



ACE EUROPEAN RISK BRIEFING

CHANGING MULTINATIONAL RISKS
AND EVOLVING SOLUTIONS

September 2014



insured.™

FOREWORD

European companies are becoming ever more international in outlook, as globalisation continues and as economic weakness at home drives the search for revenue further afield, especially in emerging markets. But this growing internationalisation exposes them to greater complexity and almost nine out of ten companies in this study say their risk profile is, in turn, becoming more multinational.

Achieving consistent, compliant insurance cover is becoming difficult under traditional approaches that depend on a single global policy or a patchwork of uncoordinated local arrangements. A comprehensive multinational programme is usually a better solution. Our study of risk managers across major European markets shows that multinational insurance programmes are now widely held to provide greater consistency of cover, reduce the risk of non-compliance and potentially to help drive down the cost of insurance.

Multinational programmes are rapidly becoming the industry standard. Indeed, the most telling statistic for me from this study is that 83% of European risk managers expect to increase their use of multinational insurance programmes over the next three years.

In addition to traditional risk areas such as property and casualty, this report highlights a trend among risk managers towards managing specialist and emerging exposures within a multinational programme structure. This is a trend we are certainly seeing at ACE, from business travel and group personal accident risk to directors and officers and environmental liability.

Our research also points to some specific areas for improvement. Fewer than 30% of risk managers are currently very satisfied with overall service levels from their insurer in respect of their multinational programmes. Fewer still are very satisfied with claims performance (surely the

acid test of any insurance programme), insurer responsiveness to their budgetary pressures, consistency of coverage and availability of effective technology solutions.

All of these are areas where ACE continues to invest in building out its multinational proposition, and our recent launch of a new Global Accounts division highlights our focus on providing a consistent and client-focused service, wherever a corporation is based. Ultimately, we also recognise that every good multinational programme is the result of a close partnership between the client, their broker and insurer, and we look forward to working with intermediaries and risk managers across Europe – and beyond – to meet their evolving needs.



A handwritten signature in black ink, appearing to read 'A. Kendrick', with a long horizontal flourish extending to the right.

Andrew Kendrick
President
ACE European Group

EXECUTIVE SUMMARY

Companies are increasingly concerned about the risk management implications of their rising exposure to emerging markets and the growing complexity of regulation.

These are the top two concerns identified by respondents in our research. Both are driving increased complexity and leading to a change in their loss experience. Two-thirds of respondents say that they are experiencing more claims outside their home market and three-quarters say that their multinational claims experience has become more complex generally.

Companies are most worried about the changing liabilities their multinational operations face.

What stands out from this study is risk managers' perception of heightened cross-border liability risk. No fewer than four of their top six 'multinational risks' relate directly to liability issues. These include professional indemnity and directors and officers liability, highlighting the increasingly challenging operating environment for decision-makers in a more globalised and post-crisis world. Environmental liability is also among them, underlining a growing awareness of new and emerging liabilities on a global scale. Cyber risk, which has a significant liability dimension too, is also in the top six and expected to grow in significance.

There is a strong trend towards greater use of multinational programmes among European risk managers.

83% of companies expect to increase their use of these programmes over the next three years to help secure and protect their global assets. This compares with around half of companies who say they have a multinational programme in place today. Based on our sample, risk managers in Europe increasingly see multinational insurance programmes as an optimal solution for managing their global insurable risk.

The top two perceived benefits of a multinational insurance programme are improved consistency and compliance.

Companies that are already using multinational programmes have two main objectives. First, they want to improve the consistency of their insurance coverage around the world. Second, they want to be more certain that their insurance arrangements are compliant with changing and increasingly complex regulations. A significant minority of risk managers also believe their multinational insurance programmes allow them to make the claims process more efficient and that they can help them to control cost through economies of scale.

Multinational companies most want breadth and depth of underwriting capabilities from their insurer, while quality of service is also key.

Apart from a strong balance sheet, which should be regarded as “a given”, the key criteria for choosing a multinational insurer among European risk managers are depth of underwriting expertise, breadth of underwriting capability, and consistency and breadth of coverage. These demands appear to relate back closely to their concerns about the growing complexity and range of multinational risks to which they feel exposed. There is also a strong focus on service: more than one-third of risk managers want to have agreed service standards in place with their insurer, while one-quarter point to the importance of an effective global network and quality of claims resolution.

Risk managers want more practical support from their insurance partners to help them manage their increasingly complex multinational insurance programmes.

Key challenges, according to our respondents, include delivering the correct DIC/DIL arrangements, ensuring local policy compliance and settling claims across borders. Areas where managers would like to see improvement from insurers include technology solutions and consistency of cover. Companies also expect their insurer to play a key role in helping them track the status of their active programmes. Overall, whether the task is designing and implementing a programme, measuring its performance or providing management information, risk managers expect an effective three-way relationship with both broker and insurer playing their part.

ABOUT THE RESEARCH

As part of its ongoing series of European Risk Briefings, ACE Insurance produced this research report in collaboration with Longitude Research. The report derives from two primary sources.

First, we conducted a survey of 280 companies across Europe:

- 19% of respondents were from Spain; 13% from France and 13% from Italy; 11% from Germany and 11% from the UK; and 10% from Switzerland. The remainder were spread across other European countries.
- Key sectors represented include financial services (20%); automotive (11%); consumer goods (9%); retail (8%); chemicals (6%); and 5% each from freight and logistics; industrial equipment and manufacturing; education and research; and engineering and construction.
- 19% of respondents represent companies with annual revenues in excess of €5bn; 40% between €1bn and €5bn; and 41% between €500m and €1bn.
- 53% of respondents were risk managers; 31% risk directors; 10% insurance managers; 4% chief risk officers; and 2% other risk executives.

Interviews were conducted online in the early summer of 2014 by Longitude Research on behalf of ACE. Respondents were chosen at random from a pre-selected database and were screened for eligibility. Participants spent an average of 20 minutes on the survey. They were not compensated for their participation.

Then, we held qualitative interviews with a variety of senior corporate risk and insurance managers. We would particularly like to extend our gratitude to the following individuals, who gave in-depth interviews with our research team:

- Otto Bekouw, Head of Insurance & Risk Management at Royal Philips, Netherlands
- Massimiliano Furlanetto, Insurance Risk Manager, Barilla, Italy
- Armin Gutmann, Head of Property and Casualty at Funk Insurance Brokers AG, Switzerland
- Michael Heimbürger, Director International Risk Management & Insurance, Mondelez, Switzerland
- John Hurrell, Chief Executive, Airmic, UK
- Alexander Mahnke, CEO of the Insurance Unit at Siemens Financial Services, Germany
- Praveen Sharma, Global Practice Leader for Insurance Regulatory and Tax Consulting at Marsh, UK
- Mark Simpson, Vice President for Risk Finance at InterContinental Hotels Group PLC, UK
- David Vigier, Group Director, Insurance and Risk Management at Europcar International, France

