

## **Insurance and Risk Management Concerns in Emerging Markets**

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Josh Warren: Hello everyone. My name is Josh Warren and I am a Director at Equity Risk Partners in Chicago. I would like to welcome you to the latest edition of our Executive Advisory Series titled Insurance Risk Management Concerns in Emerging Markets.

Today's call participants include clients, prospects and carriers. For those who are not familiar with our firm, Equity Risk Partners is the only full-service insurance brokerage firm focused exclusively on serving the needs of private equity funds and their portfolio companies.

We have professionals located in three offices: San Francisco, Chicago and New York. We provide a vast array of insurance and risk insurance related services to clients in all 50 states and around the globe.

We assist private equity clients in addressing their fund-level partnership liability and other exposures. We conduct comprehensive insurance and benefits due diligence in the context of investment transactions. We also serve as the ongoing insurance broker and risk management consultant to numerous portfolio companies.

This edition of the Equity Risk Partners Executive Advisory Series is a culmination of our white paper series on emerging markets specifically China, India, Brazil and Mexico.

The insurance markets in Brazil, China and India are transitioning from total state control to open-market environments. In each country the former state monopoly now competes in the marketplace with private insurance and reinsurance carriers.

Each country has taken a different approach to opening its insurance market. At this point none of the three markets has the capacity or variety of products found in the USA, Europe or Japan but they are moving cautiously in that direction.

The fourth country, Mexico, has a very mature indigenous insurance market that includes the participation of major foreign-based, multinational insurers. The Mexican market's uniqueness in this group comes from its Napoleonic code-based legal system and a distinctive approach to the catastrophic perils of wind and earthquake that makes coverage available with sufficient capacity and at a reasonable cost.

What is emergent in the Mexican market is the sophistication of Mexican insurance buyers and Mexico's increasingly important position in international trade.

In today's webinar we are not going to discuss the specifics of Brazil, China, India and Mexico. We will discuss an insurance program structure that can address emerging market requirements and limitations as well as other global insurance realities and create a comprehensive and consistent level of protection worldwide.

First, we will discuss international property and casualty controlled master programs. Second, we will discuss maintaining quality healthcare regardless of locale. And finally personal risk management practices while traveling abroad.

Our first panelist is Vernon Veach, Senior Principal, International at Equity Risk Partners. Vernon has more than 30 years experience developing multinational insurance programs. His multi-line experience includes political risk and trade credit. Vernon's presentation will focus on international property and casualty controlled master programs. Welcome Vernon.

Vernon Veach: Thanks very much Josh.

Josh Warren: Our second presenter is Beth Sennett, Director, Employee Benefits at Equity Risk Partners. Beth has more than 15 years of employee benefits experience specializing in alternative risk financing. Beth currently serves on the board of the Northern California Chapter of ISCEBS. During this discussion Beth will focus on maintaining quality healthcare regardless of locale. Beth, welcome.

Beth Sennett: Thank you.

Josh Warren: Juan F. Valadez, Senior Consultant, NYA/G4S Risk Management. Juan was a 27-year veteran of the CIA's Directorate of Operations. He also has ten years experience as crisis management, kidnap extortion consultant. Juan's presentation will center on personal risk management practices while traveling abroad. Juan, welcome.

Juan Valadez: Thank you.

Josh Warren: Now to our presentation. When negotiating insurance placements on our clients' behalf we find that many key decision-makers are uninformed regarding how to properly structure and control an insurance program that addresses their global exposure.

Our first presenter, Vernon Veach, Senior Principal International at Equity Risk Partners will confront this issue by focusing on international property casualty controlled master programs.

Vernon Veach: Thank you Josh. We're going to look at how a controlled master program (CMP) works, where it should be controlled, the importance of global coordination and recognizing the interdependency of operations on a global basis. We are going to focus on three particular lines of business, director's and officer's liability, product liability and business income.

