Global Insurance Programmes

Structuring an efficient, cost-effective insurance programme for cross border risks requires a solid understanding of the local market and evolving regulatory environment.

Despite commodity market instability, Africa remains one of the fastest growing regions in world with South African organisations focusing their growth strategies beyond borders. Yet these new growth strategies are creating complex new risks for organisations which demand sophisticated cross-border insurance solutions.

Structuring an efficient, cost-effective insurance programme for cross border risks requires a solid understanding of the local market and evolving regulatory environment. Traditionally, risk managers and insurance buyers have largely focused on whether a local jurisdiction permits insurance from unlicensed insurers to insure local risks - known as non-admitted insurance. As a result of increased capacity and expertise in the local African insurance market, regulators are fast changing their stance on non-admitted insurance coverage as well as exportability of premium and risk out of their respective countries. Many multinational companies are potentially unaware that their global insurance programmes may be subject to regulatory and tax scrutiny in certain jurisdictions, which have the potential to lead to unanticipated reputational and financial repercussions at claims stage.

According to Neil Beaumont, Business Development & Global Accounts Manager at Chubb Insurance South Africa, the primary purpose of a global insurance programme is to maximise global insurance capacity and minimise cost, whilst maintaining centralised control over risk management and risk transfer practices. Global insurance programmes offer organisations a consistent global approach to coverage terms, conditions and financial limits while augmenting the ability to consolidate loss information, thus enhancing loss control practices and procedures. They also help to ensure that insurance arrangements meet all necessary local regulatory requirements.

"Structuring a global insurance programme requires an in-depth understanding of the transactional elements of cross-border insurance, particularly as this relates to local tax and insurance regulatory requirements," Beaumont says. "The structure should carefully consider the relevant regulatory regime of each jurisdiction. The reality is that the world is not as interconnected and homogenised from an insurance regulatory perspective as we might wish it to be. With no global standard for insurance regulation or a consistent application of insurance law worldwide, a compliance analysis of local regulations governing insurance is critical.

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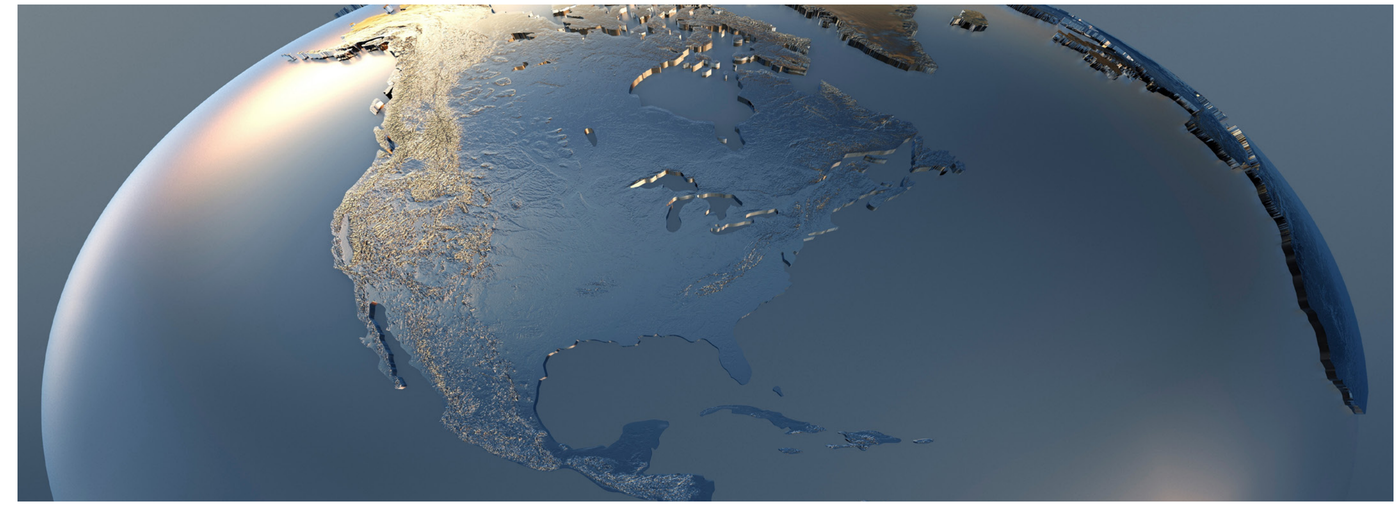
"Risk managers and insurance buyers also need to consider that global programmes have evolved beyond the standard compliance question of whether insurance is "admitted or non-admitted" in a given territory. Risk managers and insurance buyers need to be thinking about their multinational risks and where they can best access available, dynamic capacity not only for core lines such as property, general liability, marine or directors and officers but increasingly also specialty lines such as business travel, group personal accident, cyber, environmental liability and stand-alone terrorism protection,"

