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Underwriting Issues: Processes in Foreign Jurisdictions

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Summary: Your company is going global, and you are leading the charge. Your responsibility is to develop products. You know how to do the math, but what about the areas that impact risk assessment? You suspect that underwriting in other countries just might be a bit different than it is in the U.S. and Canada, but how much so? What are the salient issues in foreign lands?

Mr. Michael E. Gabon: We have two underwriters as presenters. Alex Kozij, chief underwriter at Reinsurance Co. of Hannover, works with foreign risks and has substantial experience worldwide. He has worked on business in Canada, Germany, Malaysia, Mexico, and South Africa. His expertise is in the Far East and Europe.

Charles Reckley is director of underwriting, research, and development at ING. His experience is with the Latin American market. He has been in Argentina, Brazil, El Salvador, Nicaragua, Peru, Venezuela, Cost Rica, and Colombia. We're trying to give you a perspective on various regions of the world.

Mr. Charles Reckley: I will talk not only about underwriting, but also marketing, agent selection, etc., because my background was running a division that handled all of those things.

At first I thought I would do a presentation on underwriting in-country. I have visited many countries in Latin America. You talk to people about underwriting and how they approach risks, and find that a lot of hands-on underwriting goes on.

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Almost from the time the application comes in, the medical director is personally involved with gathering physician statements. He'll call individuals for medical histories. Other employees will either do telephone interviews or visit the clients to do inspections if the face amount's high enough. Nicaragua is a small country, and I admit that this doesn't happen in every Latin country.

However, that may not be the kind of information that would serve you best because what I found, especially when you talk about international underwriting, is that it really depends on your view. The people in Nicaragua don't believe they're writing international risks. They think they're writing domestic business, and the same is true if you establish a company in Mexico, Argentina, or whatever. So I thought that I would address the true international risks and point out some things that U.S. or offshore companies might want to be aware of.

The first thing that you have to do is break the paradigm of underwriting and change your approach to this market. I'm surprised by the number of companies that write people from Latin America, Colombia, Venezuela, Taiwan, Asia, Japan, and India using their own domestic application. They're using the same attending physician statements to gather information, and many are using the same rate base that they use in the U.S.

When an agent calls up an underwriter in a home office and says, "I have someone who has a heart problem," or "I have someone who resides outside the country of domicile," both of those are risks that you, as an underwriter, have to decide how to approach. First, you have to classify each risk. You can't say, "You've got a heart problem, I think that's Table 2." You have to ask what the heart problem is. Is it tachycardia? Is it a heart transplant? Is it a myocardial infarction? Is it high blood pressure? Yet, from an international perspective, an underwriting perspective, or just a company marketing attitude, many companies are lumping all international risks together and not classifying them properly. One of the reasons is that they're not asking the right questions. They're not managing their international business. And I think you have to, from an underwriting and marketing perspective, ask the right questions if you're going to be in the international marketplace.

If you are going to start accepting international risks, what kind of a program do you have? Let's say that your company decides, for whatever reason, to start taking international risks. Do you have what I would call a seat-of-your-pants program, where you just take this occasional risk, or do you have a program with guidelines? I hope to encourage companies to have a guideline for their agents, for their underwriters, for their marketing people to start accepting these kinds of risk.

It's obvious when the company has a seat-of-the-pants program. They don't have guidelines in place. They don't have a clue how they might or might not rate a country. For example, are they even going to take business from Colombia, Taiwan, or Costa Rica?

I'll give you an example. Many companies are taking risks in Colombia. Colombia was a good market until about two years ago. It's the second most populous

country in Latin America, and the economy was going gang-busters. But Columbia's drug problem absolutely hurt their economy, and that's become evident in the last two years. Inflation has skyrocketed. Debt has become a real problem, particularly bank debt. If you had looked at those risks from just a country basis, is everyone's style of living, no matter where in Colombia, equal in terms of rating? Are you going to rate those in Bogota, for example, at the same rating as Cali? Many companies do. In fact many companies don't even rate Colombia. They use their same base rates in Colombia, and they have some reasons for doing this, so I'm not saying that's right or wrong. I'm just saying you have to decide what your approach is going to be going in. Are you going to have rating differentiations on the countries, in the cities, etc.? What about occupations? In the U.S., companies aren't rating occupations anymore.

