Multinational Casualty – Compliance and Execution Simplified

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When it comes to structuring a multinational insurance program, simplicity and consistency drive efficiency. U.S.-based multinationals seek uniform limits and types of coverages for their worldwide exposures; however, they face layers of complexity abroad as they seek to develop a comprehensive international casualty program that provides the protection for their operations. Complications stem from the fact that laws regarding insurance, liability and taxes vary greatly from one country to the next.

There are various approaches U.S.- based multinationals can take to attempt to remove the complexity that surrounds multinational casualty programs. One approach is to utilize a deductible recovery program structure. This approach may effectively emulate the benefits of a captive program by filling gaps caused by varied regulatory requirements, while allowing a company to manage its exposures comprehensively in an efficient and cost-effective manner.

A challenge for companies seeking to centrally manage their global risks is that it can be complicated to ensure that coverage is as consistent as possible in every country they operate. This includes trying to keep deductibles and self-insured retentions at similar levels across borders. Differences in local regulations make this difficult to achieve, leading to potential inconsistencies in retentions, coverage conditions and limits - the exact issue a well-structured multinational insurance program should address.

To enhance consistency and to manage their worldwide exposures, some of the largest global companies have turned to single-parent captives or group-owned captives. However, such captives can be costly to establish and operate without sufficient economies of scale. Other solutions, such as retrospective rating plans, may create compliance issues. For U.S.-based multinational companies who do not have a captive or wish to supplement their current captive program, a different alternative – a *deductible recovery program*, makes it possible to achieve the goals of consistent retentions, terms and conditions around the world, while still complying with local insurance and tax requirements of each country.

Building a Consistent International Program

At home, U.S. companies generally prefer programs with higher deductibles or self-insured retentions to help lower premium costs. Combined with effective loss control and risk management strategies, this approach allows companies to enjoy the dual benefits of reduced insurance costs and long-term stability in relation to coverage and pricing. However, the difficulty in achieving these goals increases tremendously for U.S.- based companies maintaining subsidiaries, locations and operations outside the United States. Large multinationals may have operations in 100 or more countries, making it extremely challenging to design and implement cost-efficient multinational casualty solutions that address operational needs in a consistent manner, while remaining compliant with local insurance and tax requirements.

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In many countries, low deductibles are more common, and the foreign subsidiaries of U.S. companies may be either unable or unwilling to take on large retentions at a local level. As a result, guaranteed cost structures are often used outside the U.S., even though they may not be the best long-term risk management solution. In addition, companies frequently encounter significant differences in terms, conditions and even permissible coverages from country to country. For instance, there are common local coverage extensions including financial loss, extended products liability, various forms of pollution coverage, as well as lesser known extensions for elevators or food poisoning to employees. A well-managed multinational insurance program has to respond to these requirements and provide the needed coverage.

Risk transfer may not be the primary consideration, or challenge, for companies operating internationally, particularly for those that wish to retain a large part, or all, of the risk themselves. To keep their businesses operating, multinationals may be required by contract to certify that they have secured insurance with very specific coverage requirements. They may also need to provide certificates of insurance to be able to obtain licenses, to sign leases for office or warehouse space; and to participate in bids to sell their products and services. In addition, companies may need to produce evidence of insurance coverage in order to operate certain facilities. Certificate requirements can be very specific, in some cases necessitating un-aggregated or project-specific limits or specific language for waivers or additional insured requirements.

Multinationals seeking consistent coverage for all their operations worldwide often utilize a U.S.-based controlled “master policy” that bridges the differences in coverage that arise from variances in local laws and customary local coverages. The master policy may include endorsements providing coverage for differences in conditions (DIC) and differences in limits (DIL), to assist in attempting to unify coverage terms globally. The company still must purchase locally compliant insurance policies and pay market premiums for those policies – along with the applicable taxes based on those premiums. These guaranteed cost or low deductible policies are generally more expensive than policies with higher deductibles. This uses funds that the company might prefer to put to other uses.

A consistent, centrally controlled and managed multinational casualty program allows companies to build a framework to execute common approaches and expectations to claims handling around the world. With a well-designed program, a company can establish very detailed global claims handling protocols that will be followed consistently everywhere. A centrally controlled program enables a company to track and analyze loss activity globally and target loss control efforts where they appear to be required based on frequency, severity or other loss characteristics. Such a program serves as a very effective mechanism to equitably allocate the overall cost of risk to the operating entities around the world in a compliant manner.

