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Global Risk Spotlight

Leave Nothing To Chance: Ask These Key Questions When Building A Multinational Property Program

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On the surface, building a multinational program to insure against property damage and business interruption losses across locations globally might seem straightforward. In reality, it is far from it. There are many technical issues to consider when designing and implementing a multinational property insurance program, so it responds appropriately in the event of a loss. Unexpected differences in key areas–from scheduled values to the scope of coverage provided in various countries, can complicate structuring a multinational property program.

In addition, there are "grey areas" to consider in particular countries, not to mention a patchwork of regulatorily restrictive or "closed" countries to navigate. Understanding these issues up front can help risk managers appropriately design and implement a robust multinational property insurance program that responds worldwide. Getting clear answers to the following six questions is a great place to start.

1

What are the differences between good local standard (GLS) and localized manuscript coverage in select countries?

A GLS policy refers to the local insurance company's locally admitted policy. It is typically narrower in scope, filed with regulators if required, and represents the standard coverages and conditions that are customary in that particular insurance market, while also meeting local insurance legal and regulatory requirements. GLS policies may also be issued in the country's local language.

Whether the GLS policy form is best for a particular risk depends on many factors, including the terms of the particular GLS policy, the overall program design, and the insured's specific exposure, risk appetite, preferences and expectations around how and where claims will be paid. Cost may also play a role.

Manuscript policy forms and endorsements are generally broader and may be preferred to address unique, account-specific needs and preferences. For example, an insured may want to add specific peril deductibles on a per occurrence basis or include extensions or sub-limits for specific causes of loss, property and perils.

Along with their locally admitted policies' scope of cover, risk managers should evaluate an insurer's ability to pay complex claims locally and any potential tax impact that could arise depending on where a claim is paid. The insurance laws and regulations in each country establish whether manuscript policies from the producing country are allowed to be issued locally. Most producing country insurers will only implement a manuscript policy locally if the local country regulator allows it and the local insurer has the capability of issuing the policy in English.

Insureds should not take anything for granted when considering GLS policies and work with their broker and insurer to understand the pros and cons of GLS versus manuscripted options.

2

How can foreign currency rates of exchange (ROE) impact scheduled values?

Values can be impacted by fluctuations, sometimes volatile, in foreign currency rates of exchange. Consequently, how and when the insured collects information on the insured values can impact the insured's global statement of values (SOV).

Insured values are typically reported in local currency, then converted to the producing or headquarter country currency (e.g. U.S.$) using a single agreed date for the applicable foreign currency ROE. Insured values are then converted back to local foreign currency when the multinational program is bound, incepts and is implemented.

This potential volatility arising from currency fluctuations may not seem materially impactful when an insured has property or locations in two to three countries, but when a multinational program reaches into dozens of countries, the insured's exposure to exchange rate volatility is magnified.

As a best practice, the date(s) for ROE for insured values should be uniform when converting local foreign currency to producing country currency and back. When converting allocated premium from the producing country currency to local foreign country currency, picking an ROE as close as possible to the program implementation date can help minimize volatility.

3

In the event of a business interruption (BI) loss, how is payment calculated in particular countries?

One common and significant difference between U.S. property programs and many GLS policies is how BI values are calculated and covered. The U.S. uses a gross earnings method, while outside the U.S., a loss of profits or gross profits method is the norm. Risk managers should be aware of these differing methods and how BI losses can be adjusted differently from one foreign country to the next. Insureds can work with their insurer to adapt local BI coverage where possible and where it may enhance the multinational property program's efficacy.

Notably, any shortfall in coverage for a BI loss resulting from differing methods of calculating BI may typically be claimed under the U.S. master policy's Difference in Conditions/Difference in Limits or Financial Interest coverage provisions.

Harmonizing program dates as best as possible and practical can help to achieve uniformity and reduce F/X gains and losses.

4

How might companies be surprised by interdependency & contingent time element coverage in local policies?

