Folder Title:	Clausen Speeches - International Investment Insurance Issue - Multilateral Investment Insurance Agency - Volume 2
Folder ID:	1776451
Series:	Speech background files
Dates:	08/10/1981 - 08/09/1982
Sub-Fonds:	Records of President A. W. Clausen
Fonds:	Records of the Office of the President
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Clausen's - Speeches: International Invesment Issue

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Record Removal Notice

File Title	Barcode No.
Clausen Speeches - International Investment Insurance Issue - Multilateral Investment Insurance Agency - Volume 2	1776451

Document Date	Document Type
Aug. 9, 1982	Memorandum

Correspondents / Participants
From: Hugh Scott
To: A. W. Clausen

Subject / Title
Role of Development Committee in Examination of Multilateral Investment Insurance

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	November 03, 2021

1383

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: August 5, 1982

FROM: Ernest Stern ES.

SUBJECT: Multilateral Insurance Investment Scheme

At yesterday's Operational Vice Presidents' meeting we discussed the Board paper on the Multilateral Insurance Investment Scheme. Mr. Golsong made the presentation. You should be aware of the very strong reservations expressed by the senior operational staff regarding the potential link between the proposed insurance agency and the Bank. As you know, from recent experience, expropriation issues which involve the IFC took on a special character because it is a sister agency. In the proposed insurance arrangements not only expropriations of companies with which the World Bank Group has no contact would be covered but, more importantly, the effects of governmental action or inaction on such routine matters as the issuance of import licences, conversion of currency, the issuance of visas for technical staff and many other matters would be insured. We believe there is a great risk that the Bank will be drawn into disputes on these matters even before a claim is filed if there is a link between the insurance agency and the Bank. The risk will be particularly great if the insurance agency is to be advertised to the reinsurance markets as having a special advantage because of its association with the Bank. At the time claims are filed there is a substantial risk that the Bank will be called upon to exercise its sanctions if the resolution of the claim is not handled expeditiously or satisfactorily.

There also was serious concern that the proposed coverage is so broad that it would be quite easy to be in conflict with policy recommendations that the Bank might make in the normal course of its business. For instance, important liberalisation, tariff reform, elimination of subsidies, are all matters which could adversely affect the profitability of a private investment.

The greater the success of the insurance agency in providing coverage to a wide array of investors in a broad range of countries, the greater the risk that the already thinly stretched capacity of the Bank to influence such matters will be burdened further. We believe there is a serious danger that this would adversely affect our basic purpose of an effective policy dialogue with member countries firmly based on their belief that we are neutral analysts, not advocates of any particular interest group.

ES:dpw

Record Removal Notice

File Title	Barcode No.
Clausen Speeches - International Investment Insurance Issue - Multilateral Investment Insurance Agency - Volume 2	1776451

Document Date	Document Type
July 9, 1982	Memorandum

Correspondents / Participants
From: H. Golsong
To: A. W. Clausen

Subject / Title
Multilateral Investment Insurance Agency

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	November 03, 2021

AWC desk file

THE WORLD BANK
Washington, D. C. 20433
U.S.A.

A.W. CLAUSEN
President

June 15, 1982

Dear Frank:

I've been tardy in responding to your note of several weeks ago--to which you attached your statement to the World Insurance Congress on the need for a multilateral investment insurance mechanism.

You are right! Our interest in this subject continues--although progress is a slow process indeed. Our Vice President and General Counsel, Heribert Golsong, has spent a good deal of his time on this matter during the last six months. I've sent a copy of your statement to him.

It's good to know that the insurance industry has a keen interest in this subject.

Warm regards.

Sincerely,

Mr. Frank A. Southard
4620 N. Park Avenue
Chevy Chase, Maryland 20815

BC: H. Golsong with statement

2864

FRANK A. SOUTHARD
APT. 606W
4620 N. PARK AVENUE
CHEVY CHASE, MD 20815

April 29, 1982

Mr. A.W. Clausen,
World Bank,
Washington, DC.

Dear Tom:

I thought, in view of your continuing interest in political risk insurance, you might wish to see the attached copy of my statement at the World Insurance Congress. There was a lively interest — the session was repeated and each time the attendance and resulting discussion were very good.

Cordially yours

Frank Southard

FRANK A. SOUTHARD
APT 506W
4620 N. PARK AVENUE
CHEVY CHASE, MD 20815

April 29, 1982

Mr. A.W. Clausen
World Bank
Washington, D.C.

Dear Tom:

I thought, in view of your continuing interest in political risk insurance, you might want to see the attached copy of my statement at the World Insurance Congress. There was a lively interest — the session was repeated and each time the attendance and resulting discussion were very good.