CHAPTER 1

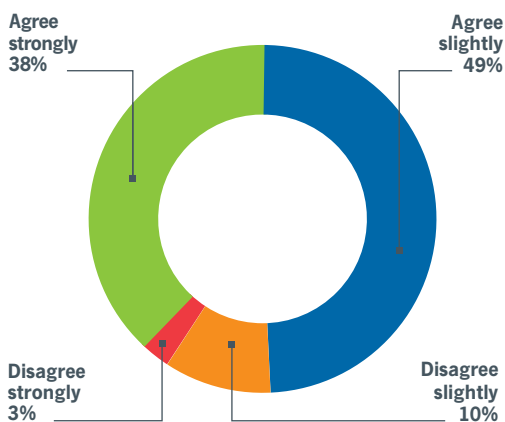
A growing multinational risk profile

Complexity of exposures and claims

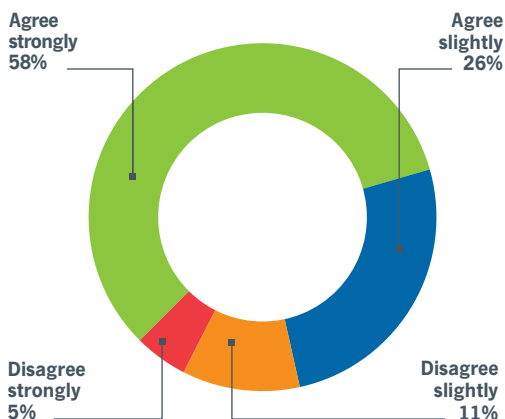
European companies are becoming increasingly global – in both their geographical footprint and revenue mix. In addition to trade within the EU, many European firms, faced with weaker growth opportunities at home, are expanding further afield. The vast majority of companies in our survey (84%) say that their physical footprint has become more multinational over the past three years; even more, some nine out of ten, say the same of their revenues (see chart 1).

Chart 1: Please indicate whether you agree with the following statements.

Our risk profile has become more multinational over the past three years



Our physical footprint has become more multinational over the past three years



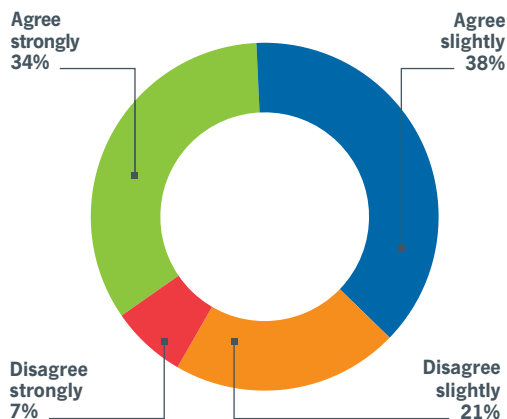
This growing internationalisation has exposed companies to greater risk and complexity. Almost nine out of ten companies say that their risk profile has become more multinational over the past three years, a trend probably amplified for companies with emerging market exposure. These economies offer significant growth opportunities, but from both a commercial and regulatory perspective, they are changing rapidly.

Claims are also becoming increasingly complex and multinational. Two-thirds of risk managers say they are experiencing more claims outside their home market, and 72% say the multinational claims they face have become more complex (see chart 2). This important subject is discussed in greater detail in **chapter 4**.

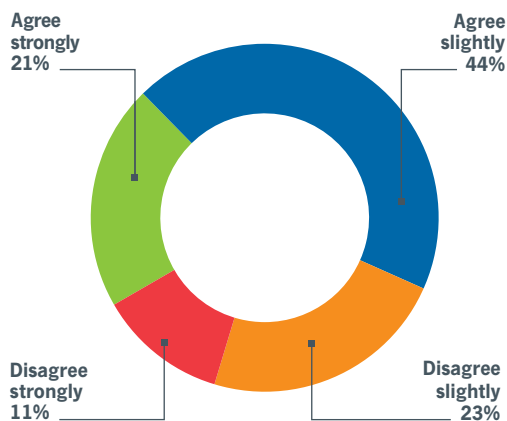
Otto Bekouw, Head of Insurance & Risk Management at Royal Philips, suggests that this may be related to high levels of litigiousness both in the United States and, perhaps increasingly, around the world. This is a theme which chimes well with the findings of our research, as explained later in this chapter.

Chart 2: Please indicate whether you agree with the following statements.

Compared with three years ago, the multinational claims we experience are becoming more complex



Compared with three years ago, we are experiencing more insurance claims outside our home market



There is no doubt that the complexity and volatility of insurance claims are increasing. The markets where we operate are getting more sophisticated from a legal, supply chain management and insurance standpoint.

Alexander Mahnke,
CEO Insurance, Siemens

Previously, risks were more clearly delineated along geographical lines; today's extended supply chains have brought a new level of complexity. Praveen Sharma, Global Practice Leader for Insurance Regulatory and Tax Consulting at Marsh, points to the challenge a company may face in identifying product liability exposure when manufacturing, storing and selling their products in different countries. "Consider the case of a company manufacturing in China, storing products in Taiwan and then shipping them out and selling them in Brazil, India, China and the US. Where, and to what extent, does the product liability exposure exist? And how should it be insured in a compliant manner such that the insurance policy is capable of responding according to the expectations of the insured?"

Causes for concern

The two leading drivers of concern about multinational risk are increasing **exposure to emerging markets**, cited by 48% of respondents, and the **increasing complexity of regulation and compliance** around the world, identified by 44% (see chart 3).

Chart 3: What are the main reasons that you have become more concerned about the overall risk exposure of your multinational operations in the past three years?

1	Our increasing exposure to emerging markets	48%
2	Increasing complexity of international regulatory and compliance requirements	44%
3	Our increasing exposure to new trade corridors and patterns	37%
4	Our expanding geographical footprint	36%
5	Our increased dependency on overseas earnings	31%
6	Increasing divergence between national regulatory / compliance frameworks	29%
7	Greater board focus on risk management following the financial crisis	21%
8	Our increasingly complex supply chains	14%
9	Increased public scrutiny of corporate behaviour, overseas working conditions, money laundering, tax payments	10%

These two concerns are closely linked. In many emerging markets, regulation is changing quickly and rules may still be under development or not always consistently enforced. Foreign companies can all too easily get caught out.

We are seeing an increase in the number of claims in China because we are growing so dynamically there. But the complexity, laws and business practice are very different from traditional, developed markets.

A senior European risk manager

Increasing regulatory complexity

There are myriad laws that determine how companies can (or must) buy insurance. Regulatory requirements vary widely across countries. Each market has its own rules on licensing, whether exporting of premium is permissible and under what circumstances. Rules on captive, self-insurance and retention strategies vary. There are also often specific tax requirements and rules for different risk classes.

Moreover, the intensity of regulation is increasing globally. Regulators in many countries are taking a more aggressive approach to enforcement of local laws, including insurance. As securities, insurance and tax regulators increasingly collaborate across borders, the possibility that companies may experience conflicts with regulators also rises. At present, around 40 insurance regulators have signed the Multilateral Memorandum of Understanding (MMOU) issued by the International Association of Insurance Supervisors. This would enable the regulators to exchange information with each other about the activity of the insurer. Consequently, many global insurers have changed their modus operandi regarding how they will participate on a global programme.