I don't have a problem rating occupations when you're taking international risks, though. Let's take Colombia again, for example. Are you going to take a school teacher? There's nothing wrong with school teachers, but is that the kind of risk that you want to take in Colombia? I would suggest it isn't.

You have to start looking at basic things that companies looked at 25–30 years ago, such as amount limits on unemployed spouses and children. One of the reasons I bring that up is that the amount limits in the U.S. have gotten so high on unemployed spouses and children that some are writing one-half million, really without question. Many companies are just doing that on unemployed spouses today. In Third World countries, and in Latin America in particular, I would caution against that.

Age Limits

In the U.S., we see a lot of cases going up to the high 80s, and most of those cases are for estate reasons. You might want to question whether you want to issue many cases past age 65 in the international market, unless you're real sure about that country's estate tax, reasons for the insurance being in force, etc. If you have a seat-of-your-pants program, how are you going to develop your file or do follow-ups? If you get an exam, many companies accept exams done in the U.S., but what if you need a follow-up for that exam? Unless you have an agent who is located in the same city as the proposed insured, it's going to be very difficult to do a follow-up if you need a pulmonary function test, an EKG, or something like that. So many companies that are taking international business today are forced in some ways to accept or reject cases with only the information that they have on hand. Does the agent know the proposed insured, and did the agent who signed the application also complete the application?

One company was able to contest the file because its agent was in Ecuador. He had written the application outside of the U.S. The company used a special application. The other two companies used their domestic applications. Their general agents, who were located in the United States, signed the application because the companies thought they were better protected by having a U.S. agent sign it. However, it prevented those two companies from contesting the file because their agents hadn't taken the application, didn't know the proposed

insured, and couldn't appear in court to say, "I took that application, and, yes, that's the financial information that I was given."

Every company today is interested in the international market, and I think every company gets the chance to write true international business. I would suggest that you're better off, though, not just taking the occasional risk. That's going to hurt your program because, even if you're success in getting that occasional case, placing it on the books, etc., what's going to happen at claim time? Do you have in place the kind of investigation service that you can trust to investigate that claim? When I'm talking about occasional cases, production alone shouldn't be your sole concern. It's fairly easy actually. If most companies in the U.S. want to write international business, they could do it fairly easily because, from a marketing point of view, they're just drawing premium dollars into their companies, but I think they're at risk if they do it. And, if production is really their sole concern, they don't have an outline of how they're going to take risks.

What's the most important safeguard? In the U.S., I would say it's having the underwriter looking at fairly complete attending physician statements, medical exams, financial records, etc. In the international market, it's really the agent who is key to a successful or not. Besides the agent, the other key is the kind of profile you generate for your agent and your underwriter in terms of the perfect insured profile? Companies usually say they're only going after the high end of the market, and there are some valid reasons for doing that. They want a high-net-worth individual, a successful businessperson, or a professional such as a doctor. In some markets, if you set a high profile for an individual—say, high net worth—and define it as \$50,000 or \$75,000 in income, that eliminates auto mechanics, school teachers, and so forth from your risk profile and lets your agents and your underwriters know right away who your perfect insured is. What's going to slip through that crack in terms of professionals are attorneys and doctors. In that market, you have to make some exceptions because those individuals probably are not making the minimum income that you specified. Then you'll determine that those kind of risks are acceptable for the program.