Cordially yours,

Frank Southard

WORLD INSURANCE CONGRESS

Concurrent Session III-H

International Investment Insurance

(Remarks of Frank A. Southard)

1. Companies which invest abroad expect to evaluate the commercial risks and are prepared to assume them -- i.e., risks that the investment will not be successful as a commercial matter. There are also risks (such as fire or flood) which can be covered by commercial insurance. But the investors may be confronted with non-commercial risks which usually they do not face at home: expropriation or nationalization; losses due to war, insurrection or riots; total or partial prevention of the transfer of profits, interest, or amortization into the home (or some other usable) currency; and arbitrary drawings of bid, performance and advance payment guaranties. It is these risks which are the concern of this session. All of the some 15 national or (in one case) regional public insurance agencies cover those political risks. But only one (Japan) provides some coverage for credit risks, and one (Switzerland) covers the refusal or inability of a debtor public authority to pay in local currency. Obliquely related are guarantees on international loans; but these should not be confused with investment insurance.

2. There is relatively-little insurance coverage of non-commercial risks offered by private insurance companies; and the available coverage is generally for two to three years. In the United States only four or five private carriers offer political-risk coverage. It has been estimated that corporations world-wide paid $600 to $700 million in political-risk premia in 1980, of which possibly $500 million went to government-operated agencies. Private insurance or financial companies provide some re-insurance of the coverage of public agencies, notably

by some 14 private U.S. and foreign companies comprising the Overseas Investment Re-insurance Group, organized by the U.S. Overseas Private Investment Corporation (OPIC), and by Lloyds of London. But ~~OPIC does not provide re-insurance~~

3. There are public agencies in Australia, Austria, Belgium, Canada, Denmark, France, Germany, Japan, Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States, There is one regional facility, the Inter-Arab Investment Guarantee Corporation, with 12 Arab members. OPIC, and predecessor U.S. agencies, have been writing insurance since 1948. In the three years 1978-81 OPIC issued $3.4 billion in coverage. Since the inception of the U.S. insurance program, 134 claims have been settled, totalling $393 million. The largest number of claims have arisen from currency inconvertibility. Many of the national agencies have fairly low global ceilings: $100 to $450 million. OPIC is the only one of the public agencies which is required by law to be self-sustaining; in consequence its rates are higher by one-third to three times.

4. There have been numerous efforts to establish an international investment insurance facility which might serve as an umbrella over national agencies and be available to investors in countries having no agencies of their own or agencies with low global ceilings. The most determined effort was made during the years 1966-73 in the World Bank, at the request of the Organization of European Economic Coöperation and Development, at a time when there were only two or three national agencies. After much study and discussion within the staff and at the level of the Executive Board, the proposal for an International Investment Insurance Agency (IIIA) was shelved for lack of support by member governments. In 1975 OPIC proposed a multi-lateral re-insurance association among Berne Union members. This proposal received almost no support. In 1976 the United States proposed at UNCTAD an International Resources Bank or, alternatively, a revival of the IIIA proposal. There were no results.

Also in 1976 14 European mining companies urged the European Economic Community to create an institution to insure mining ventures in developing countries against political risks. This proposal became part of the Lomé Convention among European and (chiefly) African countries, but has not been implemented. Again in 1976 a resolution calling for an insurance facility was introduced in the United Nations, co-sponsored by Sri Lanka and the United States and supported by 100 countries. But the ensuing negotiations were unsuccessful. In 1978-80 the Inter-American Development Bank considered a proposal for an insurance agency confined to investments in minerals and petroleum (admittedly a politically-sensitive area). Notwithstanding President Ortiz-Mena's personal interest in the proposal, it failed, chiefly due to opposition by Mexico and Venezuela. In 1980 a working party of the Economic Development Committee of the World Bank and International Monetary Fund proposed that the possibility of establishing an insurance facility again be explored. This proposal produced no results.

5. Why have all of these efforts failed, since in every case there was a perceived need for an international facility? There are several reasons. First, the industrial countries, having established their own public agencies, have had only a mild interest; their energetic support would have been necessary. Second, management and voting problems were (and will continue to be) complex: what countries would be members (e.g., only investing countries or also host countries); what role would be played by host countries; what would be the voting arrangements as between investing and host countries; would the World Bank or a regional development bank operate the facility, and if so would its other operations be affected. Third, how would the facility be financed. Would it be self-sustaining. How would premia be assessed. Would the World Bank, e.g., be expected to provide financial back-up. Fourth, any such