Typically, multinational organisations have pursued three different routes when it comes to insuring their multinational risks:

1. The first is to make insurance and risk management the responsibility of each subsidiary in the form of **separate, unrelated insurance policies**. However, this means that the multinational parent has no control over the process and the quality of cover. It is difficult to administer and inevitably presents unintended coverage gaps which can have significant negative ramifications for both the subsidiary and parent company. In addition, there is a lack of claims service consistency across all subsidiaries and increased premium charges and cost inefficiencies from a global perspective.

2. The second approach is for the multinational company to adopt a **single insurance policy worldwide** that covers both parent company and all subsidiaries.



This approach has many flaws, most significantly compliance with in-country regulations and tax laws. In some instances, claims settlements received from another jurisdiction may be subject to tax as this money is treated as income in the profit and loss account. It is not simply a question of whether a claim will be paid but rather also where a claim will be paid and what the legal implications are. In some country jurisdictions, an insurance settlement from an insurer that is unlicensed to operate in the subsidiary country may not be allowed at all, leading to a complete inability to handle and settle an insurance claim. This is a highly ineffective approach that is fraught with financial and reputational risks.

3. The third option, and the most practical and effective solution, is the structuring of a **global insurance programme** or a controlled master programme that comprises global network of local policies that are integrated through reinsurance. The programme starts with a global insurer and broker that can reinsure and provide a local insurance policy for the parent company, its subsidiaries and affiliates in each of its operational regions. A global insurance programme provides for compliance with complex regulatory and tax regimes, the ability to pay claims locally and efficiently; control over risk management practices; cost efficiency; consistency of coverage and claims service and enhanced customer outcomes.

"When considering a global insurance programme, it is crucial to align the capabilities of the insurer and local broker, relative to the insured's global exposure," Beaumont says. "It is of great importance to investigate whether the capabilities of the insurer and broker will meet expectations, at acceptable service standards and that the people who will be servicing the multinational insurance programme are accessible. Insurance brokers, risk managers and all other buyers of global insurance should work with an insurer and consider whether they also need assistance from an independent financial or tax advisor."

Key considerations for risk managers and insurance buyers to keep in mind when structuring a global insurance programme:

1. Know your corporate structure: how is the business organised globally– is it a partnership, subsidiary, wholly/partially owned etc?
2. Location of claim and payment: where is the claim for the parent/subsidiary best paid and not paid?
3. Breadth of local policy coverage: are there coverage gaps in local policies even when local policies are deemed compliant and how can the gaps be best addressed?
4. Ancillary agreements: are there non-insurance contracts that may influence what is or is not covered in the insurance contract?
5. Transparent service: can the client/referring broker view/download local policies, view/download claims and access local contacts, including local brokers, for specialty lines such as cyber, business travel, terrorism, environmental liability, in addition to multinational core lines of business such as property, general liability, marine and directors and officers?

"Structuring an effective global insurance programme is a task that needs to be undertaken with great care and consideration, in partnership with an experienced insurer that is able to deliver a coordinated approach to managing your risk," Beaumont says. "The threshold question for any risk manager and insurance buyer to ask is: is your insurer making it easy for you to manage your programme? Ultimately, it's people, presence and technology, all together in one seamlessly integrated, transparent package, that make global programmes successful. Chubb leverages its global resources and presence to create customised insurance programmes that address clients' specific risks and requirements around the world, achieving consistent worldwide protection and limits, while addressing each country's tax and regulatory requirements.