

Chubb Surveys Top Threats to Multinational Business

C-LEVEL EXECUTIVES and risk managers may not always see eye to eye when it comes to the risks associated with international expansion, according to the 2007 Chubb International Risk Survey. More C-level executives (43 percent) noted that international risks pose a greater threat to their companies than domestic risks, compared with only 16 percent of risk manager respondents.

There are also differences in the types of risks that C-level executives and risk managers are most concerned about when it comes to the companies' multinational exposures. Twenty-four percent of risk managers cited natural catastrophes such as hurricanes and earthquakes as the top threat posed by a company's overseas business operations or the business it conducts abroad, and 24 percent of C-level executives found terrorism to be the top threat.

Respondents' perspectives also differed on international trends in professional liability. More than half of C-level executives (59 percent) believe that employment practices liability is becoming a more serious source of risk outside the United States and Canada, while most (55 percent) risk managers say directors and officers liability is becoming a more serious source of risk.

Seventy-six percent of survey respondents indicated that their company is likely to expand its operations outside the United States and Canada in 2007, and 86 percent anticipated that revenue from these operations is likely to increase over the next five years. Respondents planned on growing their businesses through a variety of ways, including the introduction of new products (72 percent), an increase in employee head count (66 percent), opening a plant or an office (62 percent), and the acquisition of another company (47 percent).

Overall, survey respondents identified the following as the top threats to their overseas business operations or the business they conduct abroad: terrorism (18 percent), natural catastrophes such as hurricanes and earthquakes (17 percent), political instability (13 percent), and supply-chain failure (13 percent). In addition,

the survey reported that the economic and political forces expected to have the greatest impact on a company in 2007 include increased competition (23 percent), rising fuel costs (15 percent), and the devaluation of the dollar (14 percent).

Dramatic Population Growth Along U.S. Coastline Continues Despite Risks

The U.S. population residing in hurricane-prone states continues to rise, a trend that is likely to affect adversely the nation's coastal property insurance market for years to come, according to Dr. Robert Hartwig, president and chief economist for the Insurance Information Institute (I.I.I.) speaking before the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

"Despite the well-known vulnerability to hurricanes and rapidly escalating property values, coastal development in high-risk areas continues at a furious pace," Hartwig said, noting that 15 new condominium projects, with a total of more than 2,100 units, will be completed by year-end 2009 in South Miami Beach, Fla. Rapid buildups are also observed in many other coastal areas, including Galveston Island, Texas; Hilton Head and Myrtle Beach, S.C.; the Maryland shore; eastern Long Island; and Cape Cod.

Florida has the highest population growth among hurricane-prone states and is expected to gain 12.7 million new residents between 2000 and 2030, according to the U.S. Census Bureau. "Florida is the most exposed state in the country, by far, accounting for 27 percent of all hurricane-exposed property. Adjusting for growth since 2004, insured coastal exposure in the state now

exceeds \$2 trillion. Although New York is a close second, it is statistically less likely to be hit by major hurricanes than Florida," Hartwig said. "It is expected that the value of insured coastal property will double within the next decade as coastal populations and property values continue to soar."

Hartwig noted that the price of insurance is determined primarily by the degree of risk assumed by the insurer. "Hurricane Katrina revealed that too many U.S. coastal structures are unable to withstand the forces of a major hurricane, the importance of prudent zoning and land-use management, and that private-sector insurers provide by far the fastest, most efficient means of economic recovery for communities affected by disaster," Hartwig said. "Insurers paid more than \$40 billion to 1.7 million U.S. policyholders in six states after Hurricane Katrina struck in August 2005."

According to Hartwig, state-run insurers of last resort have offered little short-term property insurance rate relief to hurricane-prone regions of the country and may end up shifting the long-term risks of hurricane-related losses to policyholders and taxpayers who do not live near the coast.

"Depending on the state, the redistribution of costs is commonly achieved via laws that allow state-run insurers (which are often the largest insurers in the most hazardous areas) to recover their losses in excess of their claims-paying resources by assessing (effectively taxing) the insurance policies of homeowners and business owners throughout the state, including those well away from the coast and those who have never filed a claim," Hartwig said. "In some cases, even unrelated types of insurance such as auto insurance and commercial liability coverage can be assessed.

"The insurance industry is committed to working in partnership with public policymakers, consumers, and businesses in developing solutions to the formidable challenges posed by Hurricane Katrina and other disasters," said Hartwig.