

## RIMS 31ST ANNUAL RIMS CONFERENCE

APRIL 25-30, 1993

ORLANDO, FL

Speaker's Name(s): Eugene R. SchoenhuberSession Number: KK Session Name: Establishing an  
302 International List.Date: Tuesday Time: 9-11 A.M.  
April 27<sup>th</sup>

## ***Risk Measurement and Evaluation***

**Among the factors that make risk measurement in international corporations extremely complex are:**

- The different probabilities of loss from each peril from one country to another.**
- The differences in property protection among the numerous plants.**
- The interdependence among geographically dispersed supply sources (e.g., a shutdown in France, which supplies the German plant, causes a shutdown at the German location.)**
- The many currencies involved and the foreign exchange risk (Inconvertibility of currency or devaluation.)**
- The different measures of "value" and the rates of inflation in various countries that affect asset values and replacement costs.**

# ***Risk Measurement and Evaluation***

*cont'd*

- **The lack of information necessary to evaluate loss potential or communication problems inhibiting its flow.**
- **The differences among countries in potential income lost from business interruptions. Such variables include:**
  - **the length of time required to rebuild,**
  - **availability of materials,**
  - **transportation of materials,**
  - **labor supply,**
  - **termination clauses in some labor laws and labor contracts, and**
  - **management fees, royalties and other expected expenses or income.**
- **The differences in the extent of ownership and replacement cost of various classes of assets.**

# ***Loss Control***

**Among the complicating factors involving loss control in international corporations are:**

- **The attitudes of local nationals toward safety rules (smoking, wearing hard hats and safety shoes, etc.)**
- **The lack of acceptance of loss control programs by affiliate managers.**
- **The lack of available loss control services in many countries.**
- **The differences in quality of loss control throughout the world.**

## ***Loss Financing***

**Among the factors that tend to complicate international insurance management are:**

- **The wide range of insurance regulations from country to country (including compulsory insurance.)**
- **The prohibitions against insurance policies purchased out of the country where the risk is located (including severe penalties for violation.)**
- **The many alternative types and combinations of insurance coverages from which to choose (US insurance contracts, foreign language contracts and combinations.)**
- **The pros and cons of using various brokers, consultants, insurers and combinations thereof (US international brokers with correspondents or local brokers, for example.)**

# ***Loss Financing***

*cont'd*

- **The potential violation (due to currency devaluations) of policy clauses requiring insurance to value.**
- **The peculiar income tax problems concerning the non-deductibility of some insurance premiums and the absorption of loss payments.**
- **The attitude and sometimes the conflict of interests of the affiliate manager with respect to insurance purchasing.**
- **The many languages involved and legal interpretations of the various insurance policies.**
- **The absence of customary insurer services.**
- **The foreign exchange regulations and the need to be kept up to date.**

**SOURCE: Global Risk Management  
by Norman A. Baglini  
Risk Management Society Publishing, Inc.  
1983**

- 1. What's the best way for us to purchase insurance?**
- 2. Do we want a standard level of protection worldwide? If yes, how do we achieve it?**
  - A. Subsidiaries in each country purchase their own coverage and reports details to Risk Management Department. (Risk Management Department may provide umbrella.)**
  - 3. Same as above, except Risk Management Department provides coverage parameters e.g., types of coverage limits, perhaps even what companies to use.**
  - C. Risk Management Department uses multi-national broker and purchases overall program from a multi-national carrier. Underlying or fronting policies are issued at Risk Management Department's instructions. Depends on local management for day to day administration. This coordinated international approach generally utilizes a combination of admitted and non-admitted coverages.**

### ***3. How do we export the Risk Management procedures we know are effective?***

***We have good existing programs that can be modified as necessary and "exported" to foreign operations***

- **Driver Training Programs (several)**
- **UPS Injured Employee Procedure**
- **UPS Claims Control Procedures**
  - 1- Auto
  - 2- W.C.
  - 3- CGL
- **UPS High Cost Claims Procedures**
- **UPS Air Ramp Safety Procedure**
- **UPS Emergency Operating Plan and Disaster Recovery Procedure**
- **UPS Hazardous Materials Procedure**
- **UPS Plant Engineering (Construction) Procedure**

