Insurance and Risk Management in the Baltic states

Contractual Risk Management: not just a matter for lawyers!
“Where is the insurance market heading?” or “Where is the stock market heading?” or “What about interest rates and credit spreads?” Today, the insurance and many other industries are facing many uncertainties ahead. Actually, it is fair to say that future has seldom been so unpredictable.

First, the insurance industry is now beginning to face sharp increases in claims cost inflation, in particular driven by high inflation in the motor repair industry as well as the construction industry. This inflation stands in sharp contrast to the continued low general consumer inflation in the Eurozone. Insurers are also experiencing rises in operational costs, mainly as a result of increased salary inflation, fuelled by fierce competition in the “talent market.”

Secondly, insurers’ future investment returns are becoming more uncertain. In the summer and autumn, we experienced turmoil in the equity markets, and the global bond market was shaken up by turbulence in the US sub-prime debt market. Interest rates are still generally increasing (which has a negative effect on investment earnings short term, but a positive effect long term – depending on the duration of the bond portfolio). However, lately we have observed interest rate reductions in the US.

Thirdly, we are now seeing a stream of M&A transactions in the financial services industry. Most insurers are still very well capitalized and their financial strength is lending them strategic flexibility. Consequently, the Nordic P&C insurance landscape is changing as is the strategy of many companies, with a generally increased focus on geographical expansion in an attempt to benefit from economies of scale.

So “where is the insurance market heading?” In search of an answer to this question, most insurance companies attended the yearly Monte Carlo Rendezvous. This year again, all the important players were present and, as always, many questions were raised. However, this year very few answers were given. Perhaps we just have to learn to live with more uncertainty?

MORTEN THORSRUD
Best in risk

During the most recent years, international claims discussions have been focused on the huge natural disasters that have occurred, not least in the USA. Here, in the Nordic countries, storm Gudrun was a major subject of discussion between risk specialists a few years ago. Nothing much has been said about major industrial losses, traditionally the most dominant type of major loss. Naturally, the reason for this is that the Nordic countries have been relatively free of such losses during recent years.

However, the trend seems to point toward the Nordic countries reaching the same level of major losses as at the beginning of the 21st century. During last year, a few really major losses occurred. The major fire at the Danish slaughterhouse, Danish Crown, is probably one of the ten largest industrial losses in the Nordic countries ever. Another loss that has received a great deal of attention was the fire at the Porvoo cathedral in Finland.

For some actors, this can result in an awakening which means that they have to recalibrate their risk assumptions. This will most likely result in an adjustment of premiums in certain risk groups,” explains Torbjörn Magnusson, CEO of If.

“In parallel, a very careful analysis must be made – could these losses have been prevented using reasonable loss prevention measures?”

“As a professional insurance company, we know that there is an element of chance in major losses. Anybody can suffer a loss. What is crucial to us is how our customer handles its risk management. Those who take the right actions to limit their exposure, perhaps in cooperation with us, stand a good chance of being on the right side of reducing their number of losses and in terms of premiums.”

“To be the best on risk comprises If’s sustainable, future strategy. It also forms the basis of our efforts to strengthen our developing position as the leading actor in risk consulting for industrial customers in the Nordic countries and in our work based on the analysis and prevention of losses together with our customers.”

“Even for private customers, a well thought-out risk management is basic to the maintenance of the business. For industrial companies, risk management is basically about balancing preventive efforts and finances,” says Magnusson.

“A leading insurance company such as If has broad international experience of the customer’s line of business. We have sector experts covering practically the entire field: the paper industry, the metal industry, the service industry…”

“This means that we can advise the customer on what is approximately the correct level of measures to engage in when preventing losses in areas like fire, project, employee benefit and liability risks.”

“As major losses have increased in the Nordic countries, we are simultaneously witnessing increasing signs of improvement in the American situation where, first and foremost, liability losses have been subject to intensive court trials, thanks to measures taken at both federal and state level.”

“One of the problems has been that administrative costs of legal disputes have become unreasonably high for companies and insurance companies,” Magnusson explains.

“We now have an ongoing discussion in the U.S.A on how a more sensible balance between legal rights and expenses can be achieved.”

“The ‘Best in risk’ strategy within If is not directed only at industrial customers but permeates our entire operations. For example, for small businesses If has launched a web-based security test available in tailor-made versions for small business customers. The venture has been successful, with over 20,000 tests taken in Finland alone.”

“The test has immediate and concrete relevance to our customers. Our follow-ups show that those performing the test have suffered fewer losses than others,” Magnusson reports.

“Even for private customers, a number of new initiatives have been taken, ranging from the pioneering launch of If’s GSM-based alarm for boats that enables quick recovery of stolen boats, to the rather substantial risk guidance on the net now offered to private customers.”

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“The ‘Best in risk’ approach constitutes today’s corporate culture at If,” says Magnusson.
Means of reducing fire deaths
In the Nordic countries, studies have been conducted on fire deaths and strategies created to reduce their number. Some years ago, a performance study had been compulsory in Norway on the operations of smoke alarms and their influence on fire deaths. Smoke alarms have been compulsory in Norway since 1990. Based on surveys performed in Skien and Oslo, it was concluded that education works but is not sufficient. According to the Norwegians, the aim of raising the share of smoke alarms to over 90% may have been successful only thanks to chimney sweepers or house managers making personal inspection visits to apartments. In Finland, where the situation is worse, a government-level project has been launched to reduce the number of fire deaths in five years to a fraction of the current number.

What can we do now?
With the correct attitude and behaviour and by employing various protective measures, we can already extensively influence our own safety:

- **Ensuring safety.** Everyone can improve fire safety through his/her own behaviour, so that fires will not ignite and threatening situations will thus not arise. Be careful when using an open fire. Do not leave candles or an open fire unattended and remember to place them so that they cannot ignite flammable structures or textiles. When using electrical appliances, observe the user instructions and do not overload them. Heat dwellings safely if heating with fire, do not leave it unattended and do not close the dampers before all of the flames are out. Air chimneys must be swept regularly. Do not cover electric heating devices. Observe the notified safety distances between heating devices and flammable materials.

- **All residents must be familiar with the exit routes of the dwell- ing in case of fire and know how to act correctly.** Whether at home or spending a holiday at a cottage, it is always of utmost importance that everybody be familiar with the exit routes from their dwelling in case of fire. If the normal exit cannot be used, family members can choose an alternative fire escape routes, such as other doors or a rescue ladder by a window. The residents must be left unobstructed. In apartment buildings, it is important that

The residents know how to act safely in case of fire. Large amounts of toxic smoke easily spread into the stair well from an apartment on fire. During a fire, it is therefore safest for the neighbours to stay in their own apart- ment with the doors shut. Apartment buildings have been constructed so that fire does not easily spread from one apartment to another. Do not attempt to exit through a smoky stairwell, as the smoke can quickly make you unconscious.

- **Dwellings should be equipped with a sufficient number of function- ing smoke alarms, and carbon monoxide alarms are also recommend- ed.** Smoke alarms must be kept in order by e.g. changing their batteries at intervals and testing their opera- tion. For summer cottages and other houses in which open fires are used, carbon monoxide alarms are recom- mended in addition to smoke alarms, or a combination of a carbon monoxide and fire alarm. Mains pow- ered smoke alarms are already availa- ble on the markets, equipped with an emergency power battery in case of a blackout. The system automatically

keeps the emergency power battery charged. Activity in one smoke alarm automatically sets off the alarm in the others. A smoke alarm system such as this can also be equipped with a ro- bot telephone, which will call a spec- ified number. The system should be installed during a construction or renovation phase, when all detectors are connected with inter-chained ca- ble tubings and a cable tubing from both ends of the chain to the switch- board. The benefits, reliability and easy maintenance of the system are indisputable.