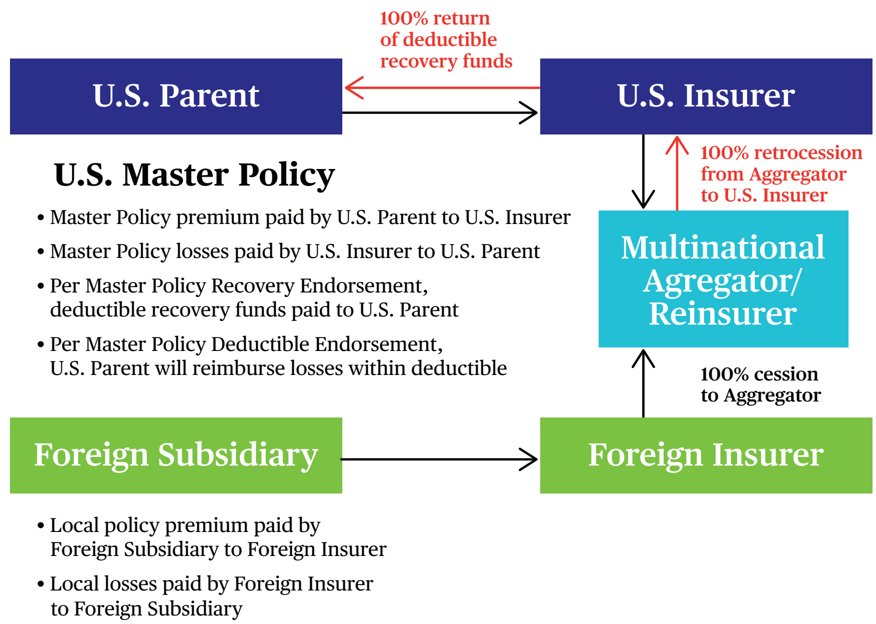
Increasing Efficiencies and Remaining Compliant

For companies that have not established a captive but want to build a more consistent international program, a *deductible recovery program* offers a potentially effective solution. This program allows U.S. multinationals to participate in their risks globally at a level that better meets their risk management needs while also complying with local regulations and tax requirements. Under this structure, local policies can remain first dollar, guaranteed cost, and the corporate parent can participate in the local and master policies at their preferred deductible amount. The U.S. parent can then recover the part of the local policy premium that is applicable to the selected deductible amount. This allows the parent to better utilize cash flow while accruing for the estimated future paid losses of the overall program.

To effectuate a deductible recovery program structure, the U.S. policyholder selects a deductible amount under the master policy that will be applied to all covered losses under that policy and also to all covered losses incurred under their local guaranteed cost policies. This has no impact on the local policies or the premiums associated with those policies. The local policy premium amounts and taxes are paid in accordance with local requirements. Losses covered under the local policies will also be paid in compliance with local requirements.

While the master policy generally remains the same, various endorsements are included to establish a deductible recovery program. These endorsements describe how the program deductible will apply, and includes the U.S. policyholder's promise to reimburse the U.S. insurer for losses that fall within the chosen deductible amount. The endorsements also document the deductible recovery features of the program.

Deductible Recovery Structure



In addition to the option of returning funds to the US policyholder, the US policyholders may also choose an option whereby the insurer retains the funds to pay the deductible losses.

The deductible recovery structure is similar to a captive program, but not as complex. The deductible recovery program works through reinsurance mechanisms. The local insurer reinsures the exposures from the local policies through a network of reinsurers and then back to the U.S.-based master policy insurer. Program expenses and risk transfer premium, if any, are deducted from the overall premium collected and then the funds applicable to the client's retention are remitted to the client or retained to pay the deductible losses.

For companies that have not established captives, but still wish to achieve a consistent, global insurance program, the deductible recovery option provides significant efficiencies. It achieves similar goals to a captive program – for instance, the insured can retain a portion of the risk – but without the expense of establishing a captive and its continuing annual operational costs. Those costs include filing fees, capital requirements, ongoing taxes, and other fees that will depend on the jurisdiction, as well as the expense of personnel to run the captive or of outsourcing captive management. This greater efficiency extends to winding down the program. Should a company wish to discontinue the deductible recovery program at a later date, it will not face the task of dissolving a captive and placing it into run-off.