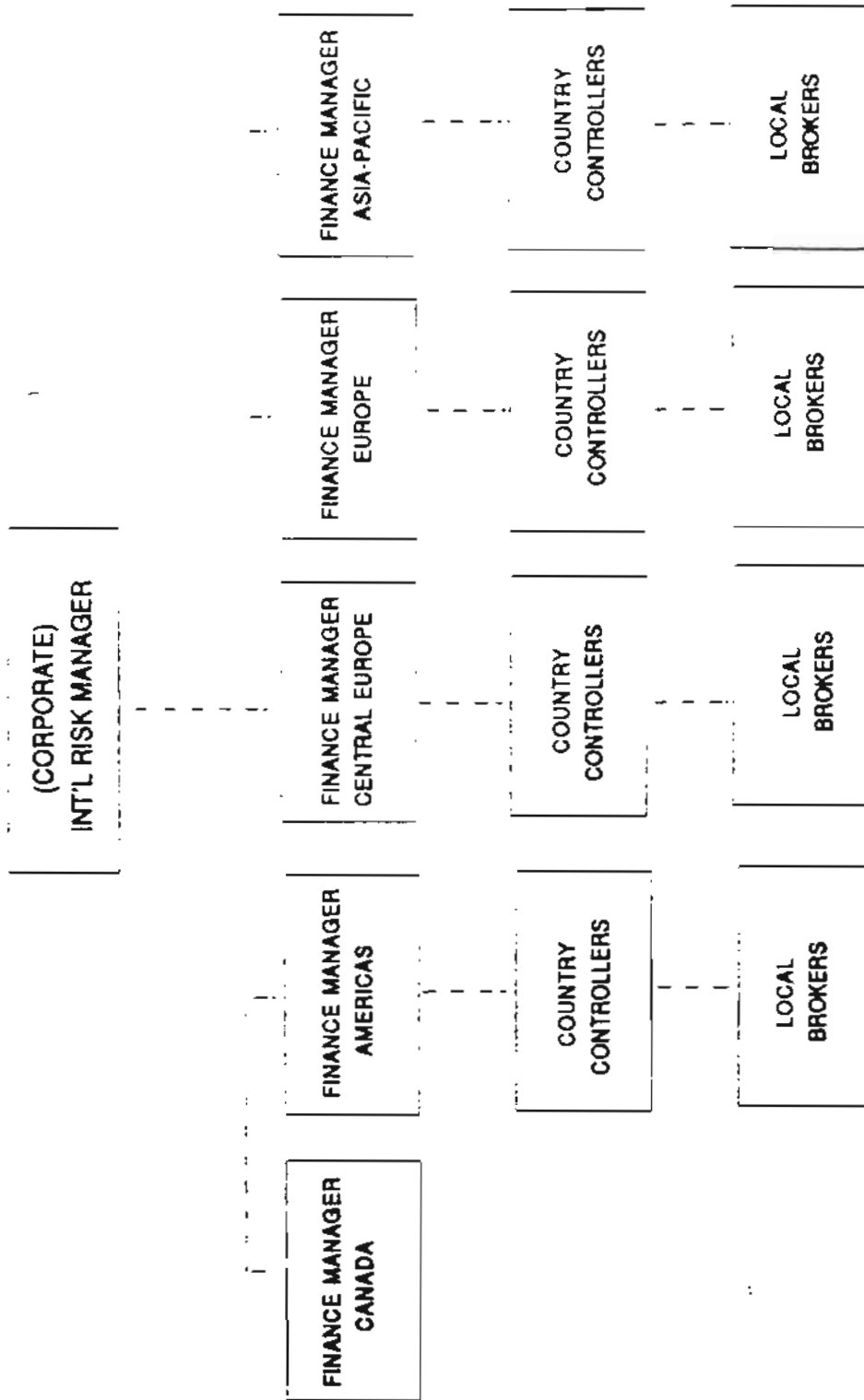


**3. *How do we export the Risk Management procedures we know are effective?,  
cont'd.***

- **UPS Plant Engineering (Maintenance) Procedure**
- **UPS Mechanics Safe Work Achievement Plan**
- **UPS Safe Driving Honor Plan**
- **UPS Safe Work Methods**
- **UPS Air Casualty Media Procedures**
- **UPS Automotive Procedures (Maintenance)**
- **UPS Crisis Management Procedure**
- **UPS Loss Prevention Procedures (Security)**

