



GLOBAL IMPACT



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UNDERSTAND COUNTRY RISK BEFORE DOING BUSINESS OVERSEAS

Dear Friends:

Risks are everywhere. Some are obvious, some are hidden, and some are unknown until it's too late.

Many of our customers are pursuing new markets around the world. This can generate tremendous growth and jobs here in the U.S. But, if foreign country risk is not accurately assessed, the costs can outweigh the benefits.

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Designed to keep up with today's fast-paced business world, increase productivity and meet client needs, the U.S. Coast Guard's National Pollution Funds Center has developed an electronic filing and payment system for its certificates of financial responsibility. Page 3.

Due to a controversial case involving an explosion aboard an inland drilling barge, OSHA will become more involved in the maritime business. Page 4.

As always, we welcome your comments.

John A. Rowney
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Ocean Marine Division

Whether you are considering trading with or investing in a particular foreign market, it is essential to identify and understand the level of country risk. And since a variety of factors affect it, country risk may rapidly increase, significantly elevating your level of exposure.

COUNTRY RISK IS AFFECTED BY MANY VARIABLES

To fully comprehend country risk, it is necessary to understand how political, economic, and social factors impact it. Generally, political risks are assessed in terms of country stability, and are sometimes measured by the level of confidence in a government. Economic risks are reflected by levels of national growth, inflation, unemployment, balance of trade, and taxes. Social risks usually involve social unrest and violence.

But before engaging in international trade, numerous other factors must be considered as well. These include commercial risk, which is mainly viewed in terms of the credit strength of the buyer and the credibility of his or her bank, operational risks, which involve the documentation and customs process, and a host of other nontraditional risks that don't neatly fit in simple categories.

For example, if your target country unexpectedly becomes a member of a powerful trade bloc, your customer may decide to source your product from member countries that are subject to fewer trade barriers.



DEVELOPING COUNTRIES' LEVEL OF RISK

Developing countries tend to have a higher level of risk than developed countries. Thus, a change in leadership is often a time of instability. Should social turmoil envelop the nation, the disruption of activities could put your foreign buyer's business at risk. And, a new government may impose economic policy that could prevent you from being paid for goods shipped.

Portfolio investment, which tends to be short-term investment, is very sensitive to economic or political volatility. Because it is driven by market forces and seeks the greatest returns, its flows often surge, then dip, partly based on perceptions of future growth and stability. As a result, it has created havoc on some developing country economies and political structures. In fact, the Mexican peso, Asian and Russian crises of the 1990s highlight the volatility of "hot money" or portfolio investment.

In general, hot money flows may add an element of risk where none previously existed. In turn, this can indirectly put downward pressure on a nation's currency, creating political instability and unrest.

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RISKS OF RAPID CURRENCY DEVALUATIONS

If your buyer’s currency is devalued by half its value and you are collecting in U.S. dollars, it will take twice as much of your buyer’s currency to pay you. This could put an enormous financial strain on your customer’s business. On the other hand, if you are collecting payment in the foreign currency, you’ll receive half of what you expected

once converted into dollars. In either situation, this could put you in a very difficult position.

Factors affecting currency trends are complex and are contingent on seemingly independent activities, rhetoric, and highly fluid capital shifts, in addition to

macroeconomic forces. As such, predicting whether a currency will increase or decrease in value is very difficult and extremely risky.

In fact, rarely is an economist, trader or investor able to foresee the chain reaction or identify the complex factors that lead to currency devaluations. Therefore, managing foreign currency exposure requires more than research-based predictions — it may demand a sound hedging strategy to insulate your business and minimize the risks against losses due to currency fluctuations.

THE LATIN AMERICAN ECONOMIC CRISIS

On December 20, 1994, the economic situation in Mexico drastically changed. An attempted currency adjustment by the Mexican government, that some say should have occurred earlier but at a more gradual pace, accelerated out of control. Within two days pressures mounted; currency reserves used to prop up the peso quickly dwindled.