If you do develop—and we're off of the seat-of-the-pants program for a moment—a program to write international risks, I think there are four keys: the agent, the selection criteria, the profile of the insured, and the underwriting. That's what this is all about. How are you going to not only set up an underwriting program, but also manage the risks for international? For a large portion of this, your marketing department surely is involved, but your underwriting department should be involved.

I suggest that companies that have a program and want to manage the risks internationally think seriously about devising an application specifically for that marketplace. Some companies ask for a fingerprint, a photo ID, or something like that. That's not particularly for underwriting. It's more for claims purposes because that information is in the file.

Attending physician statements are the reason why the agent is key and the underwriter is not. You seldom get full, complete attending physician statements in the international market, but I'll just give you an example.

We had an \$8 million case. Usually, on an \$8 million case in the U.S., you have, if not a thick attending physician's statement (APS), at least the medical history. What you usually get in the international market is a fairly subjective APS on one page, reading something like this: "To Whom it May Concern: Herewith I'm informing you that in the six years I have attended him, engineer (a lot of doctors identify patients or applicants by their college designation, so he identified this person as engineer), age 57, has not been issued an unacceptable health report and is considered to be in good health." That's it—a one-page APS on an \$8 million case that the company was able to get.

There's one more that I think says it all. After trying to get to get an APS for a long time, the agent writes, "In regard to an updated APS, Dr. Leo has not seen the above client since 1997." That was about a year at that time. "Dr. Leo's office also confirmed he does not keep records." For the narrative period, November 1997, the only information the doctor gave is that he remembered seeing the guy. This is a key problem and one of the reasons you don't get the APS. Many of the doctors in Third World countries don't keep the kind of detailed records that you normally would expect to receive.

From the Floor: Do they issue policies based on that?

Mr. Reckley: Yes.

Mr. Alex Kozij: You have to remember one thing, if I may interject. There are several valid reasons for them not keeping records. First, doctors in the U.S. have to keep detailed records because of the threat of malpractice. That threat does not exist in most other countries, so there's no need to keep detailed records. Second, a lot of those visits are cash payments. So, from that standpoint, there is some rationale for the lack of records, and they have an unusual approach to lab work, EKGs, and things of that nature. For some reason, in significant portions of the world, doctors like to think that since you paid for it, it's yours. They will give you the actual EKG tracing or the blood profile results. They don't want to be in the storage business.

Mr. Reckley: There are some reasons to issue that case. What I'm trying to point out is the lack of underwriting information, but it's not true all the time. You're going on some assumptions here, but in many cases, if the report is negative or the EKG is negative, they give the proposed insured all the information. Only when there's a problem will the doctor keep some sort of records. In many situations, the report is negative, so there are no records.

I want to talk about policy later on. Many companies do, though, pre-appoint and monitor the laboratory examiners they use in this marketplace. There are many companies that use dried blood spots in this market. Aside from some obvious shipping reasons, the company that I'm familiar with actually—and it wasn't well

known to the agents—asked the laboratory to store that dried blood spot. Therefore, if there was ever any question about whether the right body turned up in a claim, there would be DNA evidence, an autopsy, or whatever available to determine that. Again, if you're not in the market, and just accepting the occasional risk, then you probably don't have a program that asks these types of questions.

How do you get inspections in this market? There are a few good inspection companies. I was in Bogota and just visited with an excellent inspection company that also does claim investigations, which you want to do.

What about the policy, though? I think this is key. You can design your own application for this market and your own APS. A lot of companies are designing their own four- or six-page APS that asks specific questions about the checkups. This way the doctor, rather than writing the three-liner, will be forced to complete an APS specifically designed for the international market. But the company that just takes the occasional risk doesn't have this APS design.

What can you do with a policy? You can file it in your domiciled state, whether you're in the U.S. or outside the U.S. You can put things in your policy if you're issuing internationally that differ from the policies you use in the U.S. Why does your contestable period, when you don't get good APS information, have to remain at two years? My contention is that it doesn't. I know some English companies that have an unlimited incontestability period. You have to weigh in on your marketing side and so forth. You just can't go too deep and exclude everything, but there are companies in this market that have five- and seven-year incontestability provisions in their policies.