**Separate Manuals are available for each of the above procedures.**

#### 4. How do we staff? (Risk Management)



**5. *Given the distances involved, the language barriers and other complexities involved, how do we control and communicate?***

**Control**

- **Corporate Risk Management policy**
- **Broker Policy Digests**
- **UPS Policy Digests/Policy Summaries, (Q&A)**
- **Monthly meetings with broker**
- **Establishing commitments/objectives with broker**
- **Yearly Stewardship reports/meetings**
- **Periodic visits**

5. ***Given the distances involved and the language barriers and complexities involved, how do we control and communicate?, cont'd.***

***Communicate***

- **International Risk Management Manual**
- **E Mail**
- **Fax**
- **Periodic visits**
- **Meetings involving brokers and managers from other UPS functions (ownership of insurance programs)**
- **Periodic memos explaining changes in program, etc.**
- **Being available**
- **Tap into brokerage network**

**6. *How do we assure ourselves that coverages are appropriate and adequate?***

- **Broker/insurance Company information bulletins**
- **"In country" sources**
- **Accurate yearly review of exposures**
- **Trade journals, seminars, etc.**
- **Ongoing, periodic review of coverages**

**7. *How do we train/educate foreign managers about Risk Management issues? How do we incorporate them into the program?***

- **Personal visits, meetings**
- **Pick areas they are concerned with**
- **Sell don't tell**
- **Be a part of the team**
- **Talk in company terms, not Risk Management jargon**

**8. *How do we develop information about our foreign operations?***

- **Broker surveys and feedback from broker**
- **Yearly Risk Management questionnaires**
- **Personal visits**
- **Staying in the loop with foreign managers**

## ***Establish the Various Job Functions***

- **Develop a policy**
- **Develop an International Risk Management manual**
- **Develop an international "intelligence" system**
- **Work on your relationships**
  - **Define international Risk Management Responsibilities within the organization**
- **Establish an International Risk Management Calendar of Critical Events for the upcoming year**
- **Determine how you will handle international insurance policies**
  - **Filing of policy, endorsements, correspondence, etc.**
  - **Policy digests (Q&A)**
  - **Accounting**



# ***Establish the Various Job Functions***

*cont'd*

- **Develop your reports to management and the field**
  - **What information does your management want?**
  - **Who should get it?**
  - **Comparative (measurement) reports**
  - **Annual Risk Management report**
  
- **Develop a cost allocation system**
  
- **Develop standard bidding procedures and standards for utilization of international brokers, consultants, etc.**
  
- **Develop loss reporting procedures**
  - **From field**
  - **From brokers/insurance companies**
  - **To your company**
  
- **Develop value reporting procedures**
  
- **Develop a record retention schedule**

# ***Establish the Various Job Functions***

*cont'd*

- **Develop training/education sources**

- Journals, magazines, papers, etc.
- Seminars, schools, etc.

- **Develop claims control procedures**

- Approval levels
- Auto
- Liability
- Employee injury procedures
- Other

**Develop cost statements to measure department expense**

**Implement an annual stewardship meeting with your major international broker(s) and other major service providers**

## ***Develop an International Risk Management Manual***

- **People in the various countries must know what to do about accidents, injuries, and claims.**
  
- **They need general information.**
  - **Rented cars**
  - **Personal cars used on business**
  - **Safety standards**
  - **Fire protection**
  - **Contractual liability issues**
  - **Description of coverages**
  - **Other miscellaneous**
  
- **The Risk Manager relies on country personnel for information basic to administering the Risk Management function.**
  - **Reports on values**
  - **Changes in operations**
  - **Contracts being negotiated**
  - **Other miscellaneous**
  
- **If your company allocates costs of Risk Management/ Insurance to the country, operators will want to know details about what they are being billed for.**

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**SOURCE: RISK MANAGEMENT MANUAL GUIDE**

**By: David Warren**

**Risk Management Society Publishing, Inc.**

**Copyright 1985**

**UPS INTERNATIONAL INSURANCE  
POLICY DIGEST**

<b>REGION:</b> _____	<b>COUNTRY:</b> _____
<b>NAMED INSURED:</b> _____	
<b>ADDRESS:</b> _____ _____ _____	
<b>BROKER:</b> _____	<b>COVERAGE:</b> _____
<b>INSURANCE COMPANY:</b> _____	
<b>POLICY NUMBER:</b> _____	<b>(RENEWAL OF)</b> _____
<b>TERM:</b> _____ <b>TO</b> _____	<b>CANCELLATION NOTICE:</b> _____