How a CMP works. The CMP employs a single international insurance carrier centrally underwriting the worldwide exposures of an insured. The carrier issues a master policy as the controlling document for coverage determination and pricing. The premiums are payable via local policies issued in each country of operations through the master carrier's facilities.

Local policies comply with local insurance and tax regulations and conform to the coverage requirements of each jurisdiction. Typically, auto liability is compulsory in almost every country in the world and must be written locally. Director's and officer's liability for directors and officers resident in a given foreign country may be required or may be prudent to place due to restrictions on money movement and taxation.

Other coverages that are compulsory, workers' compensation and employers' liability in some jurisdictions, and others, would also be addressed within this structure. A controlled master program is placed in the headquarters country of the insured providing for top-level determination of overall levels of coverage and risk assumption through retentions and/or deductibles.

Controlled is the operative term. The insured's decision-maker must be in a position to exercise the authority to direct local compliance with the parameters of the CMP. The program will fail if local management is permitted to deviate from the essential program's directives.

A master policy is designed to fill gaps that may exist in locally placed policies. Local policies may not provide as broad coverage as the master policy. Frequently local policies are limited to claims brought in that jurisdiction only. The named insured under a local policy may only include the local operating entities and not the parent or sister companies.

Additionally local policies may include restrictive time limits for filing claims even though the form is written on an occurrence basis. How do we deal with these issues? The master policy functions as a difference in conditions and a difference in limits policy in relationship to local contracts.

When a claim arises that is not covered under the provisions of the local policy but is covered under the terms of the master policy, the master steps in and responds to the claim. If the local insurance limits have been exhausted by local loss payments, the master policy will provide additional coverage to the extent that the limits under the master policy are greater than those provided via the local policy.

Frequently a claim payment under a master policy can be directed via the local policy; however, this must be addressed on a case-by-case basis as the nature and location of the insured event must be evaluated to determine the possibility of a directed local payment.

Simply placing a U.S. policy with a worldwide coverage territory really is not sufficient. U.S. policies with broad, worldwide territory definitions typically exclude claims or suits filed outside the U.S. They insist that the claim on its merits must be filed in the U.S. or Canadian jurisdiction. This eliminates coverage for any foreign suits and it also eliminates coverage for any U.S. Court enforcement orders of judgments from overseas.

The cost of the CMP is actually relatively inexpensive. It is not unusual for the controlled master program to actually be less expensive than the former individual placements on a country-by-country basis. Again, the caveat is each mix of countries and exposures is unique and must be analyzed to determine final pricing.

It is absolutely essential that the controlled master program be coordinated by all parties: insured, broker and underwriter. Each must communicate clear instructions to their overseas counterparts. Policies must match the risk tolerance of the home office. Local insured, underwriters and brokers must be

unambiguously instructed as to the coverage deductibles and premiums that have been agreed to under the program.

It's also essential that one broker directs all of the brokerage operations worldwide and is overseeing that local policies are issued within the terms agreed upon within the controlled master program and can report back to the insured any deviations that may happen.

Local management must not be left to their own devices on placing coverage. Deviating can cause all kinds of problems down the road claims-wise, expense-wise, redundant costs, et cetera.

The small premiums involved in the local policies may make them look insignificant but local policies have to follow the structure of the program or you can have ugly surprises with uncovered claims.

Let's look at director's and officer's liability. Operations outside the USA present both director's and officer's and product liability challenges. A U.S. issued policy, even with a worldwide territory, may not respond to claims in foreign jurisdictions.

Claim payments to a foreign director or officer may be taxed, may be prohibited or may be confiscated. If a local policy is in place, it provides the vehicle for appropriate claims payment thus avoiding the taxation and compliance issues.

A CMP for directors and officers is relatively easy to put in place. There are a number of carriers with the facilities to issue policies that satisfy local requirements, comply with statutes and provide the level of control that is appropriate.

Product liability is essential for manufacturing risks. There are two scenarios that we are going to look at. One is independent foreign manufacturers that manufacture under contract or perhaps minority joint ventures that manufacture for a U.S. company. The other is foreign-owned entities that manufacture for a U.S. company.