In which venue are your cases going to be tried? You don't want to be tried in court if you're being contested on your policy. You want to say where that venue is going to be. And, in this market, you should also consider putting a violent death exclusion into your policy.

Currency

Many companies issue policies from the U.S., and accept Mexicans, Argentinians, or whomever. However, the policies don't say that premium payments have to be made in U.S. dollars. Most U.S. companies that issue domestically just assume that all their premium payments are going to be made in U.S. dollars, but if you're taking international risks, then your international policy better stipulate what currency you expect the premiums to be paid in.

I have a whole list of things to consider. Take physician exams for example. Because paramedics are so widely used in the U.S., some U.S. companies are accepting paramedics on international business. Since you don't get a full APS, I think the very least you should do is get a minimum physician's exam on every applicant that you're going to take. X-rays aren't done routinely in the U.S., but there's an explosion of tuberculosis in Argentina. There are EKG changes because of some indigenous diseases that you might want to rethink and have lower limits on if you're in the international market for some of your underwriting tools.

If you use the same U.S. application, maybe you'd better change the receipt because a lot of these agents are collecting cash, and you don't want to give a premium receipt out with cash. Some companies do change the premium receipt that they're using in the international market. It should be somewhat different.

There are a lot of timing of premium notice issues that you could encounter. Again, if you have people on the books that live outside the U.S., maybe the 30- or 60-day premium notice time is not long enough. Maybe you'd better stretch your time to 90 days to give them enough time to get the premium back. These are things that you don't think about if you're not in the market.

How about plain envelopes? If you're going to send your premium notice, are you going to put XYZ Company on the front of your envelope and, chancing the risk of it being opened by 3,000 postal inspectors as it goes through these Third World countries? Accepting the occasional risks if you're in the international market puts you at great risk if you don't have a program and don't know all the things that you need to know.

Claims are very important, too. How are you going to investigate the claims? My experience has been that claims are between five and six times more expensive to investigate in the international market. So that's a little bit added expense if you're pricing this business. If you're a direct writing company, you'll be asked whether the agent can keep some of the first-year commission. This is called netting. It's pretty common in that market, so become familiar with it. How are you going to get your forms and applications if you do appoint agents outside of your domiciled area? It's expensive to start sending materials down there. Maybe you'd better think about putting your forms on a disk and letting them print them out on site.

Here's a story about translations. A fairly large company said, "Look, I've got this Spanish APS. Can we send it to you?" I said, "Sure. Send it in." It comes in. The case is from Sao Paulo, and the APS is in Portuguese. You have to ask why this company is taking this business when it can't even recognize what language the information is in?

I'll speak briefly about where your company is domiciled or located. Right now, there are companies in the U.S. accepting business from outside their domiciled country or state. For regulatory purposes, how are you going to file your policy? A lot of companies file them for informational purposes, if they develop a special policy for the market. Are you going to use the same products?

What is the exposure to the company and to the agents that you appoint in this marketplace? Some companies are located in what I call offshore facilities in Bermuda or the Cayman Islands. A number of companies operate from those jurisdictions for a number of reasons. Currency flexibility is one. When Clerical Medical was in the Isle of Man, it not only had a U.S. dollar policy, but also a British pound policy, a Swiss franc policy, etc. It could handle multiple currencies. When you get into South America, particularly Argentina, many of the individuals who want to buy policies feel more comfortable with the British pound or the Swiss

franc. There are a lot of reasons why they're buying these policies, and we'll get into that if you have questions.

Certainly, if you're offshore, you can develop policies that can't be used in the U.S., for example, DEFRA/TEFRA. You don't have to be governed by U.S. law. A number of companies are going offshore because of variable products and some of the investment options that are available on those. And, if you're offshore, some companies believe that creates somewhat of a wall for them, as opposed to just operating in the U.S.