Gaining Insight into Multinational Risks

The deductible recovery program structure intends to provide a simpler, more efficient alternative to existing methods of managing complex multi-national casualty programs. U.S.-based multinational companies utilizing such a program are better able to retain their desired portion of the risk globally when compared to more traditional global master policy programs. Such ability enhances their long-term cost efficiency and stability. As a predefined structure,

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a deductible recovery program is just as easy to implement as any other multinational program and does not require a captive or other vehicle to assume the risk. While compliance across multiple countries can pose significant challenges, this type of program provides a compliant solution as market-based premiums as well as the taxes on those premiums continue to be paid as required by the local jurisdiction.

While program cost and structure are important considerations, other factors should be part of decision making process when designing a multinational casualty program and choosing the right long-term carrier. For a successful multinational program, companies should look to work with a carrier that has a strong global network and a track record of consistent performance – a carrier that can deliver unique local coverages to meet contractual requirements. Because timing is often critical to prevent business disruptions, the carrier should be able to issue policies and certificates in a timely manner and provide measureable accountability for that process.

To manage a multinational program effectively, companies should look for a carrier that provides efficient transaction processing with clear accountability for premium and loss billings. The claims infrastructure should be able to respond to claims consistently across borders and in line with special claims handling protocols. The policy and loss information systems should provide clear accountability for program execution around the world on a real-time basis.

Multinational casualty programs can be dauntingly complex and costly. The deductible recovery structure, combined with the right insurer, allows multinational companies to assemble a simpler, more cost-efficient program that delivers enhanced value, insight and control worldwide.

Performance Criteria for Multinational Casualty Programs

- Timely and accurate policy issuance
- Timely issuance of certificates
- Efficient transfer and accounting for premium dollars
- Accurate loss billings
- Claims infrastructure that is able to respond to claims consistently and in line with agreed claims handling protocols
- Loss information systems that provide timely and accurate claims information
- Program structures that are cost efficient and simple to execute
- Strong carrier global network that is actively managed
- Clear service standards that are tracked account specific
- Platform that provides brokers and clients with a real time view of program implementation

Joerg Reinholdt joined legacy ACE in 2004 as the VP for Foreign Casualty Underwriting for the New York Region. In September of 2007 Mr. Reinholdt took on a Zonal Role for Foreign Casualty for the New York and Northeast Regions. In November of 2012 he assumed the role of SVP – National Field Operations across all 9 Regions for Foreign Casualty.

Starting in November of 2014, Mr. Reinholdt assumed responsibility for the International Risk Management Portfolio within Global Casualty. Prior to joining Chubb, Mr. Reinholdt was the Assistant Manager for AIG in their Northeast Home Foreign Casualty operation. Mr. Reinholdt also has prior experience on the Risk Management side as Manager Corporate Risk Management at Texaco. Mr. Reinholdt graduated from the Wirtschaftsakademie, Kiel in Germany with a double major in finance and marketing.

Karen V. Sothern is Executive Vice President Chubb Global Casualty – International. Ms. Sothern leads the overall strategic direction and tactical delivery of the division’s international casualty business. She oversees production, client and broker relationships, sales and marketing, and has overall responsibility for underwriting results for the Foreign Casualty business.

Ms. Sothern most recently served as Senior Vice President and Regional Executive Officer of Chubb’s New York Region, with overall responsibility for operating results for the Region. Prior to that, Ms. Sothern was Chief Culture Officer for Legacy ACE, with global responsibility for culture integration of new acquisitions. Previously, Ms. Sothern served as Regional Executive Officer of legacy ACE Boston-based Northeast Region. Ms. Sothern has more than 30 years of experience with Chubb and its predecessor companies, and has held a variety of underwriting, client executive, and leadership positions over the course of her career. She is a member of M200 Association, a global risk management organization, and served on their inaugural Board of Directors. In 2006, Ms. Sothern was named one of 50 “Women to Watch” by Business Insurance Magazine. Ms. Sothern graduated from Middlebury College in 1985 with a Bachelor of Arts degree in American Studies and Sociology.

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