**LIMIT(S):** \_\_\_\_\_  
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**DEDUCTIBLE(S):** \_\_\_\_\_  
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**PREMIUM:** \_\_\_\_\_ **PER** \_\_\_\_\_ **X** \_\_\_\_\_ **=** \_\_\_\_\_  
**RATE** **BASIS** **PREMIUM**

**LAST UPDATED:** \_\_\_\_\_

SUMMARY OF CURRENT POLICIES  
EUROPE

NAIRED INSURED	COVERAGE	INSURANCE COMPANY	POLICY NUMBER	TERM	PREMIUM	LIMIT(S)	COMMENTS
JM Air Couriers (Bahrain) S.L.L.	Burglary Policy	Arabia Insurance Co. Ltd.	8M/8/10021	03/01/89-03/01/90	80 30.00	80 4,000; Office equipment. 80 3,000; Office furniture.	Cancel upon expiration. Office contents, etc will be covered by T.M.I. program when new program put in as of 3/1/89.
JM Air Couriers (Bahrain) S.L.L.	Comp. General Liability	Cigna	T80	10/01/89-10/01/90	U.S. \$1,250.00	Unlimited; Employer's liability. US\$1,000,000; Third party bodily injury. US\$1,000,000; Third party property damage. US\$1,000,000; Annual aggregate.	This will be a new coverage for JM Bahrain. Comprehensive general liability coverage was not covered by JM previously. To be instituted by local JM office effective 10/1/89. To be extended to 5/1/89.
JM Air Couriers (Bahrain) S.L.L.	Comprehensive Auto	Arabia Insurance Co. Ltd.	8M/27926	07/31/88-07/31/89	80 105.00	Unlimited third party liability and third party bodily injury. 80 50,000; Property damage.	Allow to run to 7/31/90. Local JM office to replace coverage as of that date. Will be extended to 5/1/91.
JM Air Couriers (Bahrain) S.L.L.	Fidelity Guarantee	Arabia Insurance Co. Ltd.	8M/8/12	03/05/89-03/05/90	80 27.00	Actual cash value; Collision, fire & theft.	Cancel on 3/5/90. Will pick up coverages on U.P.S. world-wide coverages (still being negotiated) on that date.
JM Air Couriers (Bahrain) S.L.L.	Property Damage	Arabia Insurance Co. Ltd.	8M/8/50052	03/01/89-03/01/90	80 30.00	80 4,000; Office equipment. 80 3,000; Office furniture.	Continue until 3/1/90. JM cannot write on an admitted basis. Will write on a non-admitted basis as of 3/1/90.
United Parcel Service Belgium S.V.	General Liability	Cigna	T84	01/01/90-05/01/91	\$1,250. (Minimum)	\$1,000,000. (U.S.) C.S.L.	Will write 3/1/90 to 1/1/91, then on a 1/1 to 1/1 basis.

## ***Develop Relationship With International Functions, cont'd***

- ***Legal***
  - **Contractual Liability Issues**
  - **New Laws Affecting Liability**
  
- ***Human Resources***
  - **Safety/Loss Prevention**
  - **Claims Control**
  - **Loss Reporting**
  - **Loss Adjusting**
  
- ***Plant Engineering***
  - **Fire Protection Engineering**
  - **Fire Inspections**
  
- ***Operations***
  - **Cost Allocation**
  - **Loss Reporting**
  
- ***Marketing***
  - **Insurance Programs Offered to Customers**

# ***International Risk Management***

**Relationships = Results**

- **Be a part of the team**
- **Talk in company terms not Risk Management jargon**
- **Match your mission to the corporation's overall mission statement**
- **Sell, don't tell**
- **Communicate, communicate, communicate**



# **WHY UPS MAINTAINS A COORDINATED INTERNATIONAL PROGRAM**

- **TO ESTABLISH A UNIFORM CORPORATE STANDARD FOR THE PROTECTION OF ASSETS**
- **TO ASSURE THAT ADEQUATE THIRD PARTY LIABILITY PROTECTION IS IN PLACE**
- **TO ACHIEVE ECONOMIES OF SCALE BY CONSOLIDATING WORLDWIDE INSURANCE BUYING POWER**
- **TO ASSURE CONSISTENCY OF COVERAGE BETWEEN LOCAL AND CORPORATE PROGRAMS/ELIMINATE GAPS**
- **TO ASSURE PROPER RISK ANALYSIS AND COMMUNICATIONS TO CORPORATE HEADQUARTERS OF LOCAL EXPOSURES TO LOSS**