Mr. Gabon: Does anyone have any questions at this point? The question was, do you just issue cases based on the information you can collect? Is that basically it?

From the Floor: In many cases, your normal collection will give you nothing, and so you have to go out and do a medical exam, etc.

Mr. Reckley: Well, let me divide that into two parts in a moment. Take the company whose agent calls and says, "I've got this international risk who's living in Mexico," So the company says Mexico is all right. Or it calls the reinsurer and asks for a rating on Mexico. But the company is fairly inexperienced in getting the information because it is dependent on the agent to arrange the medical exam, etc. And so, to answer your question, companies do issue with less information than I think they should in this market. Contrast that with companies that are truly in this market. They have agents outside the U.S., so the agents really know who they're writing. They're vouching for this individual. These companies also have pre-appointed examiners outside the U.S. and inside the U.S. They have inspection facilities that they've pre-appointed, or an in-house inspection unit where they call the proposed insured and go over a two-page outline of questions for them. They have a policy that protects them somewhat.

We used a special inspection company in Colombia. I don't know if you're familiar with medical information bureaus, but in the old days, when you asked for details of codes, they would say, "Sorry, this information is confidential and privileged," and you'd lift up the paper and all the information would be there. They thought that was a protection for them, but, in this market that happens. I've gotten inspection reports that are glowing: "This gentleman is upstanding." And then you find out he's just been released from prison. The reason for the secrecy is that they don't want anybody breaking in and looking at the inspection report in Colombia. So, again, if you're really in the business, have safeguards built into your policy, and know how to develop the information, it's great business.

From the Floor: It seems that in Colombia the main concerns from an underwriting standpoint are violence, kidnapping, murder, and those types of things. How would you feel about, rather than having a country rating for Colombia, using a violent death exclusion, and what kind of vagueness goes along with that?

Mr. Reckley: There are a couple things happening in Latin American countries where the violence and murder rate is high. The accident rate also is fairly high.

In a company that I was familiar with over a 12-year period, claims were distributed almost one-third by cancer, one-third by heart, and one-third by accident. The violent death exclusion rider is going to protect you against those individuals who happen to be standing on a street corner and get shot when a bank is being robbed or just because their country has a real problem with violence. But it's not going to protect you from some of the things I think that companies ought to consider, which are the poor roads and infrastructure that cause more traffic accidents, and the lack of emergency care. If you collapse on a street in Cali, for example, you may not be taken directly to the hospital, as you might if you collapse on an Atlanta street. I think there are reasons for country ratings other than violence, but I do think a violent death rider would protect you in, say, Colombia, but that doesn't mitigate the fact that maybe you ought to consider a country rating also.

From the Floor: What type of mortality statistics do companies have? Do they mainly go with the reinsurers and what they've accumulated over the years, or do they actually have general population mortality? What type of development is there?

Mr. Reckley: You've caught me without an answer. I'll make this a personal answer rather than a company answer. When I worked on the direct side, we would decide what countries we would rate, what countries we wouldn't, etc. A lot of the market is driven by what the competition is doing or what the market can bear, and those two things are a little bit different. For example, companies that are in Mexico, are domiciled in Mexico, and accepting risks in Mexico, are charging higher rates that they are underwriting domestically. I have seen some mortality charts that they use, and Mexico has a long history of a life insurance market, even better than, say, Argentina, whose market collapsed. They are charging higher rates than companies domiciled in the U.S. that are writing Mexican citizens. Why is that? Whether it's right or wrong, they feel their mortality risk is high. And I've seen an extra table or so in terms of their mortality or their risk rates that they're charging.