agency would have to have the right of subrogation, i.e., to assume the rights of investors in cases where claims were paid. Especially in Latin America, this is strongly resisted. Fifth, any convention setting up an international agency would need to provide for international arbitration of disputes arising out of an insured investment. This also is resisted in some countries as an intrusion into national juridical systems, and is especially an issue in Latin America, where the Calvo Doctrine is followed, denying all local rights and remedies to foreign affiliates which seek outside help in the case of disputes. Only two Latin American countries (Costa Rica and Paraguay) have subscribed to the convention creating the International Centre for Settlement of Investment Disputes (ICSID), although 81 countries have ratified. An echo of the Calvo Doctrine is emerging in the long-lasting United Nations effort to draft a code of conduct for multi-national corporations, as indicated by very recent drafts. However, it may be noted that OPIC has agreements with 95 countries (including 17 Latin American countries) which contain provisions for arbitration and subrogation. Sixth, and possibly the most intractible difficulty, among developing countries there is a strong reluctance to agree to an international agency which would pass judgment on their <u>political</u> creditworthiness.

6. Notwithstanding the past failures and the formidable difficulties, there have been some recent stirrings in this field. The United States Government has shown an interest in the possibility of setting up an inter-regional investment facility to encourage private investment in the Caribbean area, although little has been done to carry forward that idea. In the private sector, a group of U.S. corporation executives, in September, 1981, submitted to U.S. officials a proposal for an international investment insurance facility, and had an encouraging hearing. World Bank President A. W. Clausen, in his address to the Board of Governors last September, gave a push to international investment insurance. Since then, renewed study has been undertaken

in the World Bank, the International Monetary Fund, and the Inter-American Development Bank, and there has been one broadly based meeting (including officials from the banking and insurance communities) to discuss the subject. The general concensus is that the existing private and bi-lateral schemes are inadequate, especially in the case of multi-national investments, and investments of large amounts and for longer-term periods (although the public agencies do provide reasonably long-term coverage). This new review of the subject is encouraging; but it is much too early to forecast the outcome.

7. Consideration is also being given to the possibility of guarantees for some categories of bank loans to developing countries. The idea, put forward by the Development Committee of the World Bank and Monetary Fund, of a separate international agency to give partial (say, 50 percent) guarantees of loans to countries in an intermediate position between very good and very inadequate creditworthiness did not evoke a favorable reaction from bankers in a recent meeting. But further study may be given to guarantees by existing international financial institutions for the later maturities of loans, on a case-by-case basis, for 85 to 100 percent of the loan. While, as mentioned before, this is only peripherally related to investment insurance, it would seem to me that if such a guarantee facility were established, it would be illogical to confine it to bank loans, as against loans by a parent company to an overseas affiliate or subsidiary. It may be noted in passing that OPIC and most other national agencies offer loan guarantees to corporations investing abroad.

8. An international investment insurance facility could be a very useful adjunct to the foreign investment activities of the world's industrial enterprises.

(a). It could have the power to originate insurance, and to co-insure or re-insure with or on behalf of national agencies and private carriers. Unsuccessful efforts have been made (especially by OPIC) to arrange co-insurance between two or more national agencies in cases of multi-national investments.

(b) It would be useful to potential foreign investors in countries (such as Brazil, Mexico, Singapore, or the Gulf Area) which have no national insurance agencies. It would serve as co-insurer or re-insurer in the case of countries which have placed relatively-low global ceilings on their own public agencies. In such countries, a projected investment of $50 million may be beyond the capacity of the local agency. It could also provide insurance for multi-national investments.

(c) It would have the prestige of an international authority, especially if, as seems logical, it would be lodged within the World Bank Group or a regional development bank. The technical facilities of the international institution would be available to the facility.

(d) It could bring together the various national agencies under a co-ordinating umbrella, comparable to the role played by the Berne Union in the field of export credit.

(e) It would build up a broader pool of insurance funds or reserves to which the national agencies could have recourse through co-insurance or re-insurance.

(f) However, since almost all national investment insurance agencies contain a subsidy element and an international agency would have to be self-sustaining , there is room for conflict.

