



GLOBAL IMPACT



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

3Q02 No. 21

THE LONG-TERM IMPACT OF SEPTEMBER 11, 2001

Dear Friends:

Last year at this time, our lives were altered forever. This fall, as we commemorate the first anniversary of September 11, 2001, we do so with both pain and hope in our hearts.

With pain we honor and remember all who lost their lives, as well as all the families and friends left behind. And with hope, we give thanks for our nation — a nation that offers us liberty, freedom and justice.

We also salute the people, who with great strength, picked up the pieces and made our country even stronger and more united.

Today, America knows that no challenge is too great, and that its citizens are its greatest asset.

We hope you enjoy this issue, and as always, we welcome your comments.

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

On September 11, 2001, terrorists destroyed the World Trade Center towers, stole the lives of thousands, and tainted forever our sense of security. Today, this new awareness and fear of additional attacks permanently have altered the trading practices and pricing strategies of companies involved in global commerce.

And, even though the disruption to international trade was profound initially, it now appears companies are adapting to heightened security and resuming trading on a scale that is fast approaching pre-September 11, 2001 levels.

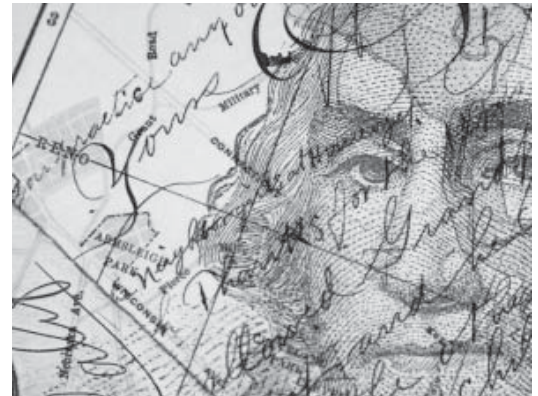
GLOBALIZATION SLOWS

Immediately after last fall's tragedy, supply chains over the oceans and across Canada's and Mexico's land borders were seriously interrupted. Plus, new security measures produced long lines at airports, and fear caused fewer travelers to fly.

In addition, imports slowed as U.S. Customs began more rigorous examinations of sea shipments. This reduced the flow of finished goods and increased their cost, as well as affected the U.S. manufacturing sector that depends on supplies arriving "just-in-time" from outside the country.

TERRORISM TAX

To cover the delays of importing and exporting goods, as well as the added costs of implementing stricter security measures, a "terrorism tax" has been created. While



more time must pass before the full extent of this cost will be known, it is certain that companies of all sizes will have to accommodate new security measures that will alter their logistics and pricing structures.

AN OPPORTUNITY AND CHALLENGE

U.S. firms may wish to view the changes in supply chains as an opportunity and a challenge. Firms that first learn how to use new logistic systems will gain a competitive edge in international trade. Of course, larger firms with tremendous shipping volumes and clout, vast capital and innovative personnel will have a head start on smaller firms, who will need to be creative and quick to compete.

THE SWITCH FROM AIR TO SEA

In addition to new transportation routes for shipment of goods over the high seas, insurance, inventory and administrative expenses have increased. For example, the Organization for Economic and Cooperation Development (OECD) estimates that airfreight costs have risen approximately

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10 percent since September 11, 2001. Yet, the costs of shipping by sea have only slightly risen. As a result, more importers and exporters are switching from air to ship transport.

However, if port authorities and ship owners are required to have cargo examined more extensively



than before September 11, 2001, this will certainly boost shipping costs, as well as delay delivery. Plus, these groups can expect an additional cost — some ports now require tugs to accompany ships on each side as they enter the harbor. This is designed to prevent the ship from

being intentionally crashed into bridge foundations by terrorists.

SCRUTINIZING OWNERS OF GOODS

The U.S. Customs Service has requested that details of container contents be provided 24 hours before cargo is loaded onto ships at foreign ports. Under this proposal, companies that don't comply could be subject to fines or delays in the unloading of their cargo in the U.S.

As a result, companies will have to improve their databases and adopt procedures that accurately capture information about products, shipments and end customers, as well as have the ability to quickly retrieve it electronically for evaluation.

DELAY COSTS COULD BE EXTENSIVE

Prior to last fall, the cost of delays in getting goods into the United States represented 5 to 13 percent of the final value of the goods traded, according to J. A. Leonard's article in *Manufacturers Alliance e-Alerts*. If additional security measures add 1 to 3 percentage points to this, a figure projected by the OECD, Leonard estimates this could increase the costs of goods traded in the U.S. by \$5.6 billion to \$16.8 billion.

Although these estimates were made soon after the attacks, the new security requirements measured in time and money will undoubtedly affect

product pricing. And companies likely will have to stockpile more spare parts — a move that will hike inventory costs.

INSURANCE PREMIUMS RISE

The insurance industry suffered its biggest loss ever, estimated as high as \$50 billion, from the September 11, 2001 attacks. As a result, some insurers revoked policies covering airline's liabilities, which in turn, forced many governments to step in with coverage. Additionally, ship owners sailing into countries considered high-risk either had their premium raised considerably, or their war risk coverage cancelled.

Commercial insurance premiums were on the rise even before September 11, 2001; the reduction of insurance capacity brought about by the billions in losses, accelerated these rate increases.

Insurance premiums still only represent a small portion of total shipping costs. As of 2000, the share of transport and insurance costs was 3.39 percent of the customs value of imported commodities, according to the OECD. While this figure may slightly increase this year, overall, it will not be a strong factor on the final pricing of goods.