When it comes to time element coverage in foreign jurisdictions, there are important limitations to consider. Foreign, locally admitted policies typically grant interdependency and contingent time element coverage solely within the policy territory (i.e., within that country's borders). When a property damage loss occurs outside of the country's borders, it might give rise to related business income losses for the insured's in-country entity, but those business income losses will not be covered because the property damage is outside the policy territory. For example, if a French entity suffers business income loss caused by or resulting from a direct physical loss or damage to an affiliate's or supplier's location in New Zealand, its French policy would not cover that business income loss under its interdependency or contingent time element provisions. The French policy could only provide such coverage if the policy is modified to broaden interdependency locations and contingent time element locations beyond its coverage territory. Insureds should be aware of this potential limitation and, if desired, investigate whether adding interdependency locations and/or contingent time element locations outside of the local policy coverage territory by endorsement or manuscript wording is possible and potentially worth pursuing.

5

Should Insureds be concerned by coverage non-concurrencies among captive and panel reinsurers (coinsurers)? If so, what impact could non-concurrencies have on a claim settlement?

Many multinational insureds structure their property program as a "front"—meaning one insurer implements the foreign local policies via its network of local affiliated and/or partner insurance companies, then aggregates and cedes the global exposure to a panel of participating reinsurers that ultimately assume the risk. A "cash flow" program is also a front, but instead the insurance company cedes the program risk (in whole or part) to the insured's captive reinsurer. This raises the peculiarity of various underwriting companies—with varying risk appetites—offering and binding coverage with different terms and conditions, leading to non-concurrencies in coverage. These inconsistencies can leave insureds with gaps in coverage and add complexity to the claims adjustment process.

Insureds should work with their insurance carrier and broker to understand if and where non-concurrencies exist and understand what that means for their program. Modeling claims scenarios enables insureds to preview what to expect and make informed decisions on whether to accept or reject non-concurrencies.

6

How does the creditworthiness of your captive, fronting carrier and panel reinsurers impact program costs and claims payments?

The impact of counterparty credit risk, including how insurers manage their credit exposures and any collateral required to secure credit exposures, should be considered when evaluating the costs and benefits of different fronted and self-insured program structures compared to traditional risk transfer programs. When evaluating fronted program structures, insureds should budget for fronting fees, captive management and associated fees, insurance and reinsurance taxes, foreign excise tax (when using a foreign domiciled captive), and the cost of collateral. Insureds should consider coverage benefits and weigh them against costs, while overlaying their strategic long-term objectives to ensure careful analysis and decision making.

Ultimately every insured is looking to optimize the cost of risk and eliminate attritional losses from the risk transfer program, which only drive-up premium cost, worsen the program's risk characteristics and detract/distract from positive aspects. Attracting a sound and stable panel of reinsurers will provide contract certainty, carrying through to smoother claims adjustment and payment.

Ensuring that a multinational property insurance program works as designed is a complex endeavor that requires close collaboration between the insured, insurer and broker. An experienced and dedicated multinational insurer will take the time to bring clarity to critical issues that can impact coverage and operations around the globe–and help insureds take advantage of all the 'levers' that can be pulled globally to ensure the best possible property coverage and service that works as expected worldwide.

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Chubb Data & Insights:

Chubb's Multinational Research Tool provides our clients and brokers with ready access to answers on questions about global market and compliance issues worldwide. What are our property customers asking most frequently these days?

AML requirements:

Are there AML requirements and/or is approval needed by the local Broker/Insured prior to issuing a local policy?

Potential gaps in coverage:

Are there local regulations that could lead to gaps in coverage?

Local policy capabilities:

Is the policy GLS or can we manuscript a version of the local US policy?

Can local in-country assets be covered via the master policy?

Leading the Way, Locally and Globally

Chubb has the appetite, financial strength, and expertise to insure even the most complex global property portfolios. Whether a company is insuring facilities in a few countries, or structuring fronting and captive solutions across dozens of properties and jurisdictions, our insured can be confident Chubb has the global network, capacity and resources to protect their assets and keep their multinational property program 'in sync' and operating as it should worldwide.

Chubb's global organization spans over 630 offices worldwide. Chubb Global Services is a dedicated team of 350 professionals worldwide –including centralized, multinational-dedicated leadership and specialists in local markets–all working for our clients every day to customize programs and services and keep our clients programs in step with local legal and regulatory developments and our client's expectations and preferences.

Our multinational property clients also benefit from Worldview®, Chubb's proprietary online service platform that provides instant updates and comprehensive reports on virtually all aspects of a multinational program–and gives Chubb clients and brokers more transparency, certainty and control in managing multinational risks.

Elevating multinational risk management.

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