Several countries do not permit the purchase of coverage for local risks from non-admitted insurers, while others only allow it subject to certain conditions. In restrictive countries, such as Brazil, Russia, India and China, the use of non-admitted policies may increase the likelihood that a policy may be treated as void, significant penalties may be levied against the claimant or claims payments may be confiscated. Consequently, an increasing number of global insurers have started to include a Financial Interest Cover clause in the master policy to ensure that neither the insurer nor the local insured could be seen to be in breach of the local insurance regulation.

More broadly, non-compliance may lead to fines and penalties, negative publicity and the risk of reputational damage – a risk to which companies are becoming more exposed as well as their insurance partners. This is especially the case for industries that have traditionally been more tightly regulated, or where regulation is increasing.

Companies need to know what coverage is compulsory in a given territory, as well as where and from whom they can buy insurance. This kind of information can often change and be difficult to obtain, making it challenging for companies to insure multinational risks in a cost-effective way and ensure they are compliant. To fill this gap, the UK risk managers' association Airmic has recently launched a global database for policy-holders that provides a comprehensive one-stop source of information on local compliance requirements around the world.

Growing diversity of global risks

Multinational operations are today exposed to many risks. Casualty is the biggest potential multinational exposure according to the risk managers we surveyed, but the multinational risk agenda is no longer confined to the more traditional property and liability concerns (see chart 4). What is most striking is the strong emphasis on specialist and emerging liability risks.



If it's a regulated company, like a financial institution or pharmaceutical there is an increasing level of concern at the general management level, not just about insurance, but about making sure that they don't fall foul of local regulators and lawmakers.

John Hurrell, Chief Executive, Airmic

Chart 4: Which of the following risk areas do you think create the greatest risk exposures for your multinational operations today?

1	Casualty	36%
2	Environmental liability	29%
3	Property	27%
4	Cyber risk	26%
5	Professional indemnity	26%
6	D&O	23%
7	Fidelity / crime	16%
8	Political and trade credit risk	15%
9	Power generation / machinery breakdown	11%
10	Marine	10%
11 Business Travel 9%, 12 Group personal accident 5%, 13 Construction risk 4%, 14 Terrorism 1%		

For example, the second biggest risk area, according to respondents, is environmental liability. Any commercial or public organisation owning or associated with property faces potential environmental liabilities, either from past activities on the site or future actions. Growing pressure to be socially and ethically responsible, greater public awareness of pollution and advances in detection and clean-up technologies have made companies more aware of environmental liabilities. Moreover, the rules and regulations governing environmental exposures vary widely and are, in many cases, changing rapidly.

Chart 5: Which of the following risk areas do you expect to create the greatest risk exposures for your multinational operations in three years' time?

1	Casualty	36%
2	Cyber risk	28%
3	Environmental liability	28%
4	Property	26%
5	D&O	24%
6	Professional indemnity	23%
7	Fidelity / crime	14%
8	Political and trade credit risk	14%
9	Power generation / machinery breakdown	10%
10	Marine	10%

11 Business Travel 9%, 12 Group personal accident 5%,
13 Construction risk 5%, 14 Terrorism 1%



CHAPTER 2

Multinational insurance solutions

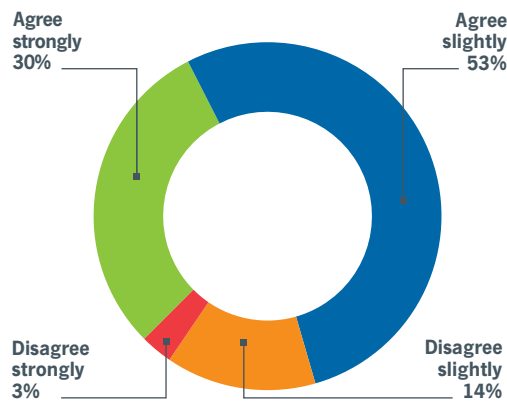
This research clearly indicates that European risk managers believe that carefully constructed multinational insurance programmes are an effective way to manage today's more complex risk exposures. Just under half (49%) say that they currently have one or more global multinational insurance programmes in place. But, in the next three years, 83% say that they intend to increase their use of multinational insurance programmes (see chart 6). Risk managers indicate that they want the combination of local knowledge and compliance certainty with an overarching programme that provides economies of scale and consistency of coverage.

Multinational programmes give companies a combination of control from the centre, and a single point of contact, with an underlying network of relevant expertise and knowledge in the local markets. This gives them the confidence that they have a consistent approach to their cover, while also providing assurance that the specific needs of the local market are understood.

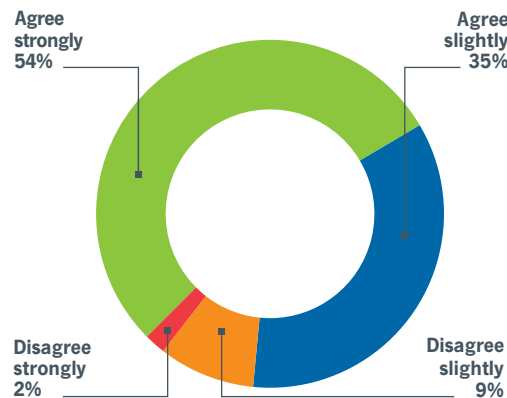
Rémy Massol, Multinational Director for Continental Europe, ACE

Chart 6: Please indicate the extent to which you agree or disagree with the following statements.

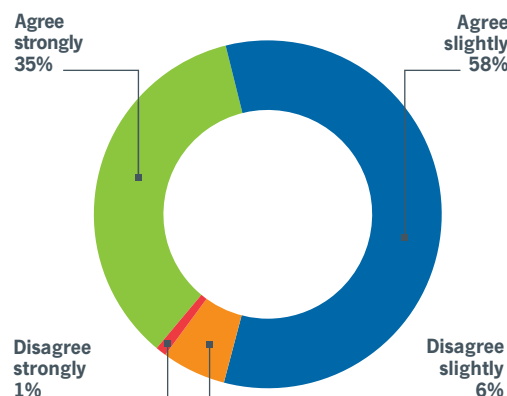
My company's use of multinational insurance programmes is likely to grow over the next three years



I prefer to have a single point of contact at my insurer to help co-ordinate our multinational insurance needs



My company is concerned by the implications of continued regulatory and compliance change on its multinational risk management and insurance



A multinational programme can be structured in a number of ways – at the parent level, at the subsidiary level, or through a combination of the two. In today’s complex regulatory and operating environment, Mr Massol says that the most appropriate solution may be to take a ‘bottom-up’ approach which focuses on identifying any requirements for local policies, supplemented by a ‘top-down’ approach that ensures the potential gaps in those local policies are properly covered by excess DIC/DIL arrangements.