9. The access which developing countries are likely to have as borrowers in world capital markets is likely to shrink, having in mind their huge outstanding foreign debts; and the availability of official development aid (national and international) is limited. Hence there is every sensible reason to

stimulate private overseas investment to provide capital, technology, and management. An international investment insurance agency can play a very useful role in that process. But if the history of failed efforts, recounted above, is not to be repeated in the case of current study and discussion, several factors will be needed. It will be necessary for the leading industrial countries to give determined support. It will be necessary for important developing countries to come t o grips with their past doubts and reassess the benefits which broader-based insurance can yield. Finally, if the leading private insurance companies have concluded that the co-insurance and re-insurance which an international facility would provide will be an important asset to them, they should make it known more clearly than they hitherto have. Difficulties and complexities have invariably been encountered in all previous efforts to devise a new international investment insurance agency. One possibility might be to empower the International Finance Corporation of the World Bank Group to enter this field. This could side-step problems of membership, organization, and financing and could open the door to experiment and evolution.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title Clausen Speeches - International Investment Insurance Issue - Multilateral Investment Insurance Agency - Volume 2	**Barcode No.** 1776451
Document Date April 29, 1982	**Document Type** Memorandum

Correspondents / Participants
From: H. Golsong
To: Managing Commitee

Subject / Title
International Investment Insurance Scheme

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	November 03, 2021

FORM NO. 75 (9–78) 926 THE WORLD BANK

ROUTING SLIP	DATE: March 15, 1982

NAME	ROOM NO.
Copy to:	
MR. CLAUSEN	E.1227
MR. WUTTKE	I 12-100
MR. GOLSONG	N.735

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

Mr. Benjenk suggested that I send the enclosed for your information. The loan in question is one for Liberia: Iron Ore Rehabilitation Project (considered by the Board on January 5, 1982, R81-325 of December 14, 1981).

FROM:	ROOM NO.:	EXTENSION:
FRANK VOGL	E.832	72468

R-1

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

March 12, 1982

Co-financing & Private Insurance

Mr. Benjenk :

Over the years one of the subjects that I reported upon and took a deep interest in was political risk insurance. In part this was due to the great frustrations encountered by a very close friend, Bob Svensk, when he worked for OPIC. He concluded that the private sector could do a far better job than the public sector.

So Bob joined AIG, swiftly developed their operations in this field and is now President of AIG Political Risk Inc.. This is the largest group of its kind in the United States. Only LLoyds, as far as I know, offers a competitive operation anywhere.

Two years ago in New Orleans Mr. Clausen talked about the need for some form of insurance in World Bank ventures with the private sector. In his Annual Meeting speech he noted this once again. But each time I ask someone in the Bank about progress on this front I hear a string of arguments leading to the conclusion that doing anything in this field is close to impossible. Perhaps I have been talking to the wrong people ?

Meanwhile, the private sector has been moving. Now, as you can see from the attached letter, AIG is directly involved in one of our projects on the co-financing side. The specifics of the involvement are noted on pages one and 15 of the attached report to the Board on the Liberian loan.

Perhaps you could talk to Mr. Clausen, Mr. Golsong and Mr. Stern, about this private sector insurance approach. I feel it should be thoroughly investigated and that Bob Svensk would have some interesting ideas to contribute. Further, in my opinion this particular deal, given the co-financing involvement and the fact this is the first ever involving a private insurance company (so I am told), would make a very good story for us to spread to the media.

Whatever you do decide, I do feel that at a minimum Mr. Clausen should be informed about this and you might care to pass along the attached letter from Bob Svensk.

Frank Vogl

American International Group, Inc.
70 Pine Street
New York, N.Y. 10270
212/770-7000

Direct Dial: 212/770- 6540

March 8, 1982

Mr. Frank Vogl, Director
Information and Public Affairs
The World Bank (Room E-828)
1818 H Street, N.W.
Washington, D.C. 20433

RE: Liberian NIOC Project/
AIG Political Risk Insurance

Dear Frank:

National Iron Ore Corporation

After lengthy negotiations, I am glad to see that all aspects of the Liberian NIOC rehabilitation project have finally been closed. As you may know, this is the first World Bank project in which AIG Political Risk Inc. has been actively involved. We are providing guarantees in favor of the consortium of commercial banks, led by Bank of America, which is providing the bridge financing for this project.

It is our hope that this first project will set a precedent for others. The private market for political risk and export credit insurance is maturing rapidly and, we believe, offers an interesting financial resource on which the World Bank and other such institutions can draw to facilitate projects such as the NIOC rehabilitation. Although I am obviously biased, I believe the private insurance market for political risk and export credit insurance has many advantages over the "national schemes."

We look forward to a successful implementation of the NIOC project. Should you or others at the Bank wish to know more about the facilities of AIG Political Risk Inc. or the private political risk insurance market in general, I would be pleased to provide what I can. Best regards and I remain

Sincerely yours,

Bob Svensk

Robert E. Svensk
President
AIG Political Risk Inc.