Employing independent foreign manufacturers may draw the insured into a claim brought in a foreign jurisdiction. Even when the insured has no operations in the country, the claim will be covered under the master policy.

The insured's interest in joint ventures should also be covered under the master policy even if the insured does not have the control of that joint venture. In the event that the master policy is unable to directly defend and settle a claim it will reimburse the insured or indemnify the insured for both costs and judgments.

Let's jump over to business income and interdependency. It is not uncommon for a company to employ foreign subsidiaries and/or joint ventures to manufacture goods that are ultimately sold by the parent organization. The interdependency that this arrangement creates is often overlooked when considering a global insurance program.

Utilizing a CMP, a physical loss in a given country that results in an income loss back in the U.S. or any other dependent country for that matter can be covered by incorporating blanket business income coverage under a property controlled master program. In that manner a physical loss at any location that results in an income loss at another or dependent location will be treated as if the physical loss had occurred at the location suffering the income loss.

Long way of saying, if there's a fire at a location in China and it results in an income loss in the U.S., it will be covered. Interdependency is something that we see overlooked frequently.

The other business income exposure that is also overlooked frequently is foreign contract manufacturers. These create a contingent business income exposure to the recipient company whether it's in the United States or elsewhere.

Contingent business income coverage can be incorporated into a global controlled master program assuring continuing income in the event of a physical loss at the supplying location.

Josh Warren: Great. Thank you very much Vernon. That was very informative.

Vernon Veach: Thank you Josh.

Josh Warren: Moving on, we find that our portfolio company and private equity clients commonly travel abroad in order to visit customers, manufacturing facilities or to visit an acquisition target. This has brought forth many inquiries regarding how U.S. based health insurance policies respond during these trips. Beth Sennett, Director Employee Benefits at Equity Risk Partners will present a general overview of maintaining quality healthcare regardless of locale.

Beth Sennett: Thanks Josh. As mentioned previously, the recent tide of globalization has really resulted in an increased mobility of the labor force which means that employers need to ensure coverage for their employees that are traveling abroad and need to take a look at their domestic policy because it may not adequately cover those traveling employees.

Now with regard to the topic of employee benefits today we will be discussing two groups of employees. The first are those that are traveling out of their home country for short periods of time and the second is that group of employees working and residing outside of their home country for more than six months.

The domestic plan will cover employees that are traveling for short periods of time but there are definite pitfalls for relying on this plan. The coverage for traveling employees is really for emergencies only. There is not going to be coverage for preventative services or any services that they need to access that is not deemed an emergency.

Generally, there is not a provider network that is outside of the U.S. which means that there is no contract and therefore no controls on the cost. The domestic carrier will not negotiate with the overseas providers nor will they make direct payments to the foreign providers which mean that the employees would have to pay for the services up front and then go back and seek reimbursement from the plan.

Usually the bills and claims reimbursement requests must be translated to English in order to get those claims paid and the reimbursement to happen.

Policies can be purchased to supplement the domestic coverage. These policies would cover not only employees that are working in the U.S. and traveling abroad but also employees leaving their country of residence and traveling to another country.

The domestic plan will cover employees that are traveling for short periods of time but there are definite downfalls for relying on this plan. The coverage is really for emergencies only. There is not going to be coverage for preventative

services or any services that they need to access that is not deemed an emergency.

Generally, these types of plans would have operators and representatives with multilingual capabilities to help the employee. They have customer service centers that operate 24/7, 365 days a year so that all time zones can be accommodated.

There are claim forms available in multiple languages so that we have ease of submitting those claims, reimbursement in local currencies and representatives of the carrier would be able to assist the employee with coordination of the treatment plans as well as evacuations and repatriations that may occur.

Shifting gears now to coverage for the longer-term travelers. A customized international plan can be created to cover the longer-term travelers as well as employees stationed abroad.

