



GLOBAL IMPACT



A Publication of the Ocean Marine Division of Great American Insurance Group

1Q08 No. 43



THE BUCK STOPS WHERE?

THE IMPACT OF A WEAKENING DOLLAR ISN'T BLACK AND WHITE ANYMORE

In the past, a rise or fall in the value of the U.S. dollar had clear cut implications. Today, this is no longer the case. In our era of globalization, off-shoring and infinite supply chain strategies, new factors are increasingly turning black-and-white assumptions grey.

According to *The Wall Street Journal*, "Supply disruptions in various places and surging demand in China and India are part of the explanation for this decade's upward trend in oil prices. But perhaps the biggest factor has been largely overlooked: the decline in the value of the dollar." The *Journal* says the cost of an imported barrel of oil would be closer to \$57 instead of \$100 if the dollar had kept pace with the euro this decade. Consequently, higher costs incurred by U.S. manufacturers for energy and other imported inputs have impacted U.S. export prices, as well as the U.S. trade deficit.

From 2002 through late 2007, the U.S. dollar declined 39 percent against the Canadian dollar, 38 percent against the euro, and 30 percent against the British pound, according to Deloitte Research. What is the impact? A weakening dollar traditionally resulted in lower priced American exports that stimulated sales abroad. It also caused the price of foreign goods and services to rise, reducing U.S. demand and effectively lowering the trade deficit. These past realities, although still applicable, don't always play out today as they did in the past.

Nevertheless, due to a number of factors, including productivity improvements, creative cost reductions and the declining dollar where benefits were not neutralized, U.S. goods and services exports still reached \$1.62 trillion in 2007, shrinking the trade deficit by \$46.9 billion from a year earlier.

NEUTRALIZING BENEFITS

Today, U.S. producers increasingly rely on imported raw materials, capital machinery and parts, industrial supplies and other intermediate inputs used in the manufacturing process of their products. When the value of the dollar weakens, these imports become more expensive. When these same producers' finished products are exported, the advantages of a weak dollar can be neutralized by the higher cost of inputs.

SMALLER PASS-THROUGH RATES

If a currency falls by 10 percent and the cost of imports rise by 10 percent, the pass-through rate would be 100 percent. In turn, the weaker currency would reduce import demand and improve the trade balance. But today, many types of imports, especially consumer goods, typically have not become more expen-

Dear Friends:

In this era of rapid change, chances are the level of a particular risk or the impact of an event is very different than it was only a few years ago. For example, not long ago a declining dollar had a black and white effect. Today, we live in the grey (pages 1-2).

Improved efficiencies lead to lower costs and greater output. With this in mind, the Ocean Marine Division of Great American announces *MyBilling* (page 3).

America's ability to prevent terrorist weapons and materials from entering our ports is behind a new rule proposed by U.S. Customs and Border Protection (page 4).

We hope you enjoy this issue and welcome your comments.

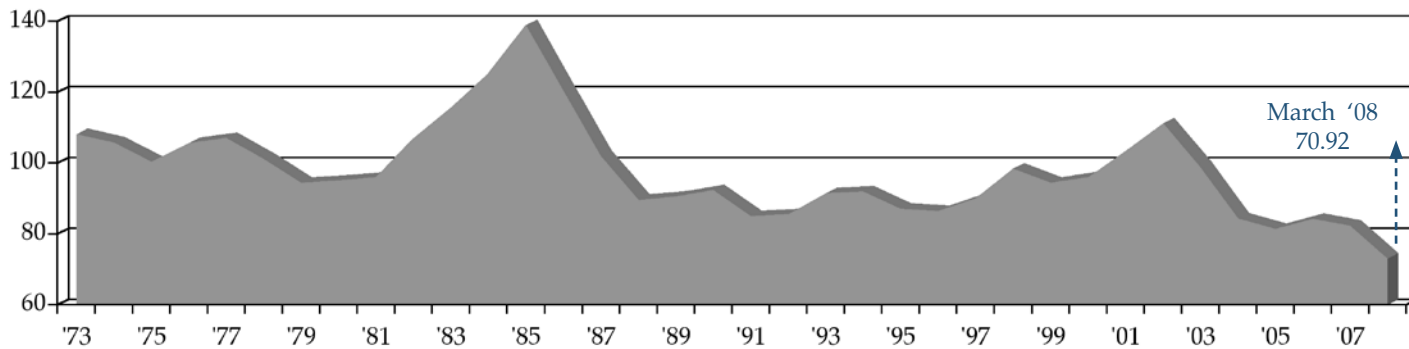
Sincerely,

John A. Rowney
Division President
Ocean Marine Division

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Value of the U.S. Dollar

Federal Reserve's Nominal Major Currencies Index, January 1973 - March 2008



sive as the value of the dollar has come down. Why? In many cases, foreign exporters to the United States are biting the bullet, reducing their prices and accepting smaller profit margins in order to maintain U.S. marketshare.