- **Kitchen stoves can be equipped with a time switch with overheat protection.** When a stove heats up to a temperature at which fire can ignite, the time switch will disconnect the electricity supply to the stove.
- **An electrical appliance can be equipped with a so-called fire guard device.** Such a guard will disconnect a television, washing ma- chine or other electrical appliance when a smoke alarm goes off.
- **A dwelling can be equipped with an automatic fire extinguishing system.** The use of sprinklers, i.e. automat-
ic fire extinguishing systems, in residential buildings is a very effective way of reducing fire deaths, simultaneously diminishing property damage.

Safety measures are generally examined from the point of view of cost-efficiency. It is advisable to keep fire detectors in good working order, since they provide cheap ‘life insurance’. They have saved many lives, and by developing their use, they will continue to do so. However, fire detectors alone are not enough; other technical protective measures must also be taken. One technical protective measure which has risen to a decisive role in the reduction of fire deaths is residential sprinkler systems.

Residential sprinkler systems

In the USA, residential sprinkler systems have been available for more than 25 years, and in some parts of the country, all dwellings are sprinklered. In Canada, all new dwellings in the City of Vancouver, slightly bigger than Helsinki, have been sprinklered since 1990 and, by 2005, 37 per cent of all residential houses were already sprinklered. The results have been convincing: for example, in the early 1970s, some 30 to 40 people perished in fires in Vancouver every year, whereas in the 2000s, fire deaths practically never occur.

In the Nordic countries, the use of sprinkler systems in residential buildings has not got off the ground yet, but in service homes, various care facilities, hospitals and hotels, they are already common. For example, in Finland, sheltered homes have been diligently sprinklered in recent years, but not many private flats have been sprinklered, with the exception of those in 3-4 story-high wooden buildings, where sprinklers have been obligatory. This is the case even though there is evidence that sprinkler systems save lives.

Modern technology is suitable for homes: the installations use quickly reacting detectors, which quickly go off and extinguish the fire, minimising water damage. At the same time, toxic fire gases descend to floor level, enabling people to escape. Fire deaths and serious burn injuries have decreased considerably in sprinklered homes: 98-99% of fire deaths and 99% of burn injuries have been eliminated!

In June of this year, the Federation of Finnish Financial Services completed the Regulations for Sprinkler Systems for Residential Buildings according to standard CEA 4001. Compared to the original, some national additions have been made to the Finnish version, through which the residential sprinkling usage area has been extended to include small hotels, motels, holiday homes and bed wards at healthcare centres. Similar residential sprinkler regulations are also valid in the other Nordic countries, all of which are based on standard NFPA 11 R. The purpose of sprinklers installed in residential buildings is to detect a fire and extinguish or contain it in one room so that the residents can safely evacuate the building. The sprinkler regulations do not set the same demands on water systems in residential buildings as on those in industrial property, thus enabling the cost-efficient installation of fire-extinguishing systems in residential buildings.

In new buildings, small houses included, sprinkler systems on the whole make up to 2 per cent of the construction costs, i.e. equal to the installation of a parquet floor. A sprinkler system can also be installed in a dwelling afterwards.

If recommends residential sprinkler systems and grants in many cases a substantive discount – depending on the case and country – on the fire insurance premium to homes and flats sprinklered in compliance with the Regulations for Sprinkler Systems (CEA 4001).

Domsjö Fabriker at Ornskoldsvik has developed a traditional forestry pulp factory into a biorefinery that engages in complex wood chemistry. Today, the company is embarking on a massive development stage for its refinery, with investments amounting to half a billion Swedish kronor. The largest of the nine investment projects comprises two dryers for lignosulfonate. However, the investments include much more than the development of the chemical process. They partly concern the further training and development of co-workers in, for example, security and safety issues, something in which Domsjö Fabriker has strongly invested. For example, fire safety training forms part of the personnel development of all safety representatives.

“For since fire safety forms part of our systematic development of our working environment, safety representatives must learn to identify fire risks”, says Christer Larsson, Protection and Safety Manager at Domsjö Fabriker. “Training is carried out by Ornskoldsvik’s rescue services. We also employ a co-worker from the rescue services on a part-time basis. Flexite follows-up and monitors the polishing of Domsjö’s Systematic Working Environment, internally termed Samba, continues non-stop. To improve, among other things, the follow-up of reported accidents and incidents, an investment has been made in web-based software – Flexite – which handles all kinds of deviances. This system provides a good overview of the handling of all loss reports. Flexite can also be utilised for production monitoring by entering reports on deviances in production into the database and running new statistics.

“The Systematic Working Environment and Fire Protection work will be performed in collaboration with explainer Christer Larsson. “This means that, as soon as a deviance is reported, those concerned and those in charges will receive direct information through e-mail. The person in charge will create an action plan and assign a final date by which the actions must be completed. The program will monitor the action plan and send out reminders via e-mail.”

A report on a deviance cannot be archived unless the person in charge in firms that all measures have been taken. The program generates statistics and those in charge can continuously monitor working environment and fire protection work is carried out non-stop and systematically.

“In the wake of these investments, Domsjö Fabriker will also install an upgraded system for fire alarms,” says Christer Larsson. “We will receive the latest state-of-the-art alarm system available on the market.”

Close co-operation with rescue services

Anders Tjärnberg, a risk engineer at IF, has followed the developments at Domsjö Fabriker over several years and is a member of the group that annually inspects the Domsjö works in Ornskoldsvik from an insurance viewpoint. He concludes that the continuous improvements and alterations work over the last seven or eight years have been very successful.

“What characterises the safety work of this plant in particular is the willingness to identify all incidents, near-accidents, deviations and accidents and handle them in a professional and efficient manner,” he says. “Close co-operation with the Ornskoldsvik rescue services is unique, and has contributed to an increase in decreasing safety levels and risk awareness. There is also an industrial fire brigade at the plant, which naturally contributes towards active risk-based thinking.”

Professional risk management work

Tjärnberg further emphasises the company’s management’s engagement and interest in safety and environmental issues. Professional risk management work at Domsjö has strongly contributed to the excellent safety culture of the works. Safety thinking has become a natural part of daily operations. In connection with all projects, new acquisitions etc., safety issues are also taken into consideration. All entrepreneurs working at the plant participate in thorough safety training.

“A high safety level costs money, but also saves a lot of money since we avoid accidents and having workers on sick leave. The management has been exemplary in opting to invest in safety and has demonstrably made the right decision.”

Anders Tjärnberg sees a weakness in the fact that the investment has, to some extent, dependent on certain personnel. A few enthusiasts run large sections of the safety operations, which leaves the company vulnerable if these people should be absent.

“At the same time, I am pleased to note that work has been done to reduce this dependency on certain individuals”, concludes Tjärnberg. “The continuing development of systematic working environment activities, including involving all employees, are steps in the right direction.”
The Chief Risk Officer is multi-talented

The Chief Risk Officer (CRO) or Risk Management Director is now an established position in Finnish companies and is responsible for a wide range of tasks, the emphasis of which is moving from property risks to business risks. The most significant challenge for these professionals is considered to be establishing risk management as an integrated part of the management system and business process. In order to be successful, the CRO must first convince line managers of the importance of risk management.

At the same time as enterprise wide risk management (ERM) has become more common, a new group of professionals – the CROs – has evolved. The views and opinions of these professionals and the challenges they have experienced were studied in a research project during the spring of 2007. The research was organized by Ernst & Young in co-operation with the Finnish Risk Management Association. The target group was the risk management professionals working in Finnish companies and associations.