As a result, the peso was allowed to float freely. Shortly thereafter, it nose-dived. Like falling dominoes, what began as a short-term liquidity crisis turned into a full panic. Many Mexican banks experienced severe problems. And the economy fell into a period of negative growth.

Mexican fallout quickly spread to Brazil and Argentina, whose economies dipped, along with those in other developing countries worldwide. Exporters received what some have referred to as a “wake-up call,” reminding them that political and economic instability in developing countries can largely affect importers’ ability to pay for goods.

THE ASIAN FINANCIAL CRISIS

From 1997 through 1999, country risk in East Asia was high. With the front page news of plunging currencies — beginning with the Thai baht and quickly affecting the Malaysian ringgit, the Indonesian rupiah, and the Korean won — it is easy to understand the damage caused by currency fluctuations. Not only did the domino effect put pressure on traditionally strong currencies,

but it also resulted in banking and financial crises, as well as economic recession in several countries.

MORE RECENT CONCERNS

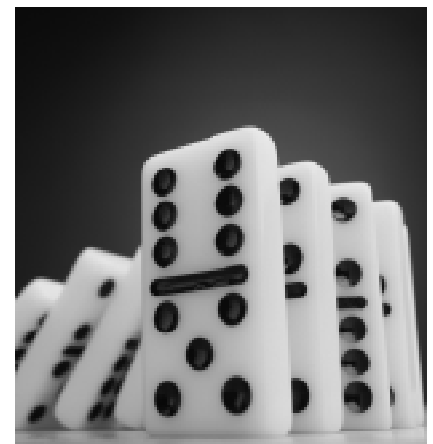
Argentina’s economy has recently undergone severe challenges. As a result, the Argentine peso, which was tied to the U.S. dollar, was allowed to float freely and precipitously lost value. In light of these country risks, the ability to successfully manage international financial transactions is becoming even more important, especially to exporters who generate a greater and greater share of their profits from international trade.

Additionally, since you can obtain a competitive advantage by offering foreign customers attractive payment terms, doing so is important. But this adds another level of risk — making it essential to work closely with your banker and insurer.

In our fast changing and increasingly competitive global business environment, it is necessary to outperform the competition. But before entering new markets, you must accurately assess all country risks and plan accordingly. ■



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E-FILING NOW AVAILABLE FOR CERTIFICATES OF FINANCIAL RESPONSIBILITY

In a move to keep up with today's fast-paced business world, increase productivity and meet client needs, the United States Coast Guard's National Pollution Funds Center has developed an electronic filing and payment system for its certificates of financial responsibility (COFR), called E-COFR.



COFRs, which are legally required for vessels over 300 gross tons operating in U.S. waters, ensure that vessels have the ability to cover pollution clean-up costs and damages.

QUICK, EASY AND EFFICIENT

According to Kevin Bailey, Assistant Division Chief of Vessel Certification for the Coast Guard, the E-COFR system became fully operational on April 22.

"The system is extremely user-friendly and eliminates a great deal of paperwork for both the Coast Guard and the vessel operator," Bailey explained. "We're very pleased with its introduction, and we fully expect more and more vessel operators will find the service to be a convenient and easy alternative to the traditional filing process." Currently, the Coast Guard processes an average of 100 new COFR applications monthly, and issues 8,000 COFRs annually. In December 2001, 1,100 companies pre-enrolled in the new E-COFR system.

HOW THE SYSTEM WORKS

The traditional COFR filing system requires an operator to complete a five-page application and submit fees in the form of a check or money order to the Coast Guard, as well as arrange for the Coast Guard to receive proof of financial liability from an approved insurer. This process can often take weeks, and as such, over the years, many vessel operators have asked if they could pay via

a credit card or if they could wire the funds in order to expedite the process. "Because we listened to what our clients were saying and wanted to meet their needs, we developed the new e-filing process," Bailey noted.

The new electronic system allows the operator to complete the application on-line, as well as pay for the user fees with a credit card. The only hard paper required is the original user enrollment form which must be signed by an authorized officer of the company that is making the application.