This is different from traditional approaches, for example where companies purchased a global master policy – one that they assumed would protect them and manage risks in every country globally where they had exposure. But this is, increasingly, a dangerous assumption to make.

“To a large degree these and other discussions about structure are fuelled by a simplistic and sometimes misguided view that, provided that a particular reference source says that non-admitted insurance is allowed in a given country, there is no need for a local policy and insurance can be provided by a policy issued in the home domicile of the parent company.” Clive Hassett, Director of Multinational Services for ACE in Europe.

Risk managers and their insurance market partners must be careful to ask the right questions before implementing a multinational insurance programme. However, an experienced, independent

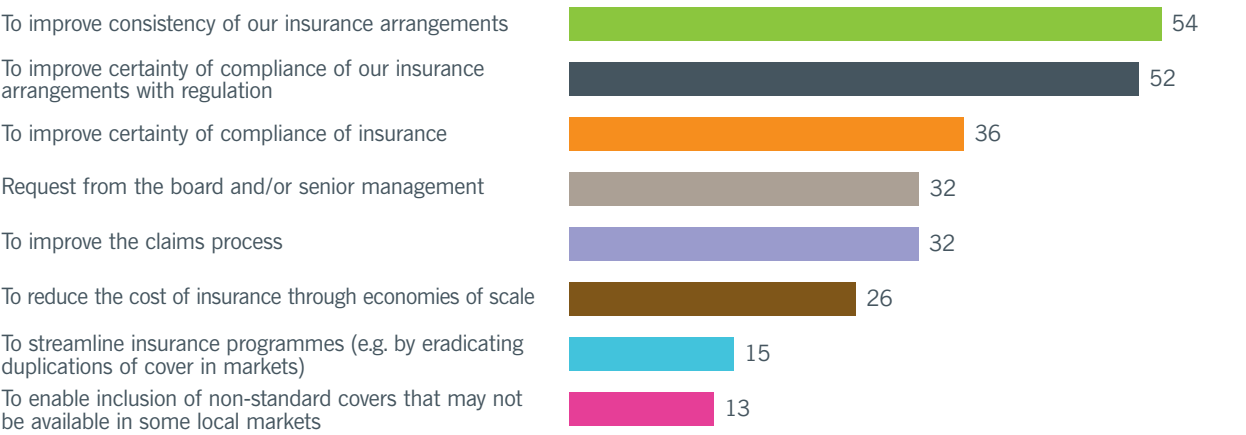
team of accounting, legal, tax and financial specialists – including an insurance broker and carrier with international experience – should be able to help structure a comprehensive and compliant programme that satisfies the needs of the client, the broker and the insurance carrier.

Benefits of multinational programmes

Companies that have already implemented multinational insurance programmes point to two broad reasons for doing so. First, these programmes provide greater consistency for their insurance arrangements around the world. Second, they improve certainty – both in terms of their insurance arrangements being compliant with regulation, and their confidence about any coverage gaps being filled (see chart 7).



Chart 7: If your organisation has one or more multinational insurance programmes in place, or intends to put one or more in place in the next 12 months, what are the main reasons for doing so?



Consistency

As they expand internationally, companies are seeking consistency and uniformity across their insurance arrangements. “What you want at the time of deploying a multinational insurance programme is consistency,” says David Vigier, Group Director, Insurance and Risk Management at Europcar International. “While it is critical that insurance programmes are respectful of local law and regulations, you want consistency in the way the insurance papers are issued in various countries, consistency in the way the claims process operates, and also in the way reporting gets conducted.”

A decentralised approach where each subsidiary or country operation handles its own insurance arrangements results in a patchwork of individual policies with separate underwriters in each local market. There tend to be significant differences in coverage by seemingly similar policies issued by different insurers in various countries, a problem that is exacerbated by diverse national laws and varying requirements for different types of cover. “There are huge differences in the coverage quoted by insurers; there is no consistency between different quotes,” says Armin Gutmann, Head of Commercial Business at Funk Insurance Brokers.



If you insure with only individual local policies, you never know if the cover is enough for your business due to the language and local practices. With multinational programmes, you always have the master programme as an umbrella with a warranty that you have duly discussed with the global insurer.

A senior European risk manager

Mark Simpson, Vice President for Risk Finance at InterContinental Hotels Group, believes that his company's use of multinational programmes offers considerable benefits in terms of consistency. “It enables us to protect our assets, colleagues and guests efficiently and effectively in the same way around the world,” he says. “We are trying to get a common way of working, a standard everywhere, that enables us to protect and enhance the global brand.”

Compliance

Compliance is an increasingly complex concern for many European industries. In today's era of intensifying regulation and corporate scrutiny, and the related risks to reputation, risk managers need to be confident that their insurance programmes are transparent and compliant – and they need to be able to demonstrate this. Increasingly, companies combine local policies within a multinational framework to increase compliance certainty.

Michael Heimburger, Director of International Risk Management and Insurance at Mondelez, outlines the benefits of local policies for his company. “We have already established local policies for liability, excess liability and marine cargo, as well as for D&O (directors and officers). The benefits are that we have compliance certainty, and we do not have to be concerned that we're not meeting local laws and regulation. If a claim happens, we would be able to settle it locally.”

Why have some companies not yet implemented multinational insurance programmes?

Our survey shows that not all companies are convinced of the value of multinational insurance programmes. The biggest concern, identified by 54% of those respondents who do not have a multinational insurance programme, is the effectiveness of claims resolution. As we have seen, a more multinational trading environment has led many companies to experience an increase in claims outside their home market, and generally these claims have become more complex.

Yet, the experts interviewed for this report agree that robust multinational insurance programmes, consisting of local policies supported by a master policy with appropriate DIC/DIL (Difference in Conditions/Difference in Limits) arrangements, should be a significant driver in increasing claims certainty, not reducing it. Appropriate DIC/DIL would include a Financial Interest clause, which is added to the master policy to clarify and insure the parent company's financial interest in the local entity.

The cleanest and most compliant way to structure a multinational insurance arrangement is to have local policies in place in each country," says Clive Hassett of ACE. "In the event of a claim, it is much more straightforward to settle it if there is a local policy in place, rather than trying to settle claims across borders.

Clive Hassett, Director of Multinational Services for ACE in Europe

A similar factor preventing some risk managers from implementing a multinational programme relates to their concerns about the difficulties in managing associated tax issues, but Mr Hassett believes that the same logic applies to this argument.

Some respondents (46%) hold the view that their operations are not sufficiently multinational to warrant multinational insurance programmes. Such programmes are not appropriate for some domestically focused companies. But even companies with limited international exposures can benefit from these programmes, especially if their operations span regions where insurance regulations are likely to differ.

Consider a company that has operations in the UK, US, Switzerland and China. Despite only having operations in four countries, a single global policy issued by a EU-based insurer will not be able to cover the risks in the latter three jurisdictions, due to significant differences in regulation across these markets.