The professional background of individuals who answered the questionnaire represented 15 different educational and experience backgrounds in total. When asked, only 17% of those who answered stated that their education and experience were specifically connected to risk management. The vast majority, i.e. over 80%, have therefore moved to risk management work from another sector, the most common of which is insurance. The other common backgrounds are corporate safety, accounting and financing.

Risk management seeks security

The objectives that an organization sets for risk management form an important starting point for the work of a CRO (figure 2). The most common objective that the organizations participating in the research identified for risk management is “ensuring the achievement of targets”. Three-quarters of those who answered the questionnaire stated that they had set this objective. Setting objectives is a fundamental part of ERM. According to this, hazards are all those factors that can put the achieving of business targets at risk – no matter which risk class they represent. Other objectives, which have been most commonly set are connected with improving risk awareness and the risk management function within the organization, loss prevention and securing continuity of business operations.

In contrast, the objectives connected to economy and financing, such as reducing the fluctuations in profits or cash flow, or ensuring the achievement of the forecasted profit are only rarely set. Thus the dogmas of business economics and financing do not seem to be applied to any significant degree in practical risk management work. This is despite the fact that business economics and financing are well represented in the backgrounds of risk management professionals and that risk management directors or CROs very often report to the Chief Finance Officer.

Chief Risk Officers participate in many activities and must work in several areas of risk in order to meet the objectives. Typical areas of work cover physical as well as intangible risks, technical as well as commercial risks, together with risks that are internal as well as external to the organization. However, this does not mean that the CRO would be responsible for all of these risks; according to an established model, the Group Risk Management operates primarily as a coordinator and internal consultant for the managers of the business units, who in practice are responsible for the line risk management.

Based on the research results, it is clearly more common for the CRO to participate in developing and co-ordinating risk management activities rather than to be completely responsible for the work. According to the survey, property risk management is the area for which the CRO bears most responsibility for developing risk management strategies.

It has been estimated that nowadays property risks occupy most of the time of the CRO (figure 3). Property risks represent the traditional area of risk management, as do health and safety risks, which also demand a substantial portion of the CRO’s time. Furthermore risks related to marketing, client contact, competitors and supply chain management have recently emerged, to broaden the scope of CRO’s area of responsibility.

In the future the emphasis will be on strategic risks

The results of the survey suggest that this trend will be further strengthened in the future. When asking the question, which type of risk the CRO will put the most effort into during the next three years, it is clear that the risks connected with marketing, clients contact, competitors, partners and networks are clearly expected to rise above the others. It seems that the focus for risk management work in the future will be concentrated towards the strategic risks of business operations. This is an area in which the CROs have not traditionally been involved. Only a few of those who answered the questionnaire were of the opinion that in the future the focus should be on property risks. It was also considered that the risks connected to health & safety and economic reporting will demand less consideration in the future than is currently the case. However, this does not mean that these risks will disappear. But so much effort has already been put into these risks, that in the future it is anticipated they will demand less consideration, relative to the newly emerging areas of risk.

The main risk management activities for which the CROs are responsible include the development of risk management principles, reporting practices and
tools and insurance (figure 4). However, only one in four of the CROs are responsible for identifying and assessing risks. The survey indicates that this task belongs primarily to those who are directly responsible for the risk, being typically found within the sphere of the specific business operations management. However, it would be beneficial if those working in risk management, actually participate in the risk assessment and provide the necessary methods and tools to carry out the process. Thus it is alarming that almost 40% of those who answered the questionnaire advised that the risk assessments of investments are carried out without the participation of the CRO, although, it is more common for the CRO to participate in due diligence processes.

The challenge is to take risk management to the business operation units

The biggest challenges for CRO:s are in connection with introducing risk management to the organisation (figure 5). As many as 80% of those who answered the questionnaire felt their main challenge was to integrate risk management into the management system and business processes. The second most important challenge the questionnaire highlighted was marketing risk management and proving its benefits to line management and business operation units. One third of those who answered also felt that the maintenance of defined operating methods in the organisation was a significant challenge. These three issues are closely connected to each other.

To ensure that the organisation maintains the risk management processes, it is necessary that risk management is integrated into practical management and that the benefits it brings are clear for the business operation units. The selling of risk management to senior management in a company seems however, to be a lesser challenge, only stated by 25% of the participants. Using the words of one of those who answered the questionnaire: “Senior management has already begun to understand the significance of risk management, however, how do we increase the understanding of the next management levels?”

The most significant challenges when communicating with senior management are connected to understanding their expectations, clarifying their targets and meeting their targets, i.e. proving the operating ability of risk management to them and the board of directors.

The operating environment of companies is constantly changing and developing and the new phenomena that are emerging in addition to familiar risks must be understood and managed. The world of risk is continuously expanding, so that the challenges facing the Chief Risk Officers will not decrease. On the other hand, the same development might ensure that the services of the CRO in greater and greater demand in the future.

The average age of Nordic and other European countries’ power transformers will significantly increase during the next few years and decades. The life span of oil-insulated transformers can be continued significantly through competent monitoring.

The history of oil-insulated transformers dates back 100 years. Over the years, alternative types of transformers have been developed, but it seems that the life span of oil-insulated transformers will continue well into the future.

Power transformers with an upper voltage of more than 100 kV, are necessary for the undisturbed operations of

![Image of transformers]

**IF’S RISK MANAGEMENT JOURNAL 2/2007**

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Advisory Services unit
of Ernst & Young

**Figure 4.**

| CRO’s tasks                                      | 0 | 10 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100%
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**Figure 5.**

| CRO’s challenges                                      | 0 | 10 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100%
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<td>Understanding the management’s expectations and satisfying targets</td>
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<td>Proving the RM operating ability externally</td>
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**OIL-INSULATED POWER TRANSFORMERS**

The significance of maintenance and automation in preventing transformer damages

The average age of Nordic and other European countries’ power transformers will significantly increase during the next few years and decades. The life span of oil-insulated transformers can be continued significantly through competent monitoring.
An oil transformer is made up of a steel tank, which includes windings and the transformer's iron core. During the manufacturing phase, the windings are covered with insulation paper and electrical insulating board. The steel tank is full of transformer oil and it impregnates the insulation paper, during which time the combination of paper and oil and the electrical insulating board form a necessary electrical insulation. To ensure that the transformer can operate without failure for at least 30 years and that the life expectancy of the transformer can be correctly estimated, the properties of the transformer oil and insulating paper must be kept at a specific level.

During the normal use of a transformer, oil and insulation paper becomes old and at some phase they are no longer able to fulfil their tasks concerning electrical and mechanical strength. The damage variables provide clear observations that transformer damages often arise due to defects in insulation that originate in the interior of the transformer. It is therefore necessary to monitor the aging phenomena so that reliable information concerning potential faults can be obtained during the earliest phase possible.

The most reliable method for obtaining this information is to take oil samples from the transformer oil and carry out a so-called Dissolved Gas Analysis (DGA). Certain gases are formed in transformer oil as a result of the transformer's age but also as a result of different loading situations, partial discharges and electric arc phenomena. Normally the first signs of a potential fault occurring are increase in temperature, decrease in the density of hydrogen (H₂) and carbon monoxide (CO). If an extensive gas analysis is carried out the following are also examined: the oxygen (O₂) content, nitrogen (N₂) content, methane (CH₄) content, ethane (C₂H₆) content, ethylene (C₂H₄) content, acetylene (C₂H₂) content, and the carbon dioxide (CO₂) content.

### Frequency of Dissolved Gas Analysis and interpretation of results

A Dissolved Gas Analysis that is carried out in a laboratory should be carried out at least once a year and the received results should be compared with the previous results, so that slowly developing defects can also be discovered. It would be beneficial for the buyer of a new transformer to take samples more frequently during the guarantee period (i.e. before commissioning and at intervals of 1 month, 3 months and 6 months after commissioning and at the end of the guarantee period). A DGA should also be carried out in smaller distribution transformers if they are located in critical places. In such circumstances, it is also possible to use a portable analyser and if the received result is not completely “clear” then a more extensive analysis should be carried out in the laboratory.