Generally, in order to create these types of plans you need more than 50 employees worldwide. However, the employees do not have to be located in the same country.

Also, a variety of benefits can be included in the offering. It is certainly not limited to medical coverage. These plans can be created to supplement or replace any social program provided in the country of residence.

An international plan would provide a number of benefits. It can generally offer coverage in both the host and the home country as well as coverage during business travel.

Provisions would generally include multilingual international service centers to help the employee navigate the medical system in a foreign country, overseas provider network to provide some controls on the cost of the plan, access to medical advice and most importantly in a language that an employee would understand.

Medical monitoring in case management would be available which means that the plan could become much more involved in the medical condition and be helpful in navigating that situation.

The plan could also help coordinate treatment plans, evacuations and repatriations similar to the short-term traveler plan. This international plan that would be created should have full compliance with home and host country regulations.

Compliance with HIPAA would be particularly important, especially for those U.S. employees who are traveling abroad, have coverage abroad and then return to the U.S. and come back on to the domestic program. If the international program is HIPAA compliant, then the employee would be able to join the plan with no preexisting condition applied.

An international plan would also pay providers directly and would be mobile which means that if an employee is assigned to one country and then reassigned to another country, that coverage could follow the employee.

Equity Risk Partners is seeing an increased need for both types of international plans as our clients' labor force become more mobile and now is frequently located outside the U.S.

Equity Risk Partners has a great deal of experience in creating benefit plans for employees traveling or stationed abroad and would appreciate the opportunity to create plans that would be tailored to your particular needs and to your labor force.

And with that I will turn it back over to you Josh.

Josh Warren: Thank you very much Beth. Traveling in emerging markets presents many dangers which can be avoided through sound personal risk management practices. Juan Valadez, Senior Consultant NYA/G4S Risk Management, will now provide an overview of personal risk management practices that you can follow while traveling abroad.

Juan Valadez: Thank you, Josh. I'd like to talk a little bit about kidnap for ransom which is a growing problem in every region of the world. First of all, to clarify, when I talk about kidnaps, I am talking about the "for ransom" variety which is distinct from political kidnappings, child abduction or "express" kidnaps which are really extended muggings in which the victim is grabbed and then forced to go withdraw cash from the ATM and usually released in a couple of hours.

Kidnap for ransom involves seizing a person and then the kidnappers demand a ransom from a third party, usually the victim's family or employer.

Estimates of cases worldwide range anywhere from 25,000 to 100,000 a year. And the real number is not known because most cases are not reported.

As you can imagine, the first thing kidnappers do after they kidnap somebody is tell the family or employer that if they call the police, they're going to kill the victim and that fear causes most victims' families never to report the crime.

But based on press reporting and other sources we can estimate that the real number is probably closer to 100,000 a year and the top ten countries are: Mexico, India, Iraq, China, South Africa, Pakistan, Venezuela, Colombia, Brazil and Nigeria.

Mexico now leads the world. This is due partly to the fallout from the Mexican government's campaign to try and reign in the drug trade which has sparked violence all over the country and some of that has spilled over into the U.S.

India, Iraq, China, South Africa and all those countries have major problems with kidnapping. There is no region of the world that is completely safe. One thing all kidnapping gangs have in common---be it Colombian guerrillas, Mexican drug traffickers, Afghan Taliban, or Iraqi Jihadists---they all want the same thing, money. It is kidnap for cash; kidnap for money.

A few brief comments about how kidnappers prepare. It is not a random crime. Kidnappers deliberately select their victims. They require a lot of resources and time to prepare the crime. They need 10 to 20 members in each gang to carry out the various duties of identifying the victim, following them, preparing the kidnapping and guarding the victim once kidnapped.

They need guns, money, cell phones, hiding places, vehicles. So it's an expensive proposition and the kidnappers invest the time and resources necessary to be successful. They deliberately select their victims. They study their profiles and net worth based on public data and discreet observation.