# **CONTROLLED MASTER PROGRAM**

## **● FEATURES**

- MASTER POLICY AND LOCAL POLICIES WITH THE SAME UNDERWRITING GROUP**
- CONTROLLED REINSURANCE TO U.S. UNDERWRITING OFFICE**
- LOCALIZED MASTER POLICIES WHERE PERMITTED**
- LOWEST POSSIBLE OVERALL COST**
- BROADEST POSSIBLE COVERAGE**
- GREATEST PREMIUM ALLOCATION FLEXIBILITY**
- GREATEST LOSS HANDLING FLEXIBILITY**

# UNITED PARCEL SERVICE

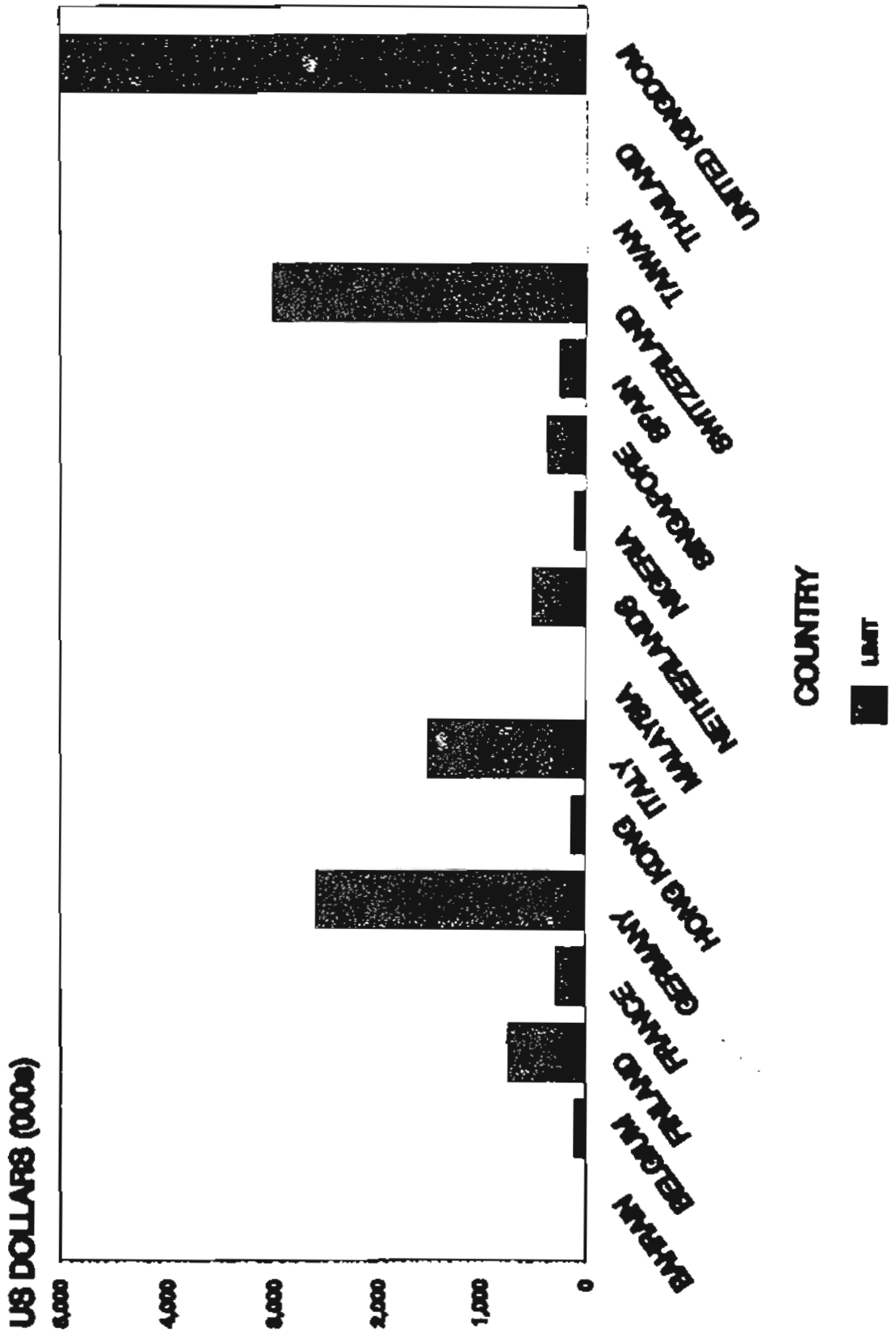
## LOCAL FOREIGN PROPERTY INSURANCES (PRIOR TO WORLDWIDE PROGRAM)