The interpretation of the gas analysis results is based on the 1999 IEC standard 60599. On the basis of fault types, the volume of transformer oil varies as a result of variations in temperature and as a result of the transformer “breathing” due to variations in temperature and dehumidification of the surrounding environment will always get into the transformer if it is not a hermetic model. The dehumidification of and/or a fire in the transformer and other equipment. The disruption of equipment and fire caused can spread extensively in the electrical network, if the electric arc, which is created as the result of the short-circuit is able to propagate due to the failure of the protection equipment in different parts of the electrical sub-station (Picture 1). The temperatures created in an electric arc are extremely high (3 000 °C) and can evaporate e.g. metal parts which as the result of the created heat ignite combustible materials. Damage can also occur to the property of electrical users if it has been connected incorrectly which is then caused by the fault. The failure of automated protection always significantly increases the probability of serious personal injuries.

### Measures for the risk management of power transformers

1. Protection relays should be tested at least every 3 years, to ensure their operation during a disturbance. If the automated protection does not operate during a disturbance, the result can be a breakdown of and/or a fire in the transformer and other equipment. The disruption of equipment and fire caused can spread extensively in the electrical network, if the electric arc, which is created as the result of the short-circuit is able to propagate due to the failure of the protection equipment in different parts of the electrical sub-station.

2. Anyhow, damages that are considered as a competitive choice instead of more fire safe but more expensive alternatives. Anyhow, damages that are considered as a competitive choice instead of more fire safe but more expensive alternatives.

3. Placing the location of the transformer and its distances from other structures in such a way that any potential fire will be limited to the transformer itself. If this is not possible then the construction of the transformer area must be limited.

4. Check regular examinations of the transformers area many times during the year and ensure the tidiness of the transformer area. Check for possible leaks and other hazardous factors caused by the surrounding environment (such as vegetation and animals) and check factors which are connected to the temperature and dehumidification of the transformer.

5. Carry out a high level Dissolved Gas Analysis (DGA) once a year and compare the results with previous corresponding information.

6. Test the protection relays at least once every three years.

7. Carry out major overhaul on the transformer well in advance if any signs of parts planning to renew the transformer.

8. Where it is possible to allow to traditional oil transformers, such as the use of more fire safe special oil transformers or dry transformers for improving fire safety.

### Major Overhaul of power transformers

The results of major overhauls can be improved and their life-span can be lengthened through the carrying out of minor overhauls when a transformer has reached the age of 15–25 years. It is possible to restore the original level of transformer circuit power strength by tightening the windings, which become loose during operation and by tightening other active parts of supporting structures. Damage which the iron core and windings may possibly suffer from during use should be repaired and the conductor joints of the internal circuitry should be checked.

Dampness from the surrounding environment will always get into the transformer if it is not a hermetic model. The volume of transformer oil varies as a result of variations in temperature and as a result of the transformer “breathing” due to variations in temperature and dehumidification of the environment. In addition, during a major overhaul, the bushings will be checked, seals will be renewed, the protection equipment will be overhauled and the transformer’s protection will be supplemented etc. This measure is extremely important and should be documented for following up the serviced transformer in the future.

During recent years, continuously operating gas analysers have come onto the market. These have been installed in major power transformers of high- voltage transmission lines and in the transformers of generators in large power plants, where special attention has been paid to the prevention of damage to transformers.

### Automated Protection of Power Transformers

Power transformers normally have specific measurement limits and relays, which will provide an alarm in potential disturbance situations and also provide the possibility of disconnecting the transformers from the network. These protection measurements are e.g. over-voltage over current differential current oil gas detector i.e. Bucholz relay.

**Table 1.**

<table>
<thead>
<tr>
<th>Age at time of failure</th>
<th>Number of failures</th>
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<tbody>
<tr>
<td>0–5 years</td>
<td>3</td>
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<tr>
<td>6–10 years</td>
<td>5</td>
</tr>
<tr>
<td>11–20 years</td>
<td>7</td>
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<tr>
<td>21–25 years</td>
<td>10</td>
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<tr>
<td>Older than 25 years</td>
<td>5</td>
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<tr>
<td>Age unknown</td>
<td>45</td>
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Packing – an important part of the transportation of goods

When a product is delivered to a client, it must normally be protected and packed in such a way that is survives the rigours of transportation. Packing is generally taken care of by the sender of the goods.

In previous times, it was possible to transfer the responsibility for packing to the consignee by using the incoterms ex works – delivery clause. Nowadays, the clause has been amended so that the sender always retains the responsibility. The sender is often the manufacturer of the product and as such is in the best position to have an influence on the proper packing of the product and in this way ensure that the product is delivered undamaged.

The best method of packing a product depends on many things. Packing is influenced by e.g. the mode of transportation and the rigours of the journey. It is not beneficial to use sturdy packing for short distances and lighter packing can be used in container transportation as compared to transportations which involve handling the product many times. In addition, consideration must be given to the product's susceptibility to damage, the mode of transportation and other factors in the transportation chain such as routes, geographical conditions, the duration and even the time of year. Even though decisions regarding the details of packing have been left in the hands of the sender, clear parameters have however been imposed, e.g. in transportation law.

The packing must last the rigours of the transportation

The packing of the goods must good enough to last the normal rigours caused by the transport chain during transportation. The rigours of transportation are in addition to impact and inertia also dampness, variations in temperature caused by the climate and biological strains such as mould and other bacteria. These might cause problems for e.g. the delivery of clothes and leather products. This matter must be given particular attention when transporting hazardous substances or materials.

Protection from the climate is essential especially when the product is not packed. Large, pressure tanks made of stainless steel were to be transported from Europe to North America in the cargo hold of a vessel. However, during loading the vessel's cargo hold became overcrowded and it was decided to locate the tanks on the vessel's weather deck. The matter was agreed upon between the shipping company and the manufacturer of the tanks. After the journey had already started, some doubts arose about the durability of the tank's material: what effect would the layer of salt that has collected on the surface of the tank's material have on the durability of the tank's material? However, this situation had been anticipated by the sender and the surface of the tanks had been protected by an anti-corrosive agent even though this measure would not have been necessary if the tanks had been transported in the vessel's cargo hold. Stainless steel is a corrosion resistant material. However, the abundant amount of salt that collects during a long sea voyage can cause a weakening of the steel structure. When the ship reached its destination, it was immediately rinsed with fresh water to remove the sea salt.

The packing must be strong enough to last the rigours of transportation because it is possible to move the goods that are contained in it from door to door without any of the intermediate handling that places stress on the product or its packing.

A container is a good mode of transportation because it is possible to move the goods that are contained in it from door to door without any of the intermediate handling that places stress on the product or its packing. Goods should be able to be handled by forklift trucks. Easy handling ultimately ensures a successful transportation.

Solutions are not often complicated. However, it requires some deliberation about and preparation for possible problems in the next phase of the transportation chain. A successful transportation and a satisfied client at the end of the transportation chain are reflected as a benefit for the entire transportation chain and above all for the deliverer of the goods.
A lot of work has been done in the forest industry to improve occupational safety. Even though the situation has generally improved there is still a long way to go before a satisfactory level of safety is achieved. Individual examples in the sector show that it is possible to reach the so-called zero accident level. The challenge is to change the operating culture and environment to such an extent that no accidents occur. Accidents must never become acceptable and through determined effort they can be prevented.