From the mid-1970s through the 1990s, the pass-through rate was as high as 50 percent, according to *The Wall Street Journal*. This meant that a 10 percent drop in the value of the dollar would boost import prices by 5 percent. Recent studies indicate that only one-tenth to one-quarter of a currency depreciation now gets passed through as higher prices for foreign goods. This keeps inflation down, as well as the prices of consumer goods like

clothes, that tend to be made abroad and consumed in large quantities in the United States. As a result, a continued drop in the dollar — which is very likely analysts say — may be necessary to impact import prices and slow the American appetite for foreign goods.

DOLLAR FALLS WHILE DEFICIT RISES

Between 2002 and 2005, the U.S. dollar depreciated 23 percent against the Canadian dollar and 24 percent against the euro, says Daniel Ikenson, a Cato Institute policy analyst. However, during this period, the U.S. trade deficit with Canada and European

Union members utilizing the euro rose by 58 and 39 percent, respectively. “Of all the other major U.S. trading partners whose currencies appreciated against the dollar — Japan, the United Kingdom, Korea, Taiwan, and Brazil — only Taiwan had a trade surplus with the U.S. that declined over the period,” Ikenson continues. “And that decline was a relatively modest 8 percent. In contrast, the U.S. deficit increased by 18 percent with Japan, 22 percent with Korea, 71 percent with the United Kingdom, and 181 percent with Brazil.”

Only one-tenth to one-quarter of a currency depreciation now gets passed through as higher prices for foreign goods. This keeps inflation and prices of consumer goods like clothing down.

Changes in relative incomes and wealth, the availability of domestic and other foreign substitutes, and opportunity costs of finding new suppliers play a more significant role than currency values, Ikenson says.

IS THE DOLLAR STILL KING?

The dollar is involved in 86 percent of the world’s 3.2 trillion daily currency transactions and comprises 64 percent of total global reserves, *The Wall Street Journal* says. About 25 percent of world reserves are held in euros. As a result, the dollar remains the world’s dominant currency and is

unlikely to lose this position any time soon. Nevertheless, it’s come under more than one attack.

The dollar is “losing its status as the world currency,” said Xu Jian, a Chinese central bank official, last November. “We will favor stronger currencies over weak ones, and will readjust accordingly.” Although this statement was later qualified, concerns remain that China and central banks around the world will diversify their foreign exchange reserves out of dollars and into other currencies

— a move that would push the dollar even lower. Concerned about competing internationally, French

President Nicolas Sarkozy told Congress that “If we are not careful, monetary disarray could morph into economic war.”

In March 1973, the Federal Reserve’s Nominal Major Currencies Dollar Index was set at 100. Since then, it reached a high of 143.91 in March 1985 and has fallen to an all-time low of 70.92 as of March 2008, the month this publication went to press. Trying to predict the dollar’s long-term trend and impact are extremely difficult — and more so than ever due to new global factors at play. ■

MyBILLING OFFERS GREATER FLEXIBILITY TO INSURED CUSTOMERS AND AGENTS

Introduced late last year, *MyBilling* is a new Great American Direct Bill System that is convenient and easy to use. Plus, for Ocean Marine insured customers, it offers our Direct Bill option with greatly expanded payment plans. For agents, *MyBilling* relieves them of the routine work of billing and collections, as well as reduces administrative overhead.

BENEFITS TO INSURED CUSTOMERS

Billing statements, which are mailed directly from Great American to insured customers or a designated payor, offer payment options established at the policy level. As a result, an account can have multiple policies with different payment plans. A \$3 service charge is applied to each invoice issued.

For the convenience of insured customers, *MyBilling* has a recurring payment option that automatically withdraws the minimum premium amount due from either a checking or savings account. If preferred, payments can be made by mailing a check or using a secure phone system to make a payment by electronic check or credit card.