Why don't the U.S. companies do that? One of the reasons is that they're selecting what they feel is the cream of the crop. They've set the profile as high-net-worth individuals. They feel that these individuals' mortality can equate to U.S. mortality. They can, if there's an emergency, fly via air ambulance to John Hopkins or something. At least that's the theory. The theory that companies who are taking international risks have is that, if they set the profile high enough, these individuals will come close to U.S. mortality. As a result, many of the companies don't have any mortality studies.

Mr. Kozij: You have two types of mortality studies obviously. You have a mortality chart or life expectancy chart for the specific country, but that pretty much includes all the general population and all the business written in local currency, a lot of which is fairly small. Persistency is poor and mortality is not that good. If you look at the exposure, for example, several years ago there was a cholera epidemic in Peru. The vast majority of people who died from it were the villagers, the fishermen, etc. This cholera epidemic, if I remember correctly,

claimed 3,000 or 4,000 lives. We had one claim from that particular epidemic. One of the people that we reinsured in Lima went to visit his parents in a village and developed the disease there, and the village did not have proper medical facilities.

But the market segment that would be approached by U.S. companies are people who are able to pay in U.S. dollars, and that puts them in a fairly select population. So, from that standpoint, the mortality is not going to be substantially different. Yes, there are some differences, and, as Charles indicated, one of the problems you have is a significantly higher incidence of accidental/violent deaths, and you have to look into that. There are some statistics available in the U.S. on this business, but they're very sketchy. Most companies have their own statistics, and not too many are willing to share them because it would give competitors an advantage.

From the Floor: You talked about developing a program if you're going to be serious about getting into the international business. Where do you get the information about agencies and underwriters to develop that program? Do you look to existing insurers in the country? Do you have consultants that specialize in this sort of thing? Where do you get that?

Mr. Kozij: How about your friendly reinsurer? Charles?

Mr. Reckley: There are a number of places where you can gather that information. You could identify well-known companies and talk to their marketing people or executives you might know. I don't know how much information they'd gladly share. When I was with the direct writing company, I was not allowed to go to meetings, and so for years I just wasn't available to discuss what we were doing. And the other reason was that I would always say, "Oh, boy, don't do that." But I think today, as Alex says, reinsurers are knowledgeable in this marketplace, and I think some consultants are too.

Mr. Gabon: With that, we'll turn it over to Alex.

Mr. Kozij: One of the plus factors that I work under is that Hanover Re has sister companies throughout the world. We have companies in Australia, Ireland, Malaysia, Mexico, Spain, Sweden, South Africa, and a few other countries. One of the things that I realized when I was talking to the actuaries was the fact that actuaries like statistics. So here is one: 42.7% of all statistics are made up, normally on the spot. So I hope you will look at the statistics with a jaundiced eye.

Why do you want to write international business? A lot of people would say, because it's there, the old mountaineer answer. But I think there are some real reasons why companies are interested. If you look at the U.S. market, a significant amount of the premium that we get comes in from very thinly priced term products. Let's face it, the profit margins on those things are fairly slim, and yet you still have to pay for expenses. No matter. A lot of companies are trying to increase their universal life (UL) business, but they're not having too much success. And the tremendous plus of international business is that you're talking about primarily UL, variable UL, target premiums, and significant dump-ins. Most of the people that purchase life insurance and live outside the U.S. are looking for a safe haven. They

want to put some money into the U.S. so they have something in hard currency sitting out there in case things really go wrong in their country. And a lot of these people also have accounts with one of the big financial houses. So they pay the premiums quite often through a transfer from a stock brokerage firm. These are the people that everyone is going after because this is the preferred group.

Yes, you have a problem from the standpoint of getting adequate medical information, but the thing that's rather interesting is that, in many instances, if you're looking at an impaired risk who has a significant medical history, you find out that if they have a heart problem, they'll go to a doctor in Houston or at the Cleveland Clinic. One significant plus that these people have is they don't have to call their HMO or PPO for a referral? When you're worth several million dollars, you can go wherever you want to.