When examined from an international perspective, Finland in terms of occupational safety lags behind not only in particular Sweden but also Germany. In 2006, the number of actual accidents in the Finnish paper industry was 38 per every thousand employees, while in Sweden the corresponding figure was 16 and in Germany it was 12.

Comparison of figures can to some extent be affected by the various countries’ different methods of reporting. The best comparison is achieved when an individual company’s statistics and their development are compared to the statistics of the sector in question and the entire country. In international statistics, representing practices and differences in social security can cause even significant differences. Overall, the number of occupational accidents in the entire country. In international statistics of the sector in question and an individual company’s statistics and the average number of occupational accidents can cause even significant periods of absence that are less than this occur the most often. The effects of full cost liability are seen in the statistics of the mechanical forest industry as increasing the number of accidents which result in absences of 0-3 days when the years 2004 and 2005 are compared. A corresponding increase can not be seen in the pulp and paper industry.

In 2005, the most serious accidents (an absence of over 30 days) in both the mechanical as well as the chemical forest industry were mostly caused by unprotected blades and a roll nip or gap. Accidents often occur in connection with trying to repair or correct a malfunction or disturbance during the operation of a machine or during maintenance work and in the paper industry in connection with threading. In some cases stumbling or falling was a contributing factor.

Stumbling and slipping in general cause many accidents. Serious accidents happen in the internal traffic of a factory. In most of the cases, a forklift truck had either collided with walls or pillars or had hit a pedestrian. In pulp and paper factories hot pulp or alkali spills cause prolonged periods of absence. The use of outside employees has not proved to have had any effect on increasing the number of accidents but it has brought new challenges concerning the flow of information and for finding agreement on common operating methods. Outside contractors, which often use foreign workers, also bring something additional to the work place. This increases the number of matters, which must be taken into consideration, i.e. the translating of instructions into different languages and the need for interpreters.

Future areas of focus

Based on the compiled accident statistics it is necessary to further improve the safety of machine lines. For example, by analysing hazardous situations and by conducting risk assessments, it is possible to identify hazardous places and dangerous working practices before accidents occur. The internal traffic should be surveyed and the routes which are used by pedestrians should be separated from the routes that are used by machines. An important means of reducing occupational accidents is the prevention of the creation of dead zones.

By considering in good management and safe operating methods and culture it is possible to prevent accidents and operate in a preventive way to improve safety. It is important that the management and employees together commit to these targets. The improvement of safety in the mechanical forest industry is a particularly important development target.
an additional risk financing tool

Once again captives have started to appear on the risk manager’s agenda. Previously, the main reasons for using a captive were connected to the potential for saving money by moving from local insurance arrangements in a number of territories to global programmes. The revised interest today seems to come more from a desire to create optimum risk financing programmes using a captive as a tool as part of the change in approach and philosophy.

Non Traditional Insurances
Where there is no traditional insurance market certain risks can prove to be difficult or even impossible to cover. Captives can often create a product and sometimes by demonstrating a commitment to risk management processes and processes, reinsurance can be found in non-traditional markets in excess of the captive retention.

Direct Access to Reinsurance Markets
In some cases it is more effective to access reinsurance markets through a wholly owned insurance subsidiary than via traditional insurance markets. Many captives have been formed, particularly in the UK and the USA to gain direct access to specialist insurance pools such as TRIA in the USA and Pool Re in the UK. There are a number of these pools worldwide.

Corporate Governance
Setting up a captive has always been one method of providing a robust process around insurance buying and risk management. Particularly where companies have been seeking to consolidate various local policies into a Global programme. The captive has proven to be an ideal vehicle in controlling this process.

Ability to create reserves that are not available to non insurance companies
General trading companies can create tax deductible reserves for known and quantifiable losses. Only insurance companies can create tax deductible reserves where the quantum is unknown but estimated and more importantly, where it is also known that claims have occurred but have not yet been notified. This is particularly relevant in connection with liability business and these reserves are known as Incurred But Not Reported (IBNR’s). This ability to create tax deductible provisions can be particularly useful in smoothing out profit and loss expenses in connection with insurable and sometimes non traditionally insurable losses.

Unearned premium reserves, unexpired risk reserves, and profit commissions reserves can also be useful in long term financial planning.

Long term risk management
Reasons relating to individual circumstances are usually acknowledged as the principal benefits of using captive insurance subsidiaries. Today, however, a more holistic view is starting to take shape using captives as a tool as part of a long term risk management and financing programme. There are a number of different ideas emerging with varying alternatives depending on the philosophy and viewpoint of the parent company. Examples of these new ideas include:

Risk Management Sponsorship – “The risk prize”
Profits from the captive are used to invest in risk management and loss control procedures. This can be as simple as paying for seminars for staff or paying for equipment such as sprinklers to be installed. There are various different approaches on how this should be done. The most popular of these is to ask operating units to come up with a plan on how they would spend money to prevent losses. The Directors of the captive would then review them all and award the prize to the best plans each year.

No Claims Bonus
Rather than pay dividends to the parent company, profits from the captive are used as a way to prevent claims occurring in the first place. The captive can assist by creating a dedicated unit’s financial officer. A reduction in expenses is always attractive to the operation unit's financial officers. A reduction in future year’s premiums will also mean a corresponding reduction in future Experience Premium Taxes. However, if the tax issue is complicated and has to be studied in depth before deciding to use this solution.

Providing insurance covers not otherwise available
For some risks, there are no conventional insurance market products or solutions. This often occurs where there are insufficient risks of a similar nature to attract the conventional financial markets. In this case a captive can assist by creating a dedicated product tailor made to meet its parent company’s needs and requirements.

Multi Year Policies
Sometimes, particularly where there is an expectation of claims occurring only in one year out of five or perhaps even longer, it is beneficial to have multiple year policy arrangements where the premiums over a number of years are used to pay the claims that arise in one year. Whilst arrangements of this nature are available in the conventional market, captives can be more flexible in their approach and will often comply with a conventional solution.

Captive and Corporate Governance
The supervision and control of a captive is the responsibility of the Board of Directors. This creates a robust approach to the control of the insurance and risk management process which is becoming increasingly important with the shareholder’s interest in Corporate Governance. It has been reputed that many of the recent captive formations have been driven by the ability to use a captive as part of the Sarbanes Oxley reporting requirements.

This list is not exhaustive and there are very many more benefits that have been discovered and used by individual companies.

If improves services to the captives
FinCap – Oy Finnish Captive & Risk Services Ltd. – which is a 100% owned subsidiary of If P&C, has been assisting mainly Finnish Groups in starting up their captives, and also in running them together with their captive management companies i.e. in Guernsey or the Isle of Man or other domiciles. In this work FinCap is cooperating with the management companies in the domiciles. With Ann Insurance Managers FinCap has a history of almost twenty years of cooperation in captive work. Furthermore, If has made a strategic decision to try and help the captive clients by improving the services rendered to the captives. A Captive Competence Centre has been formed, and one of its tasks is to come up with ideas on how to improve If’s services to captives. Through training and continuous work with captives, If has built up a dedicated team of specialists who have a number of years experience assisting companies and their captive subsidiaries and is uniquely positioned in the Nordic market place in understanding the various issues and the benefits available.

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The literal definition of the word “captive” is “kept in confinement”. This is perhaps apt, because for most captive insurance companies the idea is to keep the risks of the parent company in one place and to extract the best insurance terms available based on the parent company risk profile.

Captive Insurance Companies are not a new phenomenon and companies such as I.C.I., Lufthansa and Unilever can trace the routes of their own insurance subsidiaries back to the 1920’s. In the early years the benefits provided by wholly owned subsidiaries started to increase dramatically in the USA in the late 1930’s and early 1960’s. It is quite widely accepted that a risk engineer by the name of Fred Reis discovered that by setting up an insurance subsidiary, US companies could manage their insurance costs more effectively than by utilising the markets available at that time.