"The system is extremely user-friendly and eliminates a great deal of paperwork," Bailey explained. "We're very pleased with its introduction, and we fully expect more vessel operators will find the service to be a convenient and easy alternative to the traditional filing process."

E-COFR OFFERS ADDITIONAL BENEFITS

Bailey also outlined an additional feature the new electronic system offers. "Operators who use the new system may search the COFR database of 19,000 vessels in real time to see when their vessel has been approved." This means that when operators who are approved users add a new vessel to their fleet via the electronic system, they can see in a matter of hours when their new vessel is approved.

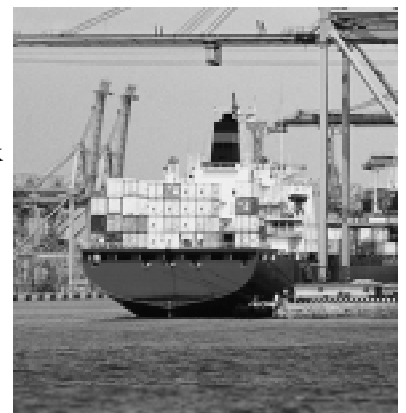
FUTURE PLANS

"We are very happy with how the new system is working so far," Bailey remarked. "However, we also plan to continue to look for ways to add to it and improve it."

Part of those plans may include the development of an electronic system for insurers.

IMPORTANCE OF COFRS

COFRs, themselves, have played a key role in the successful clean up of pollution incidents over the last 12 years. "The COFR program has significantly helped the U.S. government to increase the collection rate of the costs incurred from oil and petroleum product spills," Bailey said. "The COFR program helps to ensure that U.S. waters remain clean." ■



OSHA STANDARDS NOW APPLICABLE ON UNINSPECTED VESSELS

It's a world of ever-changing rules and regulations, and keeping up-to-date with new information is more important than ever in our post September 11, 2001 world.

For example, members of the maritime industry need to be aware of a new Supreme Court ruling that states commercial uninspected drilling vessels must now comply with applicable Occupational Safety and Health Administration (OSHA) standards.

THE SUPREME COURT STEPS IN

The new ruling is a result of the 1997 case of *Choa v. Mallard Bay Drilling, Inc.* After this controversial case — which involved an explosion onboard an inland drilling barge that killed four crewmen and injured two more — went through the Louisiana State Court and the 5th Circuit Court of Appeals, the U.S. Supreme Court entered the picture to finalize its ruling.

In short, the nation's highest court ruled that United States Coast Guard's (USCG) regulations for uninspected

vessels were inadequate, and OSHA standards should apply. Overall, the Supreme Court decided that uninspected vessel regulations do not adequately cover occupational safety and health concerns that exist during inland drilling vessel operations.

A CLOSER RELATIONSHIP

As a result of this new development, it appears that OSHA and the USCG will be working together more closely — and initially, on uninspected vessels, such as inland industrial vessels, inland and seagoing towboats, inland and seagoing cargo barges, and inland drilling vessels.

This closer relationship can in part be tied to the impact of 9/11. For instance, since the USCG has been increasing its border patrols and diligently working on protecting our country's waterways from acts of terrorism, OSHA has been taking on a greater role. And, although OSHA's influence may mean some broad changes in the maritime industry, safer and more stringent standards will only benefit everyone involved.



CHANGES ON THE HORIZON

Examples of some of the new OSHA-related standards the USCG is proposing include: Personal Protective Equipment, such as eye and face, feet, clothing, respiratory, radiation, airborne substances, infectious material, etc.; General Workplace Conditions, such as electrical work, machine guards, equipment use and maintenance, etc.; and Confined Space Entry, such as entry requirements, calibrating atmospheric test equipment, permits, testing and protective equipment, rescue team, etc.

Overall, it is predicted that resolution of maritime occupational safety and health issues will likely take another decade to complete. ■

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