And we are not just talking about expatriate or our local executives abroad and high net worth families. Trends across the world show us there is an

increasing number of kidnap victims among middle-class businessmen and children.

The reason for the middle-class businessmen becoming targets is because even though they may not be able to pay multi-million dollar ransoms, they still represent attractive targets because they have a lot of cash. I am talking about owners of small businesses usually. They usually have the attitude that they are not likely to become victims which makes them more vulnerable.

In the case of children, kidnapers realize that the kidnapping of a child will have a tremendous psychological impact on the family and there are few families that can go through extended negotiations when the victim is one of their children.

In preparation for the crime, the kidnapers will often rely on people who are close to the victims and who have information on their movements and net worth. I'm talking about maids, maids' boyfriends, sometimes neighbors and even coworkers unwittingly or wittingly can release information which can be useful to the kidnapers.

Once they have identified the victim, the kidnapers follow them to determine their daily routes and destination. The objective here is to determine if the victim has a predictable routine, which is the most important element of a kidnap because the kidnapers obviously have to know where that person's going to be at a given moment in time to carry out the kidnapping.

Effectively, most kidnaps around the world occur on weekday mornings while the victim is en route to the office or school because that is when most of us have a routine that rarely varies on that weekday morning.

Generally speaking, most victims of kidnaps are not tortured or killed. There are some exceptions but again it is kidnap for ransom, not kidnap for killing. If they want to kill somebody, they will just do it and not go to all the trouble of preparing a kidnap.

So knowing that, how can you minimize your risk when you are traveling abroad? The first step is to accept responsibility for your personal and family security. That is, realize the risk, realize what needs to be done, consult your employer, security professionals.

But the single most important piece of advice you will hear any security professional give to somebody who lives in a high-risk area is don't be predictable. Do not have a predictable routine. Vary your daily movements. It may be inconvenient to plan different routes and times of departures from homes and arrival at school and the office. But it's a small price to pay and it can be very effective in reducing your risk.

Also keep a low profile. Minimize publicity or avoid it if possible. And be alert when you're driving, walking, especially in the new cities, new countries, be aware of where you are, where you're going. Plan your routes. Be aware of what is going on around you. Identify the areas along the routes that have security like the local police and fire stations, shopping malls, hospitals or banks that usually have armed guards.

Be careful with your personal information, especially financial data and travel plans. Make sure that it is treated as confidential. Do not release it to people who don't have the need to know. And again, be proactive; not paranoid but proactive. Take control and responsibility for you and your family's security.

When you're traveling abroad do a little homework. Know your destination. Become familiar with what is going on in terms of local security and health concerns. Use the State Department's Web site (<http://travel.state.gov>) that I've noted. There is a wealth of information on everything from visas to health issues to safety reports of individual countries.

There are two reports in particular I would recommend that anybody, whether you are going abroad for tourism for business, consult before you leave and that is the Travel Warning to see if there are any travel warnings for that particular country in effect, and also what the State Department calls "Country Specific Information" which is a nice summary of current conditions in that country.

Also take the time to register your travel online at the U.S. Embassy in the foreign country of your destination. Take a photocopy of your passport. In case you lose your passport, you're going to have to present proof of citizenship to get a new one and the photocopy will serve that purpose.

Again, treat your itinerary as confidential information. Keep a low profile. Avoid clothing, baggage with company logos. And choose U.S. and international chain hotels because these have better security. Now some people may be concerned that in some countries these hotels may represent targets but I can assure you that the major U.S. and international chains are well aware of that and by and large have much better security than local hotels.

And again, just exercise common sense. You are in a new city, a new country, you are not familiar with the surroundings; exercise in the hotel gym, not outside. And again, vary your departure times and destinations to the extent

possible. Become familiar with the routes between the hotel and the local embassy and your business appointments.

Now if you have a kidnap & ransom insurance policy it will usually include the services of a kidnap for ransom consultant who will get called in the event of a kidnap or kidnap threat.