The implementation of risk management controls and procedures was the key to lowering the cost of claims and consequently also to reducing the costs of premiums. At the same time, new risk management organisations were springing up and references such as RMS were being held in which presentations explaining these benefits were being given.

What are the benefits?
The question most often asked by Chief Financial Officers who are being approached to provide capital to support the formation of captive insurance companies, is “what are the benefits?” The answer to this varies depending upon the circumstances of each company considering this proposition but it will typically include some of the following:

Cornerstone for the formation and administration of Global Insurance programmes
Good cost savings can often be obtained by consolidating all programmes with one front insurer with a captive retention sitting behind taking all anticipated losses. Reinsurance for the captive can be provided by the same insurer or a panel where applicable and appropriate.
Contractual Risk Management: not just a matter for lawyers!

Today’s organisations demand more and more from each other when selling and buying goods or services. They are increasingly dependent on each other’s success – and on contracts. Contractual risk management is becoming an integral part of organisations’ operations and management.

Claims and contract disputes have increased. Deficiencies in contracts or in contract management easily result in misunderstandings and delays. When problems arise, services and payments slow down, morale suffers and relationships turn sour. The losses to all parties can be significant. Quite often the losses are not covered by insurance. Good contractual risk management can improve a company’s profitability, clarify the allocation of risks and costs, and minimize problems and litigation.

Contract risks: what and why?

Tasks that used to be handled within an organisation are increasingly outsourced, both by the public sector and by businesses. When shifting from internal operations to vendor relationships, the details of the collaboration, the services to be performed, collaboration functions and often also across different organisations is needed.

Before a contract is made, good contract management involves specifying what the contract is about: the scope of the services or solution, its implementation, and pricing. Good contracts can materialise and a loss has occurred, it is too late to change the risk allocation.

However, it is possible to learn for the future, provided that someone makes sure that the lessons learned are acted upon.

Good contract risk management requires collaboration

Collaboration among the members of the planning team helps identify risks: what, why and how problems can arise, what is essential in contracts and what alternatives are available for managing risks. By assembling the pieces of the puzzle so that they fit together, a clear, complete, and well aligned picture will be created: a contract which serves operational and technical characteristics, requirements and obligations. To ensure that these are understood as intended and in a uniform way, clear and understandable specifications, performance indicators and task lists are needed. The budget and profitability of the project are both realised.

A good contract works as a visible blueprint for the project. In addition, it provides a framework for managing the relationship between the parties. It also establishes the foundation for the allocation of costs and tasks. Once the contract is made, neither party can unilaterally change this foundation.

Yielding contractual risk management is not just about contract drafting; it is about putting the pieces together. In this way, disturbances and risks can be maintained at an acceptable level.

Good collaboration and communication at the planning stage help to reach desired outcomes and to agree on the relevant roles, success indicators and incentives. In this way, the parties are better prepared for a smooth collaboration and for managing problems and risks. After all, the contract is not the goal: successful implementation is.
Successful collaboration: who is in charge?

Contracts have become important risk management tools. Organisations possess a wide range of contract-related skills and capabilities, yet these are often fragmented. Consequent efforts are needed to transform the skills and knowledge of individuals to organisation-level competence.

Who then is in charge of the contracts a business makes? And who is in charge of managing the risks related to them? Who is their “owner”? Is it wise if, first, the sales or account manager is in charge, then during negotiations the lawyers, and after contract signing the project manager takes over, along with production or operations management, and eventually field or support services? This sometimes seems to be the case in supplier/sell-side organisations.

The right hand does not always know what the left hand is doing. Roles and responsibilities related to tasks, costs, and implementation may remain unclear and may not be passed on to subcontrac
tors, and supply contracts may not be co-
ordinated with insurance. Responsibilities and the extent of authority are not always clearly for
the procur
ing, buy-
side organisations either.

As the number of people who work with contracts grows, it needs to be asked how the contract portfolio is administered and used and how its risks are managed. If the organisation operates multiple facilities in different locations and countries and its units are in
dependent, the difficulties increase. The organisation is not always aware of the contracts made in the different units and whether the units’ contract processes and documents are up to date. Purchasing power is hard to use if the units do not know of their common suppliers or the value of their total acquisitions. On the sell-side, payment terms, warranty periods, liabilities and other terms may vary significantly between the different units and also between the different product and service groups within one unit.

Information about aggregate liabilities or risks is not necessarily available quickly. But centralised contract management solutions offer notable opportunities for improvement. They can automate certain tasks along with the management of contract data and documents. Once an organisation has common contract principles and a toolbox ensuring easy access to real-time data, checklists and templates, it is able to use its contracts effectively to manage its business, performance and risk. In this way, the organisation is better equipped to identify situations which require action – and to minimise disturbances, disputes and risks.

On the business operations’ level, somebody must ensure that the interests of the different units, functions and professionals are aligned. Contracts must be easy to use and effective, and they must be legally valid. Risks must be reasonably in relation to the anticipated benefits, and the costs of contracting must not become excessive. Operations and resources need to be managed, and processes need to be replicable. Healthy bureaucracy is needed – but at the same time, cre-
ativity and flexibility also. The strengths of different professional groups must be merged and the various roles and responsibilities must be coördinated. The answer can be a matrix in which each group or function has its own area of responsibility. Yet somebody must be in charge of integrating the different areas.

Who then is this “somebody”? He is in charge of integrating the various skill sets, actions, documents and interests related to contractual risk management. The answer varies from one organisation and one from project to another. The sales, procurement, project, risk or contract manager can be in charge of a major part of the whole. However, business leaders and executives are ultimately re-

The positive visions also include: agricul-
tural products that are more productive, but still need less chemicals and fertiliz-
ers, can withstand poor soil conditions, drought and low temperatures and ma-
ture during short growing seasons. The developers of genetic engineering see it as an important sustainability supporting survival tool for the world’s growing population.

The production area of GM crops has been growing steadily since 1996. This is when the USA accepted the first soybean variety commercially grown according to the policy adopted by the country to support GM plant produc-
tion. The production area is now over 100 million hectares, more than the size of Germany and France together. Soybeans represent about 60% of the area and maize some 25%. Over half of the
area is in the USA, but countries such as Argentina, Brazil and Canada are following suit. Production in the EU is minimal and the suspicions held by the Europeans about the safety of the GM products and the difficulties in getting acceptance to export GM plants to the EU has caused conflicts that needed to be handled in the World Trade Organisation WTO. The EU has accepted in international conventions on the subject and is committed to accepting GM products in its market, when they have been thoroughly researched and found to be safe.

What are the risks to human health?

The genetically engineered products on the market are highly regulated especially if they are intended for human consumption. Accordingly, intensive testing and scientific evidence are required on the safety of the products before entering the market. As allergens are quite common and as they are caused by many traditional products, they are also expected from GM products. The scientists do not gener-

ally believe that allergies would in-
crease, but some experts still fear that allergies may arise due to the transferring of allergenic genes from other species. Risks may also appear, if there are allergenic features in products, which did not have them before and the consumers are unaware of this. This risk may then be reduced by clear labelling. Basically the scientists say it is quite possible to diminish effects such as allergies through GM.

The most renowned accident involving a GM product was the Star-Linker maize case in 2000 in the USA. The product included a protein known to cause allergies in humans. It was approved for use as animal feed. However, it was later found in tortillas and many other products intended for human consumption. It had been mixed during production with other maize varieties. This led to the recall of all the products from the market resulting in an estimated cost of over USD 1 billion.