Another reason why companies may stick with the single global policy approach is cost. Yet a perception of value for money in the short term can prove to be a false economy. "A company that invests large sums of money in a new market, but then does not cover that investment with a local policy that may only cost a fraction of that investment is likely to endure a costly experience should a loss occur in that market," warns Mr Hassett. "It is often only when a company tries to make a claim that it discovers the true benefits of its cover."

Indeed, more than a quarter of respondents to our research agree that multinational programmes have a positive impact on costs by driving economies of scale, while 15% point to their benefits in streamlining insurance programmes generally, for example by reducing duplication.

Responding to new risks

Another factor supporting the trend towards more multinational insurance programmes is the growing range of risks that insurers offer to cover. Underwriters are looking beyond traditional lines, such as property and casualty, to emerging risks. “The market is changing in a positive way,” states Mr Bekouw. “There are more solutions being offered.”

Mr Simpson says that InterContinental Hotels Group is continuously looking to expand the risks covered by its multinational insurance programmes. “We have a global business and we would like more multinational programmes for things that are currently difficult to place on a global basis,” he says.

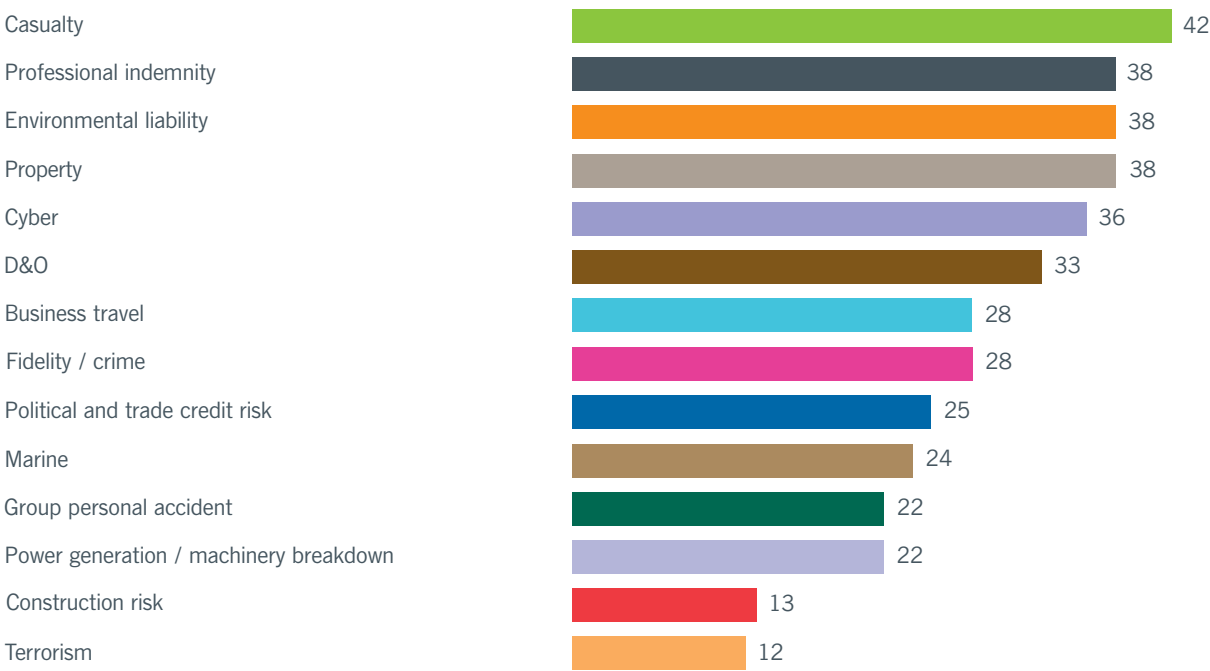
Asked about the categories of risk for which they would consider implementing multinational programmes over the next 12 months, respondents again point to more specialist liability-based risks, such as professional indemnity, D&O and emerging risks, such as cyber (see chart 8), alongside the more traditional property and casualty categories. This highlights the increasing demand that companies have for multinational insurance across

a broad range of risks, and also emphasises the opportunity for insurers and brokers with the right underwriting skills and global experience.

The bottom line is that the traditional, single ‘packaged’ protection of various standard D&O policies may be subject to challenge – either from a company’s directors or officers who expect certainty, or from local regulators in an overseas market who demand compliance. A multinational company can only protect itself and its people adequately by separating the elements of D&O cover and considering their interplay within an effective global programme structure.

Rémy Massol, Multinational Director for Continental Europe, ACE

Chart 8: Which types of risk would you consider integrating into a multinational insurance programme over the next 12 months, subject to availability?



CHAPTER 3

Designing and implementing a multinational insurance programme

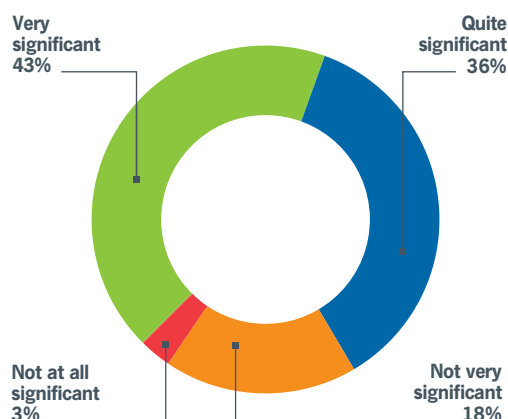
Any successful multinational insurance programme depends upon a collaborative three-way relationship between client, broker and insurer. “We place a lot of emphasis on our partnership with our insurers – we need to co-operate and grow together,” says Massimiliano Furlanetto, Insurance Risk Manager at Barilla. “This works both ways. Insurers need to propose programmes that meet our needs, rather than just offering existing packages. For our part, we need to make sure we offer insurers good information on our changing risks.”

Brokers play an especially important role in providing service for clients, including answering local questions and helping to compile or validate risk exposure data. They are also key to designing any multinational programme. “The task of the broker is to understand the risks of the client, make a risk analysis and put together specifications for the programme,” says Mr Gutmann. “The insurer can come up with inputs, such as how to structure programmes better or ensure they have special capabilities to improve specifications. But the overall structure and crafting of an international programme is the job of the insurance broker.”

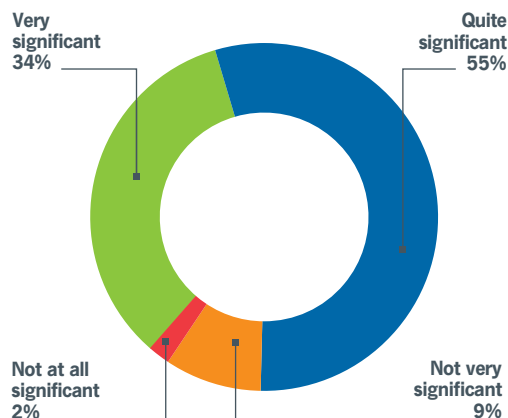
European risk managers want insurers to play a role in most aspects of designing and managing a multinational insurance programme – and especially in providing them with the management information they need on any programme in force (see chart 9).

Chart 9: How significant a role should insurers play in the following aspects of structuring a multinational insurance programme?