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GLOBAL COMMERCE GAINING SPEED

While imports and exports fell in the last quarter of 2001, the setback



seems to have been temporary. In May 2002, according to the U.S. Department of Commerce, U.S. exports of goods and services increased \$0.6 billion to \$80.6 billion and imports rose \$2.1 billion to \$118.3 billion, far above year-end 2001 levels and nearing the stellar highs of 2000.

With amazing resilience, the global trading community has regrouped and is beginning to overcome the terrible destruction of September 11, 2001. This proves that America and global commerce are too powerful to be crippled for long. ■

THE EUROPEAN UNION IS EXPANDING — HOW WILL THIS AFFECT YOUR BUSINESS?

Since the fall of the Berlin Wall, former Eastern European communist countries have slowly been transforming their centrally planned systems into market-based economies. As part of the process, many view European Union (EU) accession as the next step — which will further expand the European free trade area.



EU Soon To Expand

The 15-member EU is comprised of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the

Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

Yet, the EU's member states and population of 375 million consumers soon will increase, because negotiations with 13 countries — mostly Eastern European — are currently underway. If all accession candidates become members, the EU population will swell to 545 million, a number twice as big as the U.S.' population. And this number is likely to grow even larger.

In April 2002, the EU backed a proposal by the U.K. and Sweden to consider admitting the Ukraine, Belarus and Moldova. Although their membership is unlikely over the next decade, in the long-term, all Eastern European countries could become EU members. This would not only increase the EU's number of consumers to 850-900 million, but would result in a much stronger and more economically powerful EU.

THE TRADE BLOC EFFECT

The EU and other emerging trade blocs have had a major impact on trade and investment worldwide. In fact, they are responsible for shaping business relationships among companies across the globe.

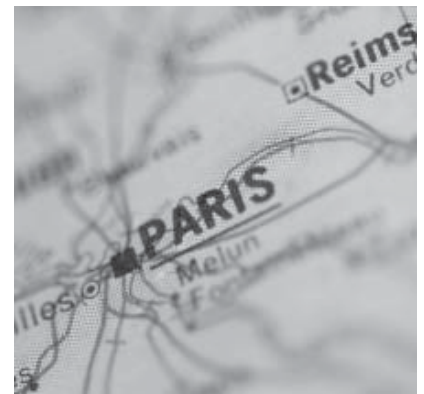
Through bilateral and multilateral accords, some countries have established free trade agreements, like NAFTA, while others have established customs unions and common markets. A free trade area is formed when two or more nations establish preferential trade liberalization policies by eliminating or substantially reducing trade barriers among themselves. A customs union surpasses free trade liberalization policies by establishing a common external tariff for non-members.

A common market, like the EU, goes even further. Members eliminate restrictions on the movement of labor and capital with each other. Additionally, members may harmonize national policies to some degree, including monetary, fiscal and social policies, as well as concede a degree of political and legal control to a single ruling authority.

WHAT THIS MAY MEAN TO YOUR BUSINESS

As the EU trade bloc continues to expand, members of each group will obtain preferential access to each others' markets. But, while duties are reduced or eliminated for members, non-members' goods and services will continue to be assessed

tariffs, making them less competitive. Plus, due to preferential access, members of trade blocs tend to purchase more goods and services from each other.



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REEVALUATE YOUR GLOBAL STRATEGY

In order to succeed in this dynamic international environment, exporters, importers and investors need to be aware of new and evolving trade blocs. And, it is necessary to assess the impact they may have on your business and determine the steps to take to secure your foreign marketshare. ■

CLAIMS DATA WAREHOUSE OFFERS GREATER SERVICE

The power of technology continues to be a driving factor in the development of new and enhanced services for Great American's customers, agents and employees. One prime example is the Claims Data Warehouse: a state-of-the-art computerized repository of claims information.

ACCESSIBLE, EASY AND CONVENIENT

Accessible via the internet 24-hours a day, the enhanced Claims Data Warehouse, which has been operating for the last year, provides secured claims information quickly and easily.

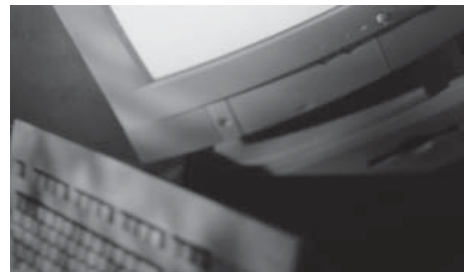
"The Claims Data Warehouse is an all-around time-saver," said Patty Mulshine, Underwriting Manager, Ocean Marine Commercial Lines Department. "It offers a faster way to obtain and retrieve claims information, it eliminates paper, it's available anytime and anywhere there's inter-

net access, and it's simple to use." To assist first-time users, user guides, system messages and help-screens also are available.

Another benefit the warehouse offers is the nightly updating of its system. This means outdated information is now a thing of the past. "Current claims information can be printed off the screen, emailed or converted to an Excel format. There's no more waiting for reports," Mulshine further noted.

BENEFITS OF DETAIL REPORTS AND SUMMARY ANALYSIS

Two major services the Claims Data Warehouse provides are detail reports and summary analysis. "Detailed reports on loss information are now much easier to obtain," Mulshine explained. "Plus, the Claims Data Warehouse has updated its loss reports to include loss free years, as well as years where losses took place."



The summary analysis function offers customization of reports, as well as the generation of graphs, charts, etc. "This kind of analysis allows us to build reports that capture greater detail and more sophisticated information," noted Mulshine.

Overall, the Claims Data Warehouse is a 21st century tool that provides the best in quality and service. "It's so important for us to keep finding ways to be more effective," Mulshine said. To learn more about the Claims Data Warehouse, contact your agent or local Great American Insurance Group Representative. ■

WE'RE MOVING

Effective October 18, 2002, the New York Underwriting and Claims Unit is moving to 65 Broadway, New York, NY 10006. All phone and fax numbers will remain the same.

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