The new products may also contain new toxins or the toxins already existing may appear in greater amounts. These are investigated using analytical chemistry and are sometimes hard to find. The majority of researchers consider that the risks of toxins in conventional breeding are similar or greater than in GMOS. In the early development stage of GMOs antibiotic resistant genes were used as marker genes in the process of handling the cells. Marking is important for finding and identifying GMOs. There was a discussion about whether this could lead to the same characteristics being transferred to humans. So far there is no evidence to support that this is possible directly to human cells. The problem of antibiotic resistant diseases increasing is considered to happen due to the excessive use of antibiotics and the use of antibiotics in animal breeding.

Maybe the most often mentioned risk in the debate is the neighbourhood effect. The genes may change neighbour genetic material and it could be difficult to predict the outcome. The risks are especially big when some critics have argued that there maybe a lack of control when the new genetic material attaches to the receiving DNA.

The GM plant cultivation can cause damage also through cross pollination. It is actually impossible to totally prevent the GM crops commingling with other crops being cultivated near by causing “genetic pollution”. But the scientists defending the genetic engineering say that the question is rather, whether the cross pollination actually poses a threat and they answer no. One reason supporting this is that only some of the plant species have close relatives in the environment or that their biological characteristics prevent them from living to the age of breeding. One effect could also be that the re-
sistance to pests could lead to wider un-
predictable consequences to the species involved.

Regulation of GMOs in the EU

The EU and its member states and most of countries of the world signed the Cartagena protocol on bio-safety in 1992. The aim of the protocol is to ensure adequate safety in the trans-

boundary movement and use of living modified organisms resulting from modern biotechnology that may have adverse effects on biological and human health.

The EU legislation which regulates the GMOs have two main objectives: to protect human health and environ-

ment and to ensure the free movement of safe genetically modified products in the EU. Currently the main legal bas-
es is Regulation (EC) No 1829/2003 on GM food and feed, and Directive 2001/18/EC on the deliberate release into the environment of GMOs.

The basic difference between these two procedures is that the decision concerning the use of GMOs for food or feed is completely centralised and the decision in the member states. The applicant sends the application to the member state, but the material is then forwarded to European Food Safety Authority, EFSA, who will give the scientific opinion before the decision is made by the European Commission. In the case of the cultivation of GMO, the member state in question must also per-
form the risk assessment on its own.

According to the Regulation the food and feed products must not:

• have an adverse effect on human health, animal health, or the environment;
• mislead the consumer or user;
• differ from the food/ feed they are in-
tended to replace to such an extent that their normal consumption would be nutritionally disadvantageous for human beings (and for animals in the case of genetically modified feed);
• in the case of genetically modified food and feed, harm or mislead the consumer by impairing the distinctive features of the animal products.

As an exception to the above procedures, to get a permit for the deliberate release of GMOs into the environment, either for experimental or production purposes, then a risk assessment is car-
ried out by the member state and sent to the commission and then onward to all member states. The mem-
ber state may then make the decision, unless there are unresolved objections between the member states. In this case EFSA is asked to provide a scient-
fic opinion and the matter continues to the European Commission for a de-
cision.

At the moment there are 84 differ-
ent products either accepted for use in the EU or in various stages of the appli-
cation process. No products have so far been accepted for direct use for human consumption. In the USA millions of people are eating food products contain-
ing GMOs every day. Some consider the American pro-activity in this matter to be the widest experiment with peo-
ple’s health. But so far nothing alarming has been heard from the other side of the Atlantic.

The labelling of GMO products is also regulated by the EU. The im-
portant element in the regulation is the traceability of all GM raw materi-
als, ingredients or food. Each party in the production chain must keep and pass on information about the product to the subsequent party to ensure that the final con-
sumer receives it. Labelling is not re-
quired, if the GMO content in another product is less than 0.9% and the substance is approved by the EU. Un-
less the GMO is not approved by the EU, the GMO products are not allowed at all. One controversial issue has been that labelling is not required for food made by the biotechnology industry. In the case of genetically modified organisms such as meat, eggs, milk or other dairy prod-
ucts or foods which have been fed with GM feed. But here again the ap-
proved science has the clear opinion, that GMOs can not jump from food to the eater.

Liability and insurance of GMOs

Even if the research and regulation are very thorough there is the potential for liability. Here are some potential loss scenarios:

• the GMO seeds contaminate other types of seeds which causes property damage
• the GMO is transferred to wild spe-
cies
• the GMO is cross polluted with other agricultural plants
• the fields must be restored
• allergies or other health effects for consumers
• a loss in the value of animals due ac-
cidental feeding with GM feed

The legislation in most of the coun-
tries in regards to losses caused through GMOs is based on strict liability. This is because the product liability and envi-
ronmental liability regimes are already usually based on that principle. The EU directive on environmental liabil-
ity (2004/35/CE) in regards to the prevention and remedying of environ-
mental damage which is being current-
ly implemented adds GMOs to the list of strict liability for the new liability ele-
ment.

These and other risks may be covered by the general liability, products liabili-
ty and recall insurance or environmental pa-
protection insurance. The attitude in the insurance and reinsurance market has so far been to accept the GMO risks within the normal liability insurance cover. GMO products are also products. There are specific problems in assessing these losses as it may be difficult to esti-
mate the value for example in the case of cross-pollination.

Additionally as with all new technolo-
gies affecting the health a possible latent long term health hazard can not be to-
tally excluded. That forms the ultimate fear for insurers too i.e. that there is the possibility of numerous people getting ill and consequently numerous insurance policies being triggered simultaneously. The GMO risks may also affect pro-
perty insurance (contamination) and ma-
ri

nil care insurance.

The technical risk management is based on the strict regulation of the ac-
tivity. In the production, transport and handling of GMOs more stringent pro-
cedures are unavoidable. 

GMO risk assessment and authorisation process in the EU

The GM application is performed by the EFSA in the EU. After the public hearing, the EFSA gives an opinion if the risk assessment is sufficient to authorise the GM application. If the opinion is negative, the member state in question can still pass on the application to the subsequent member state. 

The GMO application can not be passed on if the member state in question has serious doubts about the safety of the product. 

In the case of genetically modified food and feed, the EFSA has to perform a risk assessment before the approval is given. If the EFSA can not make an opinion about the safety, the member state in question can ask for a re-assessment. 

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Insurance and Risk Management in the BALTIC STATES

The Nordic countries number among the top investors in the Baltic States’ economies, beginning to invest in the region subsequent to Lithuania’s, Latvia’s and Estonia’s regaining of their independence. Nordic companies have already entered their second decade of such investment activity, and the Baltic States remain a foreign investment magnet, due to the rapid growth of their economies. In 2006, Lithuania alone generated 7 billion euros more in direct foreign investments than in 2005, representing a rise of 48 per cent.

In Lithuania, people associate insurance with drivers third party liability insurance or with the generally insufficient Soviet insurance. The reason is that Western type of insurance began to develop only after the achievement of independence in 1990, by which time major foreign insurance companies had entered the market.

Around 70 percent of all business companies in the Baltic States use insurance services of various kinds and almost 50 percent insure their business property, which is not compulsory. The popularity of commercial insurance products is growing every year, but it is obvious that huge scope for future growth remains, especially for cross-sales.

The Baltic States are currently enjoying one of the strongest economic growth rates in the European Union, with the P&C insurance market skyrocketing every year. In 2006, the P&C insurance market grew by 30 per cent in Lithuania, 32 per cent in Latvia and 16 per cent in Estonia. P&C insurance penetration represented 1.06 per cent GDP in Lithuania, 1.5 per cent in Latvia and 1.7 per cent in Estonia. However, the Baltic States’ insurance markets remain in the development phase. It cannot yet be claimed that there is a widespread tradition of using insurance as an everyday tool and insurance prices remain unsteady: insurance companies do not, in all cases, precisely evaluate the risks they are taking and often sacrifice profit for the sake of rapid growth. These problems, typical of immature markets, have least effect in Estonia but are very pronounced in Latvia and Lithuania.