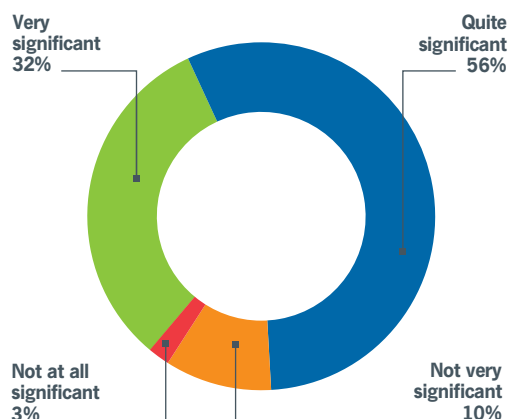
Providing management information on multinational programmes in force



Providing advice on structuring and implementing multinational programmes



Measuring performance and service standards of multinational programmes in force



Meeting the needs of European risk managers

What do risk managers most want from an insurer when it comes to managing their multinational risks? When choosing an insurer, companies are concerned about balance sheet strength (identified by over half of companies surveyed), the depth of underwriting expertise, the breadth of underwriting capability and consistency of coverage (see chart 10).

Chart 10: Which of the following factors are or would be most important to you when choosing an insurer to work with to develop a multinational insurance programme?

1	Balance sheet strength	51%
2	Depth of underwriting expertise	47%
3	Breadth of underwriting capability (i.e. across many lines of business)	46%
4	Consistency of coverage	45%
5	Breadth of coverage	43%
6	Low cost of insurance	41%
7	Agreed service standards	34%
8	Degree of ownership and control over global network	25%
9	Quality of claims resolution	24%
10	Local compliance knowledge	16%

11 Capability to help us manage and monitor programme status in real time (e.g. at country and policy level) 14%, 12 Effective technology solutions for managing partners 7%, 13 Strong client relationship focus 6%, 14 Capability to provide solutions in countries where non-admitted policies are prohibited 5%

Balance sheet strength is inevitably a key priority, but when choosing an insurer, it should probably be regarded as a given. Meanwhile, the focus on underwriting is driven in part by the growing range of multinational risks to which companies are exposed. This also suggests that a traditional proposition, covering only mainstream property and casualty risk, is no longer enough. “Obviously, we look at the financial strength of all our business partners,” says Alexander Mahnke, CEO Insurance, Siemens. “We also look at the underwriting and claims handling expertise. This is a very important area for us when we choose insurers.”

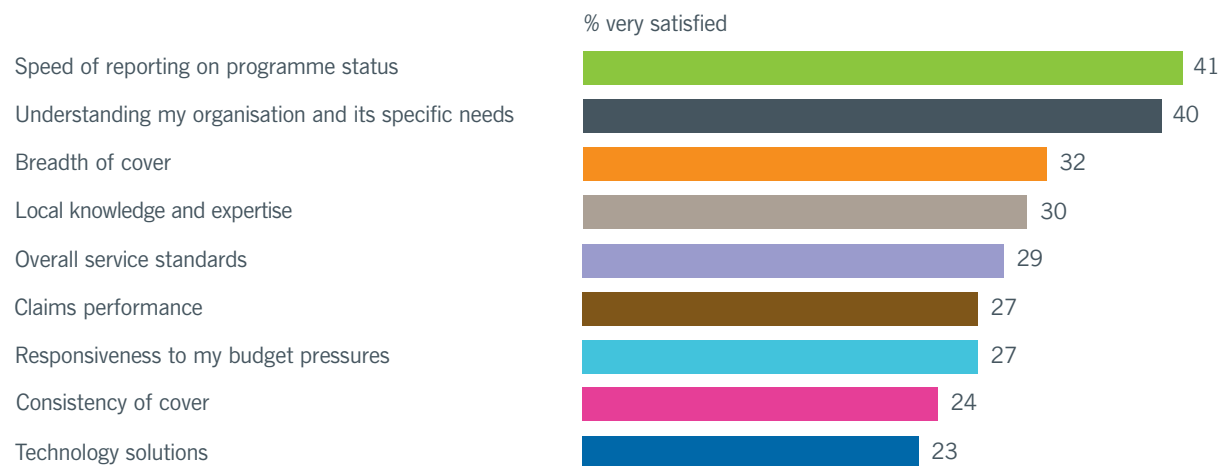
Further, one-quarter of respondents identify an effective global network as a key factor when choosing an insurance company. “We want our insurers to be big companies with strong financial capabilities,” says one senior European risk manager. “We also need them to have a big network and a good presence globally because we need to issue local policies in 51 countries.”

Service standards

Cost is not always the determining factor when selecting an insurer – the survey shows that risk managers are also strongly focused on quality of service matters. “The level of servicing is very important, particularly in the day-to-day issues,” agrees a senior European risk manager. “They need to issue policies, send invoices or renew the programme in a reasonable time. We demand quite high levels of service.”

This research highlights some areas where insurers could improve the service they offer. Respondents are least satisfied about technology, which relates to the issue of information sharing (see chart 11). Risk managers want a steady flow of information and rely on insurers’ technology platforms to provide them with this. One senior European risk manager interviewed for this report says that companies want online access for claims as well as policy and invoice issuing, and some insurers are starting to provide this.

Chart 11: How satisfied are you with the performance of your current insurer(s) for your multinational programmes in the following areas?



We have excellent communication with the global insurers for each line; they know how important servicing is for us. We are getting the level of service that we request. In the past three years, we have been very lucky because companies were open to our demands... We want a company that listens to us and does their best to solve all the problems we may have with our international programmes. We need fluent communication and we need to know that we can pick up the phone and talk to the CEO of the company, and that he or she will be there to address the issue. We work with companies that can give us this type of service.

A senior European risk manager

Mr Mahnke also believes that progress is being made, but slowly because insurers did not develop technology-based solutions quickly enough. “Most large companies, both brokers and insurers, are in the process of creating these solutions, but they should have been around already,” he maintains. “There is also no standardisation – most major insurers have their own IT platforms and they don’t co-operate with each other.”

There is also relatively low satisfaction with the responsiveness of the global programmes to budget pressures. This may partly relate to cost. While trying to assure compliance and manage risks, companies are also keen to keep the costs of insurance in check. “Multinational companies are trying to ensure that the total cost of risk is as acceptable as possible, while the coverage is as broad as possible and the overall programme is as compliant as possible. Risk managers and their advisers need to be practical and pragmatic when designing a global programme – and achieve a balance between cost, coverage and compliance – or the 3C concept,” says Mr Sharma.

Another budgetary issue for companies operating in multiple jurisdictions is to avoid unexpected tax surprises. Mr Sharma highlights that tax arrangements on insurance vary between countries.

For example, in Europe, the insurer will typically collect and remit the tax on the premium, but elsewhere the tax responsibilities may fall on the local insured. “That’s where sometimes multinationals get caught out because they don’t know about those premium taxes that they have to pay themselves and, as a result, when they get audited they get an unbudgeted tax surprise,” says Mr Sharma.