"*MyBilling* is an important and timely update to the former Direct Bill program, and it provides insureds and agents more options with greater flexibility," said John Dougherty, Divisional Vice President of Great American's Financial Division in Cincinnati. "It is an affordable, convenient way for insureds to finance their premiums, and it allows agents to better monitor the activity of their clients," continued Dougherty, who also manages *MyBilling*.

— Payment Plans —

Monthly 30%:	30% down and monthly payments with total due 3 months prior to expiration.
Monthly 25%:	25% down and monthly payments with total due 3 months prior to expiration.
Monthly 20%:	20% down and monthly payments with total due 3 months prior to expiration.
Monthly 8%:	8% down and monthly payments with total due 3 months prior to expiration.
Monthly Equal:	0% down and monthly payments with total due 1 month prior to expiration.
Prepaid:	No installments; 100% premium due upon billing.
Quarterly 40%:	40% down and 3 equal quarterly installments with total due 3 months prior to expiration.
Quarterly 35%:	35% down and 3 equal quarterly installments with total due 3 months prior to expiration.
Quarterly Equal:	0% down and 4 equal quarterly installments with total due 3 months prior to expiration.
Semi-Annual 65%:	65% down and 1 installment 6 months prior to expiration with total due 6 months prior to expiration.
Semi-Annual Equal:	50% down and 1 installment 6 months prior to expiration with total due 3 months prior to expiration.

AGENT BENEFIT OF MyBILLING

With secure access to MyBilling.gaic.com, agents can easily review the status of their Direct Bill accounts without shuffling through paper notices. Plus, the website allows agents to

online and improve customer service. *MyBilling* allows agents to do what they do best while helping insureds."

ELIGIBLE POLICIES

Policies of any term length are eligible, including multiple years. And policies with non-concurrent effective or expiration dates can be billed together under a single account.

However, all policies under a single account must share a common payor and be issued for the same named insured. Additionally, policies issued from multiple business units can be combined under a single account as long as the insured's policies are written under the same master producer code.

For more information about *MyBilling*, call 1-800-847-4357, option 3 or send an email to mybilling@gaic.com. ■

***MyBilling* is an affordable convenient way for insureds to finance premiums, and it allows agents to better assist customers.**

view commission statements, which are paid automatically on a monthly basis via direct deposit or check. Additionally, search and filter options help agents throughout the process.

For all involved, Direct Deposit is preferred over other methods. "We wanted an inquiry system," Dougherty explained, "that better connects agents and customers. With *MyBilling*, agents can obtain up-to-date payment data

U.S. CUSTOMS AND BORDER PROTECTION IS PROPOSING NEW 10+2 RULE

U.S. Customs and Border Protection (CBP) is considering a new rule that will require importers and oceans carriers to provide 12 additional data elements. The period for public comment, which as of this writing was extended to March 18, likely will reflect a number of issues and concerns.

TARGETING HIGH-RISK CARGO

The Security Filing, referred to as "10+2," is another step in the Department of Homeland Security's (DHS) strategy to better assess, identify and prevent terrorist weapons and materials from entering the United States, the CBP says. "It will improve CBP's ability to target high-risk cargo by identifying actual cargo movements and improving the accuracy of cargo descriptions," said CBP Commissioner W. Ralph Basham. "It will also improve our ability to facilitate law identifying low-risk shipments much earlier in the supply chain."

ADDITIONAL DATA REQUIRED

The additional information includes 1) a vessel stow plan used to transmit information about the physical location of cargo loaded aboard a vessel bound for the U.S, and 2) container status messages which report container movements and changes in status (e.g., empty or full).

The new rule also requires importers to submit an "Importer Security Filing" containing the following 10 data elements:

- Manufacturer (or supplier) name and address,
- Seller (or owner) name and address,
- Buyer (or owner) name and address,
- Ship-to name and address,
- Container stuffing location,
- Consolidator (stuffer) name and address,
- Importer of record number/ foreign trade zone applicant identification number,
- Consignee number(s)
- Country of origin, and



- Commodity Harmonized Tariff Schedule number.

Under the proposal, importers will have to file the 10 data elements 24 hours prior to foreign lading of the cargo. The vessel stow plan will have to be submitted no later than 48 hours after departure from the last foreign port or prior to arrival in the first U.S. port if the voyage is less than 48 hours. Various other requirements and exceptions are proposed.

For more information, visit CBP at visit www.cbp.gov. ■

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