If P&C Insurance in the Baltics

Sampo P&C insurance company opened headquarters in the Baltic States in 1999. In 2002, (when Sampo merged with IF P&C Insurance Holding Ltd) Sampo insurance changed its name to “If.” Today, If has a broad network of offices in all of Lithuania’s, Latvia’s and Estonia’s major towns. The company’s headquarters are situated in the Baltic States’ capital cities – Vilnius, Riga and Tallinn. At the moment, the company has almost 700 employees located across all three Baltic States.

In the Baltic States, If provides all of its P&C insurance services to business and private clients. It has over 300,000 clients in the region and in 2006 had 121 million euros worth of Gross Written Premiums (GWP). If commands a 16.3 per cent share of the overall P&C insurance market in the Baltic States.

Changing attitudes among the clientele

For long, many business people have believed that their factories could not possibly burn down, but life has proven otherwise.

Last year, the factory of a furniture producer in Estonia burned down, despite being built of stone, bearing additional witness to the fact that there is no such word as “never,” even when loss prevention has been carried out. Such resonant cases are not the only force making businesses turn to insurance services. Business growth and absorbs the rules of its western equivalent, the situation is in constant flux.

“Yesterday, the commercial insurance market was mainly driven by compulsory insurance such as compulsory motor third party liability insurance and businesses bearing huge responsibilities such as having to insure their liability as notaries, lawyers, auditors, bailiffs and others. Today, the attitude has changed dramatically. Companies are searching for professional risk management and new advanced products, as business interruption insurance draws more and more of their attention,” says Lina Necajeviene, Head of If draudimas’ MAS department.

Services for Nordic corporate clients

If’s offices in the Baltic countries co-
operate with Business Area Industrial. In response to growing business demand, If P&C Insurance is establishing Major Accounts Service units, designed to work alongside the company’s biggest clients. MAS units offer our clients tailor-made insurance solutions and risk management services. “If’s Baltic MAS teams are cooperating closely with each other and with Business Area Industrial, since our target client usually has insurance interests in several countries,” comments Janis Sprindzuks, Director of If Latvia’s corporate client department.

Today, Lithuanian and Estonian IF P&C Insurance already have MAS departments for dealing with major clients. The Lithuanian MAS unit serves more than 500 clients and the Estonian unit more than 400. The Latvian office plans to launch its MAS unit this July, expecting to serve 250 clients at the outset.

Providing more

The Baltic If P & C Insurance subdivisions seek to retain their strong positions in the business segment without relying solely on price competition. Loss prevention and other additional value programmes and pricing are the main tools of our trade. Through risk selection, we avoid clients who do not meet the security or quality standards we have set,” explains Sprindzuks.

Through risk improvement programmes, If Latvia also involves clients’ management in issues touching on site fire security, maintenance problems, personnel education and claims frequency. Risk improvement programmes include specific tasks and deadlines, such programmes being an excellent tool for long-term client relationships.

“Our main challenge is to identify the right split between frequency claims and large losses, and to try to balance the income, to identify them,” explains Sprindzuks.

According to Lina Necajeviene, Head of If draudimas’ MAS department, If draudimas is moving into preventive activity, trying to provide additional value to its clients. “We are risk management professionals and provide help to companies, not only when accidents occur but also with respect to their operations and in order to prevent losses,” states Necajeviene.

“We can suggest flexibility and clarity for our clients, thus being differenti- ated from other market players. Even for large companies, we prepare single pol- icies without separately adjusting standardised instructions for every operational subdivision, which helps to avoid problems,” adds Necajeviene.

In Estonia, the MAS department acts mainly upon the same principles, guidelines and loss prevention policy as all other undertakings and sales units without a different, stand-alone underwrit- ing policy, such as that held by If’s Business Area Industrial in Nordic. “In general, we can say that our approach of working in partnership with our clients has provided us with unparalleled know-how in devising practical solutions for risk management issues. At the same time, we have gained knowledge of losses, enabling us to recognise exposures in our clients’ business,” explains Indrek Kuss, Head of If Estonia Kindlustus’ MAS department.

Nowadays, the Baltic States are living through a bright insurance era. Hopefully, growing and enhancing the business will lead to greater profit and the insurance market will experience further, successful growth. Much of this growth will depend on the business world, which is beginning to understand demand for insurance more and more clearly.

Baltic States in General.

The three Baltic countries, Estonia, Latvia and Lithuania, are often grouped together as the Baltic States, or Baltic Nations. They are located in North Central Europe, on the eastern fringe of the Baltic Sea, and along the western border of the Russian Federation and Belarus. The Baltic countries gained their independence from the former U.S.S.R. in 1991. Despite their similar history, these countries are different according to their economical, geographical and cultural nature.

The Lithuanian and Lithuanian languages belong to the old Indo-European language group and Estonian words bear similarities to those in the Finno-Ugric languages.

Latvian, the capital, Riga, is the largest city by population in the Baltic States, with 725,576 inhabitants. Vilnius, the capital of Lithuania, has 540,318 inhabitants while Tallinn, capital of Estonia, has 396,193.

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All of the Baltic States are members of the European Union and NATO. At the moment, Latvia is enjoying rapid growth in GDP of 10.4%, while that of Lithuania and Estonia is 10.3%.

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During this year the RM unit has been strengthened significantly; the latest new recruitments are:

**JURGA LAPKAITE**

**Matiis Eočienė**, MSc (Eng) Matiis is based in Vilnius and has over 10 years experience in human risk management, mainly health and safety. Currently specializing in health, safety and travel risks.

**Jonas Palomius**, MSc (Eng) Jonas has over 10 years of experience in property risk engineering and is specialized in specializing in wood furniture, saw mill and paper-pulp industry.

**Vesa Lihto**, MSc (Eng) Vesa is based in Helsinki and has over 10 years experience in production and property risk engineering specializing in chemical industry.

**Patrik Fahlström**, MSc (Eng) Patrik is based in Malmö and has over 10 years of experience in property risk engineering and is specialized in specializing in wood furniture, saw mill and paper-pulp industry.

**Philip Preston**, MSc (Hydrology for Environmental Management) ARM Philip is based in Copenhagen and specializes in cargo and transportation risk management and is based in Copenhagen.

**Heini Hiedeman**, new UK Branch Manager / Head of International Sales Heini has over 20 years experience within industrial insurance business and previously worked as Nordic Head of Cargo Underwriting in If.

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**Lotta Ogenstam**, new Head of Sales and Client Servicing Sweden Lotta has over 20 years experience in broker firms, previously as Chief Operating Officer of Avi Sweden.

**Erik Broxell**, Eide new Head of Sales and Client Servicing Norway Erik has an extensive background in insurance business. His previous position was Chief Executive Officer of Wilks AS.

**Janne Virki**, B.Sc (Eng) Janne is based in Helsinki and has over 5 years of experience in property insurance, specializing in technical solutions for fire prevention.

**Vesa Lihto**, MSc (Eng) Vesa is based in Helsinki and has over 10 years experience in property risk engineering and is specialized in specializing in wood furniture, saw mill and paper-pulp industry.

**Matti Eočienė**, MSc (Eng) Matiis is based in Vilnius and has over 10 years experience in human risk management, mainly health and safety. Currently specializing in health, safety and travel risks.

**Håkan Edoff**, MSc (Eng) Håkan is based in Stockholm and has over 10 years of experience in property risk engineering and is specialized in specializing in wood furniture, saw mill and paper-pulp industry.

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Relax, we'll help you.