The objectives of the consultant are obviously the safe release of the victim in the shortest possible time while minimizing the risk to the victim, family and employees. We will help the client determine the appropriate ransom payment and negotiate with the kidnappers, and also help the client avoid further kidnaps.

Now let me be clear here. What does a consultant do and not do? First of all the consultant, perhaps most importantly, provides an experienced hand, guidance and reassurance to the client, whether it is a family or corporate client, because it is a traumatic situation as you can well imagine.

The consultant will advise the crisis management team on how to negotiate with the kidnappers, how to handle relations with the media, relatives, authorities, coworkers. The consultant will facilitate the ransom payment once an agreement is reached with the kidnappers. Once the victim is released, the consultant helps the client and the victim deal with the initial post-release adjustment.

Again, it is a very traumatic situation but, in short, what the consultant does is help the client, be it a family or corporation, organize themselves, prepare their crisis management team and negotiate with the kidnappers in a systematic, organized fashion, always keeping those principal objectives in mind.

Let me now tell you what the consultant does not do. The consultant will not negotiate directly with the kidnapers. First of all we are consultants, we are not negotiators. We are there to simply advise the client. The client is free to accept or reject our advice at any stage. That does not affect our presence there. The client is free to accept or deny our counsel as they see fit.

We do not organize or participate in rescue attempts. That's only in the movies. If the situation calls for an armed intervention, it is always best left to the government to handle. The consultant will also not personally deliver the ransom. We never operate outside the laws, be it the local laws or the U.S. laws or any laws of any other nation that may be involved. We strictly abide by all laws.

And, last but not least, we do not represent the insurer or the broker. When a consultant is called in to advise a client who has suffered a kidnapping or related crisis, we are there solely for the benefit of the client and the victim. We are not there to represent or protect anybody else's interest except the client and the victim.

I'll be happy to take any questions. Thank you.

Josh Warren: Thank you very much Juan. It was very detailed and useful. We really appreciate your time.

For your information, kidnap and ransom coverage can be placed for as little as \$1,500 annually and that coverage will offset many of the expenses associated with the services that Juan just presented.

Speaking of questions, we do have a couple from our participants. If you would like to ask additional questions, just simply click on the small Q&A box at the top of your screen and then type your question in the drop-down box. It will come up on my screen and I will be able to ask a question to our presenters.

The first one, Vernon, I think is for you.

Vernon Veach: Okay.

Josh Warren: What is the minimum number of foreign countries required to write a controlled master program.

Vernon Veach: Okay. That's an easy one. One. With as little as a home location and one foreign operation a CMP program can be written. The number is limited only by the number of countries in the world. I have done over 100.

Josh Warren: Great. Thank you. And we have one other question. Beth, this one's for you. What is a typical premium for the global health programs that you described?

Beth Sennett: Sure. There are two types of policies. The policies which would cover the short-term are based on the aggregate number of weeks traveled as well as the benefits selected. As an example, for a company with 100 weeks of combined travel, that might cost an average of \$3,000 to \$8,000 annually.

The longer-term programs would have to be created, underwritten and tailored specifically to the number and location of employees. So it is harder to generalize or estimate cost.

Josh Warren: Great. Thank you. I don't see any other questions at this point. So I will close our presentation. Just to let you know we are always available to answer any other questions that you might have regarding how to properly insure risks located anywhere in the world. We have partner brokers in over 50 countries that assist us in brokering business and assessing the appropriateness of coverage in any language.

I would like to thank Vernon, Beth and Juan for all of your time and effort leading up to this discussion and to the participants. This has been the fourth of what we hope will be many webinars on timely valuable insurance topics for our clients, prospects and friends.

Thank you very much for participating in this edition of the Equity Risk Partners Executive Advisory Series. A transcript of this discussion will be posted in the coming days at [www.equityrisk.com](http://www.equityrisk.com). Once again, please contact us for any further questions or if we can be helpful in addressing any insurance needs that you may have. Thank you very much.

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