Two other areas with low satisfaction, covered in more detail in the next chapter, are consistency of cover and claims performance. Many companies feel that their insurers are still not delivering on consistency of cover, as they struggle to grapple with increasing complexity. On claims performance, interviews suggest that speed and transparency are the key concerns.

Communication is key

As a more general indicator of service levels, a number of the risk managers we interviewed place great emphasis on communication. “Instead of a heavily complex set-up, we want strong and open communication between the carrier and the customer, as well as a focus on service delivery – fast and error-free issuing of policies and invoices, and a premium collection process,” says Mr Bekouw.



CHAPTER 4

Practical challenges in managing a multinational programme

Multinational insurance programmes help with corporate governance and allow greater control and consistency of risk and insurance processes. But in today's increasingly regulated operating environment, managing a multinational programme can be complex and time-consuming.

DIC/DIL challenges

Above all, European risk managers point to the challenges in delivering the correct DIC/DIL arrangements, ensuring local policy compliance, gathering timely information to assess the status of the programme and settling claims across borders (see chart 12).

Chart 12: If your organisation has a multinational insurance programme in place, what are the most challenging aspects of managing it?

1	Ensuring the correct difference in conditions / difference in limits arrangements	47%
2	Ensuring local policy compliance	42%
3	Gathering timely information to assess the status of the programme	42%
4	Settling claims across borders	36%
5	Managing tax-related issues, e.g. transfer pricing requirements, premium taxes	28%
6	Keeping up with a changing risk environment	23%
7	Finding time / resource to manage the programme internally	18%
8	Keeping track of changes to the business that might alter our insurance needs	16%
9	Gathering risk information for underwriting purposes	8%
10	Allocation of premium cost across geographies and business units	4%

When a master policy is issued in the parent company's home market, it typically includes DIC/DIL clauses to cover the parent company and its group companies for any gaps in coverage available through local programmes. "If a UK company, for example, has a loss in a Brazilian subsidiary and the local policy limits are inadequate, then the balance is covered under the master issued in the UK by either a UK or EU resident insurer," explains Mr Sharma. "If the claim is then paid to the UK parent, that means that the UK parent has now a potential taxable income but there is no corresponding loss reflected in the P&L, because the loss is actually shown within the Brazilian P&L. So, there is a mismatch, which could potentially lead to double taxation. Moreover, it is not always clear how different regulators will treat any payments received and transferred under DIC/DIL cover in global master policies."

Mr Simpson adds that DIC/DIL can be a blunt tool and may only be a workaround, rather than a solution. "You can have DIC/DIL, but if there is a requirement for the insurance to be admitted, then you have increased tax liabilities. If you need to make a claim payment in that territory, DIC/DIL doesn't really give you what you need."

The size of limit to be insured in each country should certainly be decided carefully at the start of the programme. It should be designed to align as far as possible to the exposure, so that losses can be paid under the local policy, with the DIL cover under the master operating as a fallback.



Local policy compliance

Ensuring local policy compliance also remains a challenge for more than four in ten European risk managers. For instance, for business travel and group personal accident risks, companies have often traditionally relied on a single global insurance policy, issued to the parent company, to protect all of their employees worldwide. However, in some countries, insurance regulations can undermine this approach, leading to problems with benefits and claims payments.

The question then becomes whether, in practice, the policy will actually deliver on the promise of worldwide insurance protection and address any potential fiscal challenges, including various tax and regulatory consequences. In many cases, a single policy based in a company's home market may not be enough.

A more prudent approach may be to combine an insurance policy issued to the parent company in its home jurisdiction with local policies issued to its subsidiaries in the countries in which they operate.

Timely programme information

Keeping track of a global insurance programme – including policies that have been issued, premiums paid, claims made and local compliance issues in multiple markets – is not easy. Once a programme is established, the parties need to work closely together to provide timely information to risk managers, allowing them to assess the status of their programme at any given time.

This study shows that European risk managers believe insurers have an important role to play in this process (see chart 7). However, the fact that this ranks third in the list of challenges for risk managers suggests that their service is not consistently hitting the mark.

“Together with brokers, insurers have a very significant role to play in providing companies with up-to-date information about their policies and claims across multinational markets,” explains Michael Furgueson, President, Multinational Client Group at ACE. “This makes it much easier for risk managers to monitor and understand the status of their programmes, and to identify changes in the regulatory environment that might affect exposures.”

Today, a far more considered approach is required in order to decide whether a local policy should be issued. The decision should take into account the nature and the value of the assets requiring insurance, any business activities that require evidence of insurance cover and more importantly, the desired practical and financial outcome in the event of a claim. To design a global insurance programme with its underlying local policies based solely on whether non-admitted cover is allowed or not is at best imprudent and, at worst, negligent.

Clive Hassett, Director of Multinational Services for ACE in Europe

Mr Furgueson believes that part of the problem risk managers encounter in this regard relates back to the lack of investment by the insurance market in providing the right technology solutions. “That’s why we have invested so heavily in building ACE Worldview. This is a web-based platform designed to help risk managers and their brokers get a complete picture of their programmes in one place and in real time. It is effectively a window into all the information we have on multinational programmes at ACE – our offices and associates around the world all work ‘live’ on the same system, so risk managers can see everything we can see and are always as up to date as we are.”

Settling claims across borders

Effective claims resolution is the acid test of any insurance programme – especially in a multinational context. Our respondents agree that claims are becoming more complex to manage and that the frequency of claims occurring outside

home markets is increasing. Mr Bekouw believes that, as policy coverage widens, companies could see more complex claims with which they have little experience in dealing. Within a traditional global single policy structure, one of the key challenges can be trying to resolve claims across borders.

How can insurers help clients to address these issues? When working with an insurer on multinational claims, respondents say that one improvement they want to see is greater consistency of the claims process (see chart 13).

Companies also want to ensure that the claims process is quick and transparent. “We want the claims managed in a timely manner – and of course in a manner that provides the right indemnification,” says Mr Heimbürger.

Another senior European risk manager likewise emphasises the importance of transparency. “When it comes to claims, transparency is very important to us,” she says.

Chart 13: Which of the following do you consider to be the most important when working with the insurance market on multinational claims?

1	Consistency of the claims process	59%
2	Speed of resolution	54%
3	Transparency of the claims process	51%
4	Regular client-insurer dialogue throughout the claims process	38%
5	Provision of accurate and timely claims information	29%
6	Clarity about how and where claims will be paid	24%
7	Expertise in understanding the impact of different legal and regulatory frameworks on the claims process	13%

More than one-third of risk managers in this study also say that regular dialogue is a requirement. Indeed, it is increasingly important that this dialogue takes place when designing a multinational

programme and throughout the life of the insurance contract, not just after a loss occurs.

One important way in which this dialogue can take place is by conducting loss scenario planning. By spending time together with the insurer considering the various scenarios in which they might face a loss, companies will be better informed and prepared if the unexpected happens, and they will understand what should take place – particularly in terms of the claims process – in the event of certain loss events.