The other interesting aspect is that, in most of your top families, there will be one person in the extended family who is a doctor, and this person serves as a resource and tells the people where to go. They say, if you're looking at an angioplasty, go to Emory in Atlanta because they have the best track record. If you're looking for a bypass, either go to DeBakey, Cleveland Clinic, or Mayo. You can get good information on many of the impaired risks, and that's the key. But can you get enough information?

Another thing that I wanted to mention is that a lot of people think that this is something brand new concerning foreign nationals. This is a quote from a 1948 underwriting manual of Continental Assurance Company: "We like foreigners. We have ourselves been foreigners in Africa, Asia, Europe, and South America. And have had helpful and sympathetic cooperation with our personal problems. We wish to reciprocate. Insure them? Glad to, if we can appraise them adequately. Meaning what? Application in U.S., medical in U.S. Inspection sources that we can get to." You see this is not a new situation, and still the key is, can you appraise them adequately?

One of the things that Charles and I agree on 100% is the sort of business you pursue in this particular market segment is of utmost importance. Having agents who live in the country is the preferred way of dealing in this market, because they can get additional information, such as giving you assurance that the applicant is not involved in criminal activities, which sometimes is not that easy to get.

Some companies rely on inspection reports done via phone. This might give you a nice warm, fuzzy feeling, but no information to speak of. Some of the local inspection companies that are operated in various countries can give you very good information on the individual. We have had instances where the inspection report comes in, and this is something totally refreshing from what we see in the U.S. now, and it says we would not recommend doing business with this person. This person was from Colombia, and he was a coffee merchant, and they said it has been indicated that on several instances where he had orders for coffee that he sent his workers out to hijack trucks full of coffee belonging to his competitors. That obviously presents a slight problem because some of his competitors might not like losing their coffee shipments.

There are a couple of things that are not really absolutely essential. In fact, an application in the U.S. can present a problem because then your jurisdiction is not necessarily going to be where you would like it to be. If you write business, let's say, in Florida, then they can file suit against you in Florida, regardless of what the policy says. It's not that bad in Florida, but then consider the fact that a lot of the cross-border business is written in Texas. Do you really want to contest something in a small Texas border town where you will have a significant Tex-Mex population on the jury who love to bring big verdicts against those people from up north?

One of the problems that you have is that you're dealing with a cash system. You cannot get a motor vehicle report in most countries, and even if you can get it, it's useless because most of these countries have a well-established tradition to pay the police your fine on the spot. One third of all the claims that we see are "accidental" deaths, and there's nothing from the standpoint of selection criteria that you can do to prevent or minimize that, because you just don't have the information available.

In certain parts of the world, they also have about a 15 times higher incidence of death in an aircraft disaster. Why is that? First of all, maintenance of the smaller planes is not really up to par, not necessarily those on the international flights but a lot of the domestic flights. Most of the planes come either from Europe or from the U.S. To buy parts, you have to pay in hard currency. Hard currency's hard to get.

And there are some other interesting aspects that many people don't take into consideration. One of them is that in a lot of the smaller regional airports, there's no dedicated emergency equipment. If a crash occurs, they have to send for the fire engines from the nearby town.

Claims investigation is extremely expensive. That's another reason why you cannot charge the same premiums that you do in the U.S. You have to charge higher premiums because your expenses are going to be higher. In the U.S., we routinely investigate contestable claims only and, for the most part, we will not investigate claims that occur after two years. The problem you face in Third World countries throughout the world is fraud. This is not necessarily in Latin America alone; Philippines and India are two places where fraud is rampant. In the Philippines, for \$100, you can buy a "death kit," which consists of an official-looking death certificate plus some excerpts from official records proving that you died. As some of these people have learned, all you have to do is wait for two years after you the policy was issued, and then you submit the phony death information. In many instances, the companies will look at the fact that it's going to cost them a significant amount of money to investigate and that it's incontestable anyway. Therefore, we go ahead and pay. And a fair number of those claims are phony.