ALL RISK						■														
WORLDWIDE																				
BLANKET																				
POWER INTERRUPTION																				
VALUABLE PAPERS																				
RENTAL VALUE																				
EXTRA EXPENSE																				
EDP																				
SNOW																				
BURGLARY		■																		
SONIC BOOM																				
SPRINKLER LEAKAGE																				
WATER DAMAGE		■																		
FLOOD																				
EARTHQUAKE																				
SMOKE																				
VEHICLE																				
AIRCRAFT																				
WIND / HAIL																				
VULN																				
SPOC																				
EXPLOSION																				
LIGHTNING																				
FIRE																				

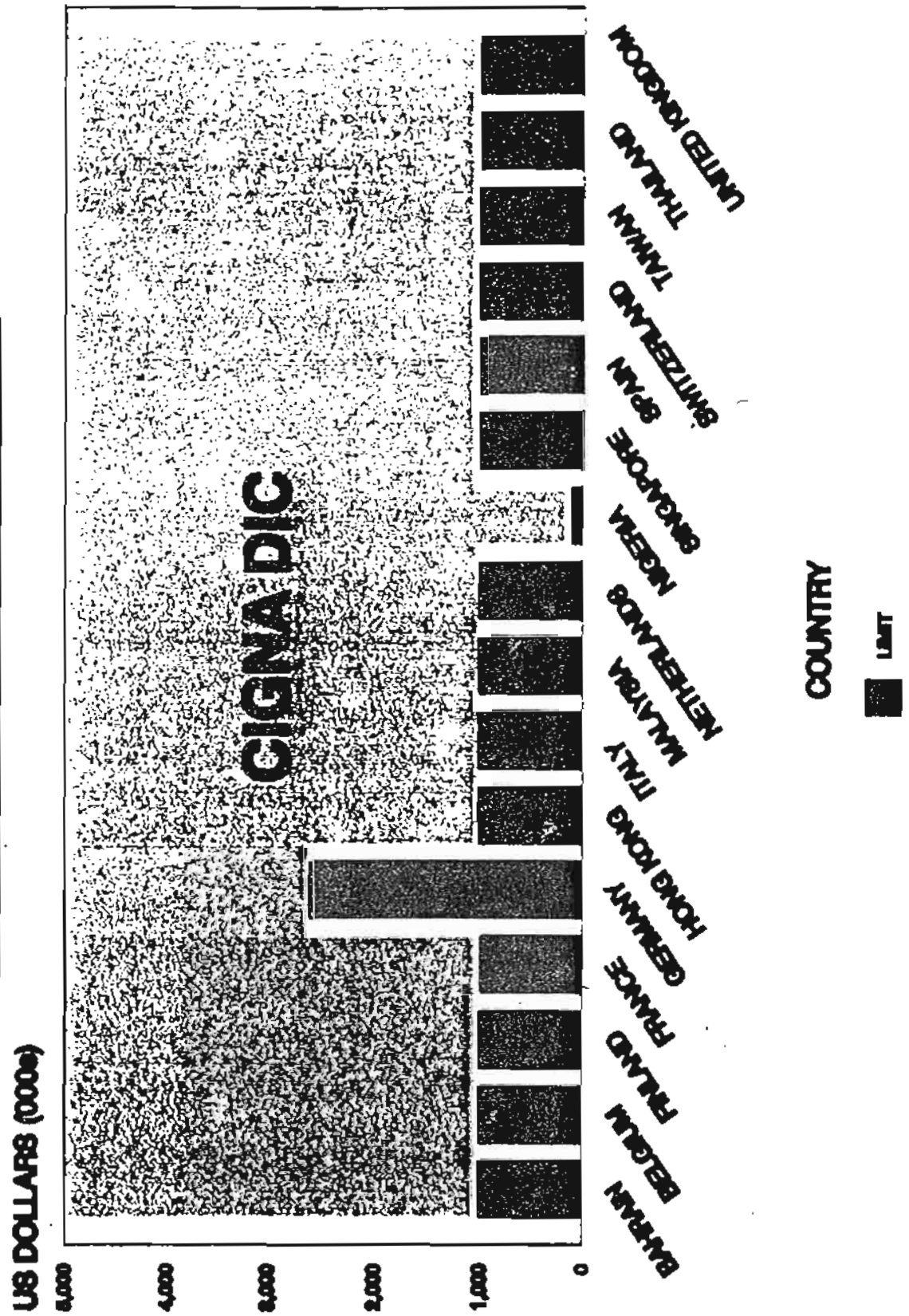
BAHRAIN    BELGIUM    FINLAND    FRANCE    GERMANY    HONG KONG    ITALY    MALAYSIA    NETHERLANDS    NIGERIA    SINGAPORE    SPAIN    SWITZERLAND    TAIWAN    THAILAND    UNITED KINGDOM