Taxes

Income taxes are another concern, identified by three out of ten respondents, which must be addressed by companies and their tax departments in advance of the implementation of the global programme. This ensures that there are no unexpected surprises for the insured group. “From an income tax perspective, there are a number of challenges,” says Mr Sharma. “One challenge is premium deductibility. When you are allocating premiums, are they on an arm’s length basis, do they satisfy the transfer pricing legislation that exists in the tax rules and regulations of every country? Should the premium be deductible, particularly if the premium is paid to an overseas insurer directly or indirectly where the insurer is not licensed in that country? What are the implications from an income tax perspective of the claim when received by the parent company and then transferred to the overseas subsidiary?”

When it comes to taxes, trust is paramount, according to Mr Bekouw. “You have to rely on a very good level of trust with your insurance carrier,” he says. “Ultimately, an insurer must have the proper tools and processes in place to ensure that each applicable tax is paid and properly charged to the local entity.”

Mr Furgueson highlights ACE’s approach in this area. “ACE works with brokers and clients to ensure that risk premium allocations are set on a consistent basis and are clearly documented.”

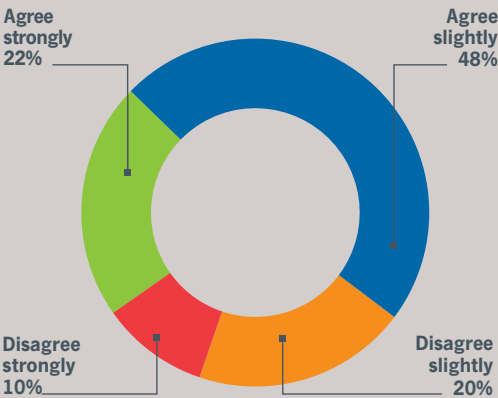
The role of captives in managing multinational risk

Our survey also suggests that captives will play an increasing role in helping companies to manage their multinational risks. Among our respondents, three out of ten strongly agree that their use of captives to manage multinational risk is going to increase over the next three years.

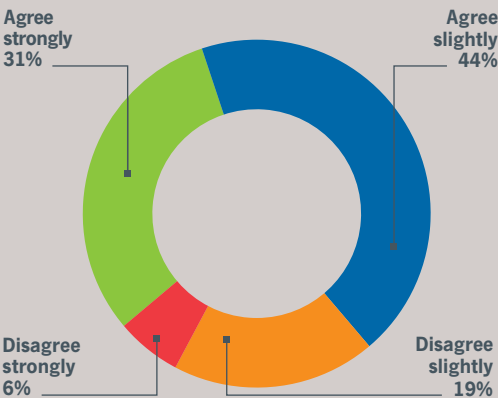
“Companies are becoming more sophisticated in their use of captives,” observes Nick Lee, Head of Client Management, UK and Ireland at ACE. “Although overall we don’t see many companies setting up new captives, we do see clients becoming more innovative about the risk classes they migrate to captives around the periphery.”

Chart 14. Please indicate whether you agree with the following statement.

Our use of captive insurance arrangements has increased over the past three years



My company’s use of captives to manage multinational risk is likely to increase over the next three years



Mr Simpson says that his company uses captives for both older risk classes as well as new and innovative risk areas. “Captives have a purpose and a value,” he says. “We use them in a dynamic way and not simply to transfer conventional risk,” he states. “But that doesn’t mean we are going to take on a level of risk that exceeds our appetite.”

Regulatory developments could complicate the use of captives. Solvency II, which could require captives to follow rules similar to regular insurance companies, is expected to make it more complex and costly to run a captive. Their usefulness is such that their role is likely to grow regardless, however.

When seeking a fronting insurer for a captive’s multinational risk, service standards are even more of an emphasis for risk managers. The greatest priority is effective claims handling, followed by quality of service, and accurate and insightful claim reports (see chart below).

Chart 15: Which of the following are or would be most important when seeking a fronting insurer for your captive’s multinational risk?

1	Effective claims handling	56%
2	Quality of service generally	53%
3	Accurate and insightful claims reporting	43%
4	Ability to move premium through to the captive efficiently	30%
5	Global network and presence	29%
6	Ability to implement multinational insurance programmes using a captive structure	21%
7	Strong track record as a fronting insurer	15%
8	Flexibility of captive models and solutions	12%
9	Low fronting costs	6%
10	Flexibility of collateral requirements	4%

CONCLUSIONS

From this comprehensive study with risk managers across Europe, we draw the following key takeaways:

1 Use of multinational programmes is set to grow among Europe's risk managers.

With around half of the European companies surveyed currently operating one or more multinational programmes and 83% expecting to increase their use of them, demand is likely to grow significantly over the next three years, presenting a significant growth opportunity for capable brokers and insurers.

2 Risk managers increasingly intend to target their multinational programmes beyond standard property and casualty risks.

Risk managers expect the biggest exposures for their multinational operations in three years' time to be casualty, environmental liability, cyber risk, property and D&O risk. Unsurprisingly, these are among the areas in which they indicate that they are most likely to want multinational solutions.

3 More dialogue and education is needed to bust the myths around multinational programmes.

A significant number of risk managers continue to believe that taking a multinational programme approach is unnecessary either because their global footprint is not wide enough or because it could prove too costly. This may be the case, yet certain companies may be failing to appreciate the impact of growing regulatory divergence on the compliance and execution risk of their current insurance arrangements. Our study suggests that the insurance market could do more to communicate the benefits of multinational programmes for clients.

4 There is clear demand for service enhancements from insurers.

Fewer than one-third of risk managers are currently very satisfied with overall service levels from their insurer in respect of their multinational programmes. Claims performance, responsiveness to their budgetary pressures, consistency of coverage and better use of technology are the areas where their insurance partners might wish to focus, according to our sample.

5 Risk managers need support to address four key practical challenges in managing their multinational programmes.

European risk managers face some challenges in managing their multinational programmes effectively. Their insurance partners could add real value by helping them understand and work through four key areas: DIC/DIL implementation; local policy compliance; timely reporting and information on their programme; and claims certainty for cross-border losses.

6 The role of captives in managing multinational risk will continue to grow.

European risk managers are increasingly using captives to manage their multinational exposures and they expect this trend to continue. For fronting insurers, a focus on service – and in particular claims performance and claims reporting – will be key to meeting clients' needs.

The opinions and positions expressed in this report are not intended to provide legal or other expert advice. It is presented as information only. Readers should consult legal counsel or other experts, as applicable, with any specific questions they may have. Any references to insurance policy provisions are not intended to amend or alter any final policy or contract. The terms and conditions of the ultimate, final policy or contract will govern the rights and obligations of the parties.

About ACE Group

ACE Group is one of the world's largest multiline property and casualty insurers. With operations in 54 countries, ACE provides commercial and personal property and casualty insurance, personal accident supplemental health insurance, reinsurance and life insurance to a diverse group of clients. ACE Limited, the parent company of the ACE Group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 index. Additional information can be found at www.acegroup.com/emergingrisks

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