inc.*

William Kelly, Senior Vice President, *J. P. Morgan*

Terry Van Vuren, Director, Risk and Insurance  
*Lucas Industries*

10:15 am - 10:30 am **Closing Ceremonies**  
*Cotillion Ballroom*

**Speakers**

Hans Maeder, President, *BIPAR*

Fred C. Burns, President, *The Council*

11:00 am - 12:30 pm **BIPAR General Assembly Annual Membership  
and Business Meeting**  
*Cotillion Ballroom*

12:30 pm - 2:30 pm **BIPAR Presidents Luncheon**  
*Nathan Hale Room (Wardman Tower)*

# RISK MANAGEMENT/ EMPLOYEE BENEFITS

## In The Decline Of Brokers: Response To Jim Davis

By WILLIAM J. KELLY  
The Risk and Insurance Management Society Conference in New York last month was one of the most successful national conferences in RIMS' history. But, strangely, this week of the RIMS Conference was also the week in which these pages chronicled "The Decline of the Risk Management Profession" in an article by Jim Davis of Willis Tower. (See NU, April 18, page



William J. Kelly

feeling, as Mark Twain did, that reports of our demise have been greatly exaggerated, and in the spirit of constructive dialogue, I offer the following counterpoint to the comments of my distinguished colleague, Jim Davis.

There has been a great deal of discussion lately among risk managers about a possible decline in the status of the brokerage function.

Part of this perception stems from a discernible trend to decrease reliance upon brokers in corporate programs.

As more and more risk managers choose to deal directly with insurers, the value of the broker's involvement has diminished. This is, in part, reflected in the sweeping trend away from compensating brokers on the basis of fixed commissions and toward a negotiated fee for service.

Mr. Kelly is first vice president of the Risk and Insurance Management Society in New York.

Another problem for brokers is the growth of self-insurance. For many risk managers the biggest aspect of the corporate program is workers' compensation, and this is often self-insured.

Workers' compensation does not offer some of the same opportunities for cost control as employee benefits—for example, benefits cannot be reduced by the risk manager, nor can the employee be required to contribute.

Nevertheless, risk managers have had a major impact on these costs by initiating safety education, return-to-work programs, managed care and claim management techniques.

Like staff areas everywhere, risk management units are required to be lean and efficient. There have also been major ongoing head-count reductions at traditional insurance companies. Yet each year there seem to be more brokers pursuing business, which continues to diminish through client consolidation.

Symptomatic of this excess of resources, some brokers, whether by design or circumstance, have in fact become involved in trying to replace the internal corporate risk management function.

The flawed thinking behind this is, apparently, that an outside third-party can continuously interact with all business and support areas across an organization and throughout the world on the most sensitive internal corporate issues.

While certain risk management tasks can be outsourced, the core risk management function cannot. Risk management is an integral part of corporate management and attempting to completely delegate it to third parties is by definition corporate irresponsibility. And responsible brokers will so advise their clients.

Brokers have an important contribution to make in partnership with risk managers and insurers. However, to make this contribution, they will have to place more emphasis on providing long-term consultative service.

As the brokerage industry looks to the future, it will need to consider raising the professional level of services provided and reducing its current overhead. ◊