You do have to investigate at least superficially every claim that you have. There is some common sense that you use. If you have a policy on the books for 15 years, you might not investigate it as thoroughly as if it were 25 months. But this is important because it serves as a sentinel effect. If people know that you investigate claims, you're less likely to get picked as a target.

You have to keep up on what's going on. You cannot rely on other people to tell you what is going on. Read the papers. The *Wall Street Journal* has a small column in here about a bank in India and collectors. On the surface, it doesn't really tell me anything, but it tells you one of the problems, that exists in India. There is no way you can assess if a person is telling you the truth about their financial status or not because there are no credit bureaus. There has been no exchange of any information. For example, the article mentions this guy who has several apparently small businesses. He and his family ran up \$27,000 on credit cards that they received from the bank, but it tells you that the financial information is just not available. You have to depend on your agent to give you an idea of who this person is.

Another interesting aspect is that you learn something about cultures. For example, in Thailand, one of the interesting facts that I learned was that, if you want to know if a person is wealthy, one of the questions you ask is, "How many mistresses do you have?" If they have fewer than three mistresses, they're not that wealthy. This is the tradition and the custom of the country.

One problem that a lot of companies have is that they get into a business relationship, yet know almost nothing about the country. Talking about mistresses, it is very common to see applications, for example, from Argentina, where the mistress is named as beneficiary. We will consider some of them, but it has to be a longstanding relationship, normally with children involved. And one of the primary prerequisites for issuing any insurance with the mistress as a beneficiary is that the official family has to be insured for a significantly higher amount.

But you look at this and ask, "Is there insurable interest?" Yes, definitely, there is insurable interest because if this person dies, then all of his estate is going to his regular family. If he has had a relationship with a mistress for 10–15 years, which is not that unusual, and they have small children, don't those children need some coverage? The answer is yes, and that's really what you have to do. At first you look at this and from a moral standpoint say, "Why should we insure the mistress? That's just immoral." But you have to ask whether it makes business sense. If the answer is, yes, there is insurable interest, then you should consider doing it. But you have to build in safeguards because there is a higher possibility of antiselection.

I want to emphasize that you have to learn about the country. You have to learn the language. You have to learn the customs. As Charles mentioned, you have situations where people are writing business in Brazil, and they have no one in their office that can read Portuguese. How can you evaluate the risk if you can't read the application?

I'll give you one humorous example. One of our client companies declined a case, and then the agent appealed, so they sent it to us. The reason they declined was because the person admitted to a history of heart problems. On the medical exam, there was a history of angina, which most underwriters in the U.S. relate to angina pectoris, or chest pain. In this particular case, the underwriter didn't go far enough. It was angina of the stomach. Angina just means pain. So the guy had a

gut pain and saw a doctor for it, and the underwriter immediately said, "Heart disease. Declined." A little knowledge is sometimes very dangerous.

Another thing is financial information, and there are legitimate reasons for lack of it. Colombia and Guatemala have significant problem with kidnappings. So, from that standpoint, people are very reluctant to have financial information available, and there is no such thing as audited financial statements. Even on the larger businesses, you will not get an audited financial statement unless they do some international business.

This is some information on aviation fatalities. In North America, there are 0.88% per 100,000 takeoffs and landings. In Western Europe, it's reasonable at 1.15%. Eastern Europe is much worse (4.11%). Asia is also higher, 4.66,% but if you look at Africa (13.25%) and Latin America (6.04%), you're looking more than six times the incidence of death if you're involved in a crash.

Many people don't realize that, in the U.S., if a plane goes down, you immediately have search facilities that go out looking. In a lot of these other countries, if you crash in the jungle, guess what? The help might not come.

If you're looking at exchange rates trying to figure out what the person's worth is in real money, every Monday in the financial section of *The Wall Street Journal*, there is a listing of the major currencies in the world. Or you can get it on the Internet.