RES/ls

March 15, 1982

Dear Mr. Shelp:

Thank you for your letter of February 9, 1982 contributing to our ongoing reexamination of a political risk insurance program. I certainly welcome your suggestion to explore ways and means of increasing the efficiency of any pertinent program by cooperating with the private insurance sector. Since, with regard to investment insurance and investment protection, political, legal, economic and developmental interests and constraints interact in a rather subtle fashion, the ramifications of any approach must be carefully analyzed and balanced. This holds true, in particular, for the question as to what kind of cooperation with the private sector integrates best into an international framework of political risk insurance of private investment abroad.

In this context, I would be grateful if you could let me know of any precedents for reinsurance of a private political risk guarantee by any international institution, government or agency of any government. As far as I know, OPIC arrangements work the other way round: OPIC and Lloyd's reinsure guarantees written by OPIC.

Sincerely,

(Signed) A. W. Clausen
TC

Mr. Ronald K. Shelp
Vice President and Director
American International Underwriters
70 Pine Street
New York, New York 10270

HGolsong/ses

2691

AMERICAN INTERNATIONAL UNDERWRITERS
70 PINE STREET
NEW YORK, N.Y. 10270

kf.

RONALD K. SHELP
VICE PRESIDENT AND DIRECTOR

February 9, 1982

Honorable A. W. Klausen
President
World Bank
1818 H Street, N.W.
Washington, D. C. 20006

Dear Mr. Klausen:

As a member of the International Policy Committee of the U.S. Chamber, I enjoyed the luncheon with you last week. I appreciated your response to my question about a Political Risk insurance program and especially your idea of reactivating the proposal that did not do so well a few years back.

This is a subject I and my colleagues have dedicated considerable time to and would be willing to help you with. As you may know, AIG Political Risk Insurance., Inc. is the leading private sector political risk insurance entity in this country.

One idea that would distinguish your effort from the last time around would be involve the private sector in these activities. The World Bank could serve an extremely useful function by serving as a reinsurer of private and perhaps public entities who write political risk insurance. That would build upon the existing expertise in this field and yet provide the needed capacity to write more business that only an international institution such as the World Bank has the resources to bring.

I have attached two enclosures that might be useful as you work on this project. The first is an extract from a book that resulted from a two year London School of Economics seminar series on The Politics of Raw Materials. It analyses the pros and cons of political risk insurance schemes and how much of an incentive they serve towards investment. The second was prepared by Robert Svensk, the President of A.I.G. Political Risk, Inc., (who was formerly with OPIC) and me. It compares the various political risk programs, public and private.

I hope this is helpful. Again, we would be pleased to assist in anyway we can.

Sincerely,

Ron

RKS:ms
Enclosures

Record Removal Notice

File Title	Barcode No.
Clausen Speeches - International Investment Insurance Issue - Multilateral Investment Insurance Agency - Volume 2	1776451

Document Date	Document Type
March 1, 1982	Memorandum

Correspondents / Participants
From: H. Golsong
To: A.W. Clausen

Subject / Title
Attitudes in Latin America towards international investment protection

Exception(s)
Attorney-Client Privilege

Additional Comments

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Withdrawn by	Date
Ann May	November 03, 2021

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File Title	Barcode No.
Clausen Speeches - International Investment Insurance Issue - Multilateral Investment Insurance Agency - Volume 2	1776451

Document Date	Document Type
12/18/81	Memorandum

Correspondents / Participants
From: H. Golsong
To: Members of Managing Committee

Subject / Title
International Investment Protection and Multilateral Investment Insurance Agency

Exception(s)
Attorney-Client Privilege

Additional Comments

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Withdrawn by	Date
Ann May	November 03, 2021

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: August 20, 1981

FROM: Moeen A. Qureshi MAQ

SUBJECT: Political Risk Insurance

Frank Southard, who used to be Deputy Managing Director of IMF, discussed with me today the work he is doing on a proposal for an international insurance agency that would provide political insurance for foreign private investment in developing countries. He is well aware that such a proposal was extensively discussed in the Bank some years ago. He said that he had been asked by Messrs. Anderson (ex-Secretary of the Treasury) and Kerr of AVCO to try to put together a proposal which they intend to give to Secretary Haig for the Cancun meeting. The proposal would be to establish an agency or affiliate in the Bank that would provide political insurance for investment in developing countries. It would endeavor to act as the umbrella agency for a number of governmental agencies that now operate in this field. It would co-insure and re-insure with them, and would try to develop a stronger political risk insurance system than now exists.

Frank Southard said that he had met you a few weeks ago, but at that time he had not started working on this idea and therefore did not mention it during his conversation with you. He has talked to a number of other people in the Bank and IFC in order to bring himself abreast of the work that was done on this issue in the Bank Group.

cc: Mr. Golsong, VPG
Mr. Wood, FPA