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REASONS WITHDRAWN FROM THE GLOBAL MARKET.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.

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 FRACTION, 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.

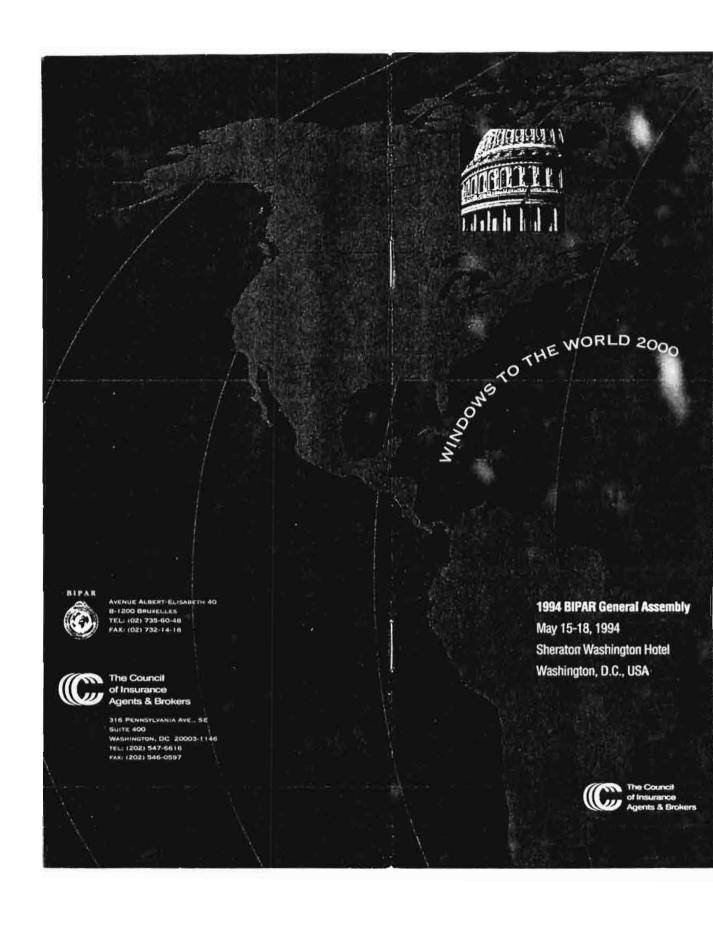
SUCH BROKERS HAVE RECOGNIZED THAT ONE INITIATIVE WHICH WILL BE PARTICULARLY IMPORTANT TO ACHIEVING THESE GOALS LIES IN THE ENHANCED USE OF TECHNOLOGY TO IMPROVE COMMUNICATION. SOME TYPES OF BUSINESSES ARE TECHNOLOGY DRIVEN AND AS A BYPRODUCT ENIOY STATE-OF-THE-ART ELECTRONIC COMMUNICATIONS. ALTHOUGH 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.

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.



WEDNESDAY, MAY 18

7 30 am - 8 20 am Continental Breakfast

Cotillion Fayer

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

Catiflian Bailroom

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 prokets, responsibilities in placing business.

Moderator

Claude F. Gallello, Managing Director Willis Corroon international/Americas

Panelists

Harry F. Custis - Chairman & CEO The CIMA Companies Inc

Roll Van Der Wal, Vice Charman Management Board Floilins Hudig Hall-Holland

Stephen Brobeck Executive Director Consumer Federation of America

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

Witham Kelly, Senior Vice President, J. P. Morgan

Terry Van Voren, Owector Risk and Insurance Lucas Industries

10 15 am - 10 30 am Closing Ceremontes

Corillion Ballroom

Speakers

Hans Maeder President BIPAR

Fred C. Burns, President, The Council

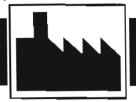
11 00 am 12 30 cm BIPAR General Assembly Annual Membership and Business Meeting

Con on Ballroom

12 30 pm - 2 30 pm BIPAR Presidents Luncheon

Naman Haie Room (Wardman Tower)

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RISK MANAGEMENT / EMPLOYEE BENEFITS

n The Decline Of Brokers: Response To Jim Davis

By WILLIAM J. KELLY ne Risk and Insurance Managett Society Conference in New ans last month was one of the successful national conferences IMS' history. But, strangely, week of the RIMS Conference also the week in which these is chronicled "The Decline of Risk Management Profession" a article by Jim Davis of Willistroon. (See NU, April 18, page



William J. Kelly

eeling, as Mark Twain did, that reports of our demise have been thy exaggerated, and in the spirit onstructive dialogue, I offer the twing counterpoint to the comts of my distinguished colleague, Days.

here has been a great deal of ussion lately among risk manrs about a possible decline in status of the brokerage func-

art of this perception stems from scernible trend to decrease relitupon brokers in corporate prons.

s more and more risk managers ose to deal directly with insurthe value of the broker's inement has diminished. This is, part, reflected in the sweeping d away from compensating broion the basis of fixed commisand toward a negotiated fee for fice.

lr. Kelly is first vice presiit of the Risk and Insurance nagement Society in New 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.