PERILS COVERED LOCALLY       NO LOCAL COVERAGE

**UNITED PARCEL SERVICE  
LOCAL GENERAL LIABILITY INSURANCE LIMITS  
(PRIOR TO WORLDWIDE PROGRAM)**



**UNITED PARCEL SERVICE  
LOCAL GENERAL LIABILITY INSURANCE LIMITS  
(CONTROLLED MASTER PROGRAM)**



## ***Acquisitions And Existing Foreign Risk Management Programs***

During the last 5 years we made 16 acquisitions.

Typically,

- Insurance was purchased centrally by the owner or top financial manager.
- Many decisions however were de-centralized.
- Insurance was purchased from a friend, relative or long standing relationship going back a generation.
- Brokers entertained lavishly (by our standards.)
- There was no (or very little) retention under the existing policies. The concept of the intentional self-assumption of losses was non-existent.
- Insurance was overused. The mentality was, "if you are having losses, buy insurance," then try to burn the underwriters and go somewhere ~~else~~.

UNITED PARCEL SERVICE  
DUE DILIGENCE CHECKLIST

X. INSURANCE

- X-1 Obtain name, address, phone number of company employee responsible for purchasing insurance (only if he can be contacted during Due Diligence process).
- X-2 Obtain name, address, phone number of current insurance broker (include name of individual responsible for companies account.)
- X-3 Obtain summaries (in English if possible) of all existing insurance policies. Also obtain copies of all current insurance policies.
- X-4 Obtain premium and loss information on all policies for the past five years. If policies are subject to loss rating, loss divisor, retrospective rating or other rating plans, obtain copies of all premium adjustments.
- X-5 Obtain copies of Certificates of Insurance and other insurance obligations required by auto lessors, banks, customers, governmental authorities, etc.
- X-6 Obtain list and description of all Surety Bonds currently in force.
- X-7 Obtain copies of Hold Harmless, Indemnity and Insurance Provisions in all major contracts.
- X-8 Obtain list and description of all open claims and lawsuits against the company.
- X-9 Obtain listing of property values by location, i.e. building, plant equipment, leasehold improvements, supplies. Replacement value is preferred. If not available use book or ACV. (Coordinate with Section K.)
- X-10 Obtain estimated annual values of all shipments by location. Maximum value per shipment? Average value per shipment?
- X-11 Obtain breakdown of number of employees and payroll by classification, i.e. driver, salesman, clerical, etc.
- X-12 Obtain listing of all owned vehicles, commercial and private passenger. Include make, model, serial number and estimated replacement value (Coordinate with Section K.)
- X-13 Determine amounts of cash on hand by location. (Coordinate with Section K.)

## ***Summary Points***

- **Sell, don't tell.**
- **Document cost savings.**
- **Be a part of the team.**
- **Personal visits a must.**
  - explain programs
  - what you're trying to accomplish
  - corporate philosophy
- **Be a diplomat - bone up on cultural differences.**
- **Communicate clearly.**
  - It can be a mess. Remember brokers and insurance companies have the same problems you do.
- **Monitor your broker and insurers closely.**
- **Obey the laws. Live with local tariffs if you have to.**
- **Insurance is important but remember primary goal is to eliminate/control losses.